

Artisanal Brands, Inc.  
Form 10-Q  
April 14, 2011

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FORM 10-Q

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_ TO \_\_\_\_.

ARTISANAL BRANDS, INC. (formerly AMERICAN HOME FOOD PRODUCTS, INC).  
(Exact name of registrant as specified in its charter)

New York  
(State of Jurisdiction)

0-26112  
(Commission File Number)

41-1759882  
(IRS Employer I.D. No.)

483 Tenth Avenue  
(Address of Principal Executive  
offices)

New York, New York

10018  
(Zip Code)

Registrant's telephone number, including area code 212-871-3150

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes  No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12-2 of the Exchange Act.

Large accelerated filer.

Accelerated filer.

Non-accelerated filer.   
(Do not check if smaller reporting company)

Smaller reporting company.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The Company had 24,155,316 shares of its \$.001 par value common stock and 6,419,160 shares of its \$.001 par value preferred stock issued and outstanding on February 28, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Location in Form 10-Q

Incorporated Document

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PART I

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ARTISANAL BRANDS, Inc.

## CONSOLIDATED BALANCE SHEETS

## ASSETS

| CURRENT ASSETS:  | February 28,<br>2011<br>(unaudited) | May 31,<br>2010    |
|--|-------------------------------------|--------------------|
| Cash   | \$85,779                            | \$384,998          |
| Accounts receivable, net   | 296,851                             | 289,003            |
| Inventories  | 375,626                             | 369,902            |
| Prepaid expenses and other current assets  | 63,238                              | 55,208             |
| <b>Total Current Assets</b>  | <b>821,494</b>                      | <b>1,099,111</b>   |
| FIXED ASSETS, net  | 589,144                             | 616,437            |
| OTHER ASSETS   | 37,017                              | 35,046             |
| INTANGIBLES - at cost, net   | 3,573,179                           | 3,636,178          |
| <b>Total Assets</b>  | <b>\$5,020,833</b>                  | <b>\$5,386,772</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY(DEFICIT)</b>   |                                     |                    |
| <b>CURRENT LIABILITIES:</b>  |                                     |                    |
| Accounts payable   | \$703,948                           | \$511,808          |
| Note payable and current portion of long term debt   | 1,092,999                           | 282,171            |
| Prepaid gift certificates and other deferred revenue   | 93,050                              | 66,485             |
| Accrued expenses and other current liabilities   | 411,604                             | 276,533            |
| Accrued payroll taxes  | 480,769                             | 480,769            |
| <b>Total Current Liabilities</b>   | <b>2,782,370</b>                    | <b>1,617,766</b>   |
| LONG TERM DEBT, net of current portion   | 2,949,480                           | 2,986,630          |
| <b>COMMITMENTS AND CONTINGENCY</b>   |                                     |                    |
| <b>SHAREHOLDERS' EQUITY (DEFICIT)</b>  |                                     |                    |
| Preferred stock - \$0.001 par value, 10,000,000 shares authorized, 6,419,160 and 6,419,160 shares issued and outstanding, respectively | 6,419                               | 6,419              |
| Common stock - \$0.001 par value, 40,000,000 shares authorized 24,155,316 and 23,765,316 shares issued and outstanding, respectively   | 24,155                              | 23,765             |
| Additional paid-in capital   | 16,843,896                          | 16,820,913         |
| Accumulated deficit  | (17,585,487)                        | (16,068,721)       |
| <b>Total shareholders' equity(deficit)</b>   | <b>(711,017 )</b>                   | <b>782,376</b>     |
|  | <b>\$5,020,833</b>                  | <b>\$5,386,772</b> |

See notes to the consolidated financial statements.

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ARTISANAL BRANDS, Inc.  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 (unaudited)

|   | Three Months Ended February 28, 2011 |               | Nine Months Ended February 28, 2010 |                 |
|---|--------------------------------------|---------------|-------------------------------------|-----------------|
|   | 2011                                 | 2010          | 2011                                | 2010            |
| SALES   | \$ 1,517,927                         | \$ 1,368,820  | \$ 3,622,148                        | \$ 3,317,227    |
| COST OF GOODS SOLD  | 1,031,956                            | 1,001,829     | 2,577,294                           | 2,607,777       |
| GROSS PROFIT  | 485,971                              | 366,991       | 1,044,854                           | 709,450         |
| SELLING, GENERAL AND ADMINISTRATIVE DEPRECIATION AND AMORTIZATION | 752,229                              | 663,355       | 2,034,483                           | 1,964,879       |
|   | 60,551                               | 67,775        | 169,943                             | 192,271         |
| LOSS FROM OPERATIONS BEFORE INCOME TAXES AND INTEREST             | (326,809 )                           | (364,139 )    | (1,159,572 )                        | (1,447,700 )    |
| OTHER INCOME( EXPENSES):  |                                      |               |                                     |                 |
| Interest income (expense) and other income                        | (83,747 )                            | (135,423 )    | (357,194 )                          | (391,732 )      |
| LOSS FROM OPERATIONS BEFORE INCOME TAXES                          | (410,556 )                           | (499,562 )    | (1,516,766 )                        | (1,839,432 )    |
| INCOME TAXES  | -                                    | -             | -                                   | -               |
| NET LOSS  | (410,556 )                           | (499,562 )    | (1,516,766 )                        | (1,839,432 )    |
| LESS PREFERRED STOCK DIVIDEND                                     | -                                    | -             | -                                   | (267,936 )      |
| NET LOSS APPLICABLE TO COMMON SHARES                              | \$ (410,556 )                        | \$ (499,562 ) | \$ (1,516,766 )                     | \$ (2,107,368 ) |
| LOSS APPLICABLE PER COMMON SHARE                                  |                                      |               |                                     |                 |
| Basic   | \$ (0.02 )                           | \$ (0.03 )    | \$ (0.06 )                          | \$ (0.18 )      |
| Diluted   | \$ (0.02 )                           | \$ (0.03 )    | \$ (0.06 )                          | \$ (0.18 )      |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING: basic       | 24,167,816                           | 15,862,816    | 24,054,066                          | 11,880,316      |
| diluted   | 24,167,816                           | 15,862,816    | 24,054,066                          | 11,880,316      |

See notes to the consolidated financial statements.

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ARTISANAL BRANDS, Inc.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

|  | Nine Months ended February 28, |                     |
|--|--------------------------------|---------------------|
|  | 2011                           | 2010                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                |                     |
| Net loss   | \$ (1,516,766 )                | \$ (1,839,432 )     |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                                |                     |
| Depreciation and impairment of equipment   | 106,943                        | 129,371             |
| Interest on loans as preferred stock   | -                              | 33,000              |
| Amortization of intangibles  | 63,000                         | 63,000              |
| Amortization of debt discount  | 104,743                        | 38,646              |
| Increase of other assets   | 1,971                          | -                   |
| Common stock issued for services   | 22,983                         | 11,386              |
| Changes in assets and liabilities, net of the effect from acquisition:                             |                                |                     |
| Accounts receivable  | (7,848 )                       | 152,700             |
| Inventory  | (5,724 )                       | 94,589              |
| Prepaid expenses and other assets  | (8,030 )                       | (22,348 )           |
| Accounts payable   | 192,140                        | 383,858             |
| Accrued expenses and other current liabilities   | 161,636                        | (292,644 )          |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>   | <b>(884,952 )</b>              | <b>(1,247,874 )</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                |                     |
| Purchase of fixed assets   | (62,850 )                      | (12,077 )           |
| <b>NET CASH USED IN INVESTING ACTIVITIES:</b>  | <b>(62,850 )</b>               | <b>(12,077 )</b>    |
| <b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:</b>  |                                |                     |
| Increase(Decrease) in notes payable  | (4,898 )                       | 1,011,096           |
| Sale of preferred stock  | -                              | 100,000             |
| Payment of long-term debt  | (66,519 )                      | (59,940 )           |
| Notes Payable  | 320,000                        |                     |
| Proceeds from Shareholder loan   | 400,000                        | 2,500,000           |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>   | <b>648,583</b>                 | <b>3,551,156</b>    |
| <b>NET INCREASE (DECREASE) IN CASH</b>   | <b>(299,219 )</b>              | <b>2,291,205</b>    |
| <b>CASH AT BEGINNING OF FISCAL YEAR</b>  | <b>384,998</b>                 | <b>-</b>            |
| <b>CASH AT END OF FISCAL YEAR</b>  | <b>\$ 85,779</b>               | <b>\$ 2,291,205</b> |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>   |                                |                     |
| Cash paid during the period for:   |                                |                     |
| Interest   | \$ 6,732                       | \$ 107,129          |
| Income taxes   | -                              | -                   |
| Non-cash financing activities:   |                                |                     |
| Preferred and common shares issued for services  | \$ -                           | 85,000              |
| Preferred shares issued for dividend   | -                              | 267,936             |



See notes to financial statements.

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ARTISANAL BRANDS, INC.  
NOTES TO FINANCIAL STATEMENTS  
NINE MONTHS ENDED FEBRUARY 28, 2011  
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Artisanal Brands, Inc., Inc. (the “Company”) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) have been included. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Operating results expected for the nine months ended February 28, 2011 are not necessarily indicative of the results that may be expected for the year ending May 31, 2011. For further information, refer to the financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended May 31, 2010. Per share data for the periods are based upon the weighted average number of shares of common stock outstanding during such periods, plus net additional shares issued upon exercise of options and warrants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated on consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents include investments in money market funds and are stated at cost, which approximates market value. Cash at times may exceed FDIC insurable limits.

Trade Accounts Receivable and Other Receivables, Net

The Company's accounts receivable consist primarily of amounts due from customers for the sale of its products. The Company records an allowance for doubtful accounts based on management's estimate of collectability of such trade and notes receivables outstanding. The allowance for doubtful accounts represents an amount considered by management to be adequate to cover potential losses, if any. The recorded allowance at February 28, 2011 and May 31, 2010, was \$15,000 and \$40,000, respectively.

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Revenue Recognition

The Company recognizes revenues associated with the sale of its products at the time of delivery to customers.

Marketing and Advertising Costs

All advertising costs are expensed as incurred. Advertising expenses charged to operations for the nine months ended February 28, 2011 and 2010 were approximately \$162,957 and \$42,914, respectively.

Reclassifications

Certain reclassifications have been made to the prior quarter amounts presented to conform to the current period presentations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock-based Compensation

The Company accounts for stock-based compensation in accordance with guidance issued by the FASB, Share-Based Payment. The Company records compensation expense using a fair-value-based measurement method for all awards granted. In computing the impact, the fair value of each option is estimated on the date of grant based on the Black-Scholes options-pricing model utilizing certain assumptions for a risk free interest rate; volatility; and expected remaining lives of the awards. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the amount of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what we have recorded in the current period. Equity-based compensation for the nine months ended February 28, 2011 and February 28, 2010 was \$22,958 and \$11,368, respectively.

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## Net Income/(Loss) Per Share

In accordance with the FASB guidance for, "Earnings Per Share", basic net income/(loss) per share is computed using the weighted average number of common shares outstanding during each period. For the nine months ended February 28, 2011, diluted loss per share is the same as basic loss per share since the inclusion of stock options and warrants would be antidilutive. Options have been excluded in the amount of 770,000 for the nine months ended February 28, 2011.

## Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, marketable securities, accounts receivable, notes receivable, and accounts payable, approximated fair value as of February 28, 2011, because of the relatively short-term maturity of these instruments and their market interest rates. Since a portion of long-term debt is in default, it is not possible to estimate its value.

## Recent Accounting Pronouncements

Any new accounting pronouncements issued but not yet effective have been deemed not to be relevant to the operations of the Company, hence the effects of such undisclosed new accounting pronouncements will have no effect on the Company.

## 3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

|                                      | February 28,<br>2011 | May 31,<br>2010 |
|--------------------------------------|----------------------|-----------------|
| Trade accounts receivable            | \$ 290,738           | \$ 323,733      |
| Employees                            | 21,113               | 5,271           |
|                                      | 311,851              | 329,004         |
| Less allowance for doubtful accounts | (15,000 )            | (40,001 )       |
|                                      | \$ 296,851           | \$ 289,003      |

## 4. INVENTORIES

Inventories are valued on a first-in-first-out (FIFO) basis. Inventories consisted of the following:

|                                     | February 28,<br>2011 | May 31,<br>2010 |
|-------------------------------------|----------------------|-----------------|
| Cheese Inventory                    | \$ 206,230           | \$ 268,212      |
| Shipping/Packing Material Inventory | 129,392              | 47,617          |
| Accessories & Books Inventory       | 37,846               | 51,999          |
| Beverage                            | 2,158                | 2,074           |
|                                     | \$ 375,626           | \$ 369,902      |

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5. PREPAID EXPENSES

At February 28, 2011, the Company had prepaid expenses of \$63,238, which consisted primarily of prepaid cheese costs of \$14,875 prepaid expenses of \$12,512, other operating expense \$4,007 and prepaid insurance of \$31,844. As of May 31, 2010, the Company had prepaid expenses of \$55,208, which consisted primarily of marketing expense of \$6,600, cheese cost of \$36,196 and prepaid insurance of \$12,412.

6. NOTES PAYABLE

In connection with the acquisition of Artisanal Cheese, LLC, the Company obtained two seller's notes--one from each of the former members of Artisanal Cheese, LLC. The notes are for \$130,000 and \$370,000, respectively (the "Sellers' Notes"). The note for \$130,000 bears interest at 5% per annum and is payable in consecutive monthly payments of principal and interest in the amount of \$3,896.22 commencing November 1, 2007. The note for \$370,000 bears interest at 5% per annum and is payable in consecutive monthly payments of principal and interest in the amount of \$11,089.23 commencing November 1, 2007. All principal and accrued interest under both notes were due and payable in full on October 15, 2010. Both notes are secured pursuant to a Security Agreement. As of February 28, 2011, both notes were paid in full.

In October 2009, the board approved the Company's intentions to obtain an \$850,000 term loan and to raise an additional \$2 million in equity. The board subsequently increased the limit on the term loan to \$1,650,000. The Company had secured from existing shareholders a \$150,000 bridge loan at an annual interest rate of nine percent (9%) which matured on September 8, 2009 (the "Bridge Loan") and \$1,214,000 of the term loan at an annual interest rate of nine percent (9%) to mature on or about December 31, 2011 (the "Term Loan")(see Note 9, Long-Term Debt). The Company has defaulted on repayment of the Bridge Loan by the maturity date, however, the lender has agreed to forbear collection until such time as the Company completes the equity raise. As of February 28, 2011, the total amount due under the Bridge Loan including interest is \$167,938

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As of February 28, 2011, the Company had accrued expenses and other liabilities of \$411,604 which consisted primarily of \$79,064 accrued expenses, and \$332,540 for accrued interest on term loans. As of May 31, 2010, the Company had accrued expenses and other liabilities of \$276,533 which consisted primarily of \$5,601 for accrued payroll, \$15,750 for professional fees, \$149,849 for vendor installment agreements, \$104,636 for accrued interest on term loans and other of \$697.

8. ACCRUED PAYROLL TAXES

The Company prior to the acquisition of Artisanal remains in arrears with paying payroll taxes of \$480,769. The Company is currently negotiating with the relevant tax authorities a payment program for the balance of taxes owed.

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## LONG TERM DEBT

|   | February 28,<br>2011 | May 31,<br>2010     |
|---|----------------------|---------------------|
| At February 28, 2011, long-term debt consists of: |                      |                     |
| Term Loan,(a)                                     | \$ -                 | \$ 924,000          |
| Long-Term Loan,(b)                                | 2,900,000            | 2,500,000           |
| KeHe Term Loan, (d)                               | 320,000              | -                   |
| Debt Discount, (c)                                | (270,520 )           | (437,370 )          |
| <b>Total Long-Term Debt</b>                       | <b>\$ 2,949,480</b>  | <b>\$ 2,986,630</b> |

(a) In October 2009, the board approved the Company's intentions to obtain an \$850,000 term loan and to raise an additional \$2 million in equity. The board subsequently increased the limit on the term loan to \$1,650,000. The company had secured from existing shareholders \$1,214,000 of the term loan at an annual interest rate of nine percent (9%) to mature on or about September 10, 2010 (the "Term Loan"). In February 2010, the due date was extended to December 31, 2011. The Term Loan amount was subsequently reduced to \$924,000 (excluding interest) through the repayment of \$290,000 to one of the term lenders in exchange in part for a new loan of \$2.9 million (described below). As of February 28, 2011, the total amount owed to the term loan participants including interest is \$1,013,258.

(b) On or about February 22, 2010, the Company entered into a loan agreement with one of its preferred shareholders and term loan participants (the "Lender") for a loan of \$2.5 million (the "Long Term Loan") due on February 22, 2013. On August 31, 2010 and November 3, 2010, the Company increased the Long Term Loan by \$400,000. The original loan was conditional upon the Lender obtaining a first security position on all of the Company's assets subject only to the priority security interest in certain intellectual property of the Company pursuant to Sellers' notes entered at the time the Company acquired the business from its previous owners. The August increase is not pursuant to a first security position. The loan was also conditional upon the Company's repurchase from Lender and its affiliate 500,000 shares of the redeemable convertible preferred stock held by them collectively, repayment to the Lender of amounts Lender had previously advanced to Borrower under the term loan agreements (discussed above), and issuance to Lender of 9,275,000 shares of the Company's \$.001 par value common stock representing twenty percent of the Company's outstanding common stock on a fully-diluted basis. Company has defaulted on repayment of interest on the Long Term Loan however, the lender has agreed to forbear collection until such time as the Company completes the equity raise.

(c) A debt discount was issued for the Term Loan and the Long-Term Loan in the amount of \$270,520 in regards to the shares issuance above.

(d) On or about February 11, 2011, the Company entered into a three-year marketing and distribution agreement granting KeHE Distributors LLC the exclusive rights to distribute into retail outlets all Artisanal products with primary focus on the Company's 16-cheese CheeseClock program. KeHE's exclusivity is dependent upon KeHE meeting specific minimum annual sales. Under the agreement, KeHE earns a commission of five percent (5%) on all net sales to accounts serviced by KeHE and may also earn stock options upon meeting specified sales thresholds over the term of the agreement (See Note 10, Shareholders Equity). The agreement further provides that KeHE will loan up to \$520,000 to the Company to facilitate the purchase of inventory required for the KeHE accounts and that KeHE will advance up to an additional \$100,000 of marketing funds to be used for in-store demonstrations and related marketing costs. The loan bears interest at a rate of 3-Month LIBOR plus 5% to be paid quarterly and is secured by the Company's accounts receivable and inventory. The loan will mature three years from the date upon which the Company receives its first purchase order from KeHE or May 11, 2014, whichever is earlier, and shall automatically renew for successive one year terms, unless terminated by either

party upon six months notice whereupon the loan will become due within 60 days of such notice if terminated by KeHE or immediately if terminated by the Company. For so long as any amounts remain outstanding under the loan or KeHE maintains its exclusive distributor status and meets its annual minimum purchases, the Company may not incur any debt or issue any additional common stock without KeHE's consent, which consent shall not be unreasonably withheld; except that the Company is permitted under the agreement to sell or otherwise issue the remaining 1,135,000 shares of its Series A Preferred Stock. As of February 28, 2011, the Company had drawn down \$320,000 of the total amount permitted under the agreement.

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## 10. SHAREHOLDERS' EQUITY

## Preferred Stock Issuances

No preferred stock was issued during the nine month period ended February 28, 2011.

## Common Stock Issuances

In the nine months ended February 28, 2011, the Company issued a total of 65,000 shares of common stock to two employees, 25,000 shares were forfeited due to early termination and 350,000 shares of to the Board of Directors. The Company has valued such shares to be \$98,269 and will be amortized over a one year amortization period.

## Stock Option

During the nine month period ended February 28, 2011, the Company entered a marketing and distribution agreement with KeHE Distributors pursuant to which the Company is obligated to issue stock options subject to KeHE achieving the purchase thresholds as set forth below:

| Cumulative Purchases by KeHE                    | Shares Earned/<br>Cumulative<br>Ownership |
|---|---|
| \$500,000 by the first anniversary <sup>1</sup> | 468,000                                   |
| \$2,500,000 by the second anniversary           | 1,972,000                                 |
| \$6,000,000 by the third anniversary            | 2,440,000                                 |
| <b>Total</b>                                    | <b>4,880,000</b>                          |

<sup>1</sup> The agreement shall commence upon the earlier of the date upon which Artisanal receives the first purchase order from KeHE or May 11, 2011. As of the date of this filing, a purchase order had not yet been received.



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The total number of shares represents 9.99% of the Company's common stock outstanding on a fully-diluted basis. The respective stock options which will have an exercise period of three years from the date of issuance at an exercise price of \$.30 per share.

11. SUBSEQUENT EVENTS

As of the date of this filing, the Company had drawn down an additional \$100,000 from the KeHE loan for a total drawdown of \$420,000.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the information contained in the Financial Statements and the Notes to the financial statements appearing elsewhere in this Form 10-Q. The Financial Statements for the nine month period ending February 28, 2011, included in this Form 10-Q are unaudited; however, this information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary to present a fair statement of the results for the interim period.

Results of Operations

Nine months ending February 28, 2011 v. February 28, 2010

In the nine month period ended February 28, 2011, the Company had sales of \$3,622,148 versus \$3,317,227 in the corresponding nine month period in 2010. Cost of goods sold in this period was \$2,577,294 which was 71% cost of goods sold versus \$2,607,777 and 78% for the same period in 2010.

In this nine month period, the Company recorded a net loss from operations of \$1,516,766 versus a net loss of \$1,839,432 for the same period in 2010. The net loss to common shareholders during this period 2011 was \$1,516,766 versus a net loss of \$2,107,368 during the same period in 2010. In 2011, the Company incurred \$357,194 in interest charges, which is attributable primarily to interest on the term loan, the bridge loan and long-term debt owed to the former members of Artisanal Cheese LLC. The Company also incurred \$63,000 of amortization charges relating to the intangible assets and \$106,943 of depreciation on the fixed assets.

On February 28, 2011, the Company had \$821,494 in current liquid assets, which consisted primarily of inventory of \$375,626, prepaid expenses of \$63,238 and accounts receivable of \$296,851. The Company had leasehold improvements and equipment of \$589,144 and intangibles of \$3,573,179 net of amortization.

Three months ending February 28, 2011 v. February 28, 2010

In the three month period ended February 28, 2011, the Company had sales of \$1,517,927 versus \$1,368,820 in sales in the corresponding three month period in 2010. Cost of goods sold in this period was \$1,031,956 which was 67% of gross revenues, versus \$1,001,829 and 73%, respectively, for the same period in 2010.

In this three month period, the Company recorded a net loss from operations before income taxes and interest of \$410,556 versus a net loss from operations of \$499,562 for the same period in 2010. The net loss to common shareholders during this period in 2011 was \$410,556 versus a net loss of \$499,562 during the same period in 2010.

The Company incurred interest charges of \$83,747 for the period 2011 versus \$135,423 for the period 2010 in interest charges. The Company also incurred \$60,551 of depreciation and amortization charges for the three month period 2011.

Liquidity and Financial Resources at February 28, 2011

As of February 28, 2011, the Company had \$2,782,370 in current liabilities, which includes \$1,092,999 in notes payable and current portion of long-term debt. The Company had accounts payable of \$703,948, accrued taxes of \$480,769, and accrued expenses and other current liabilities totaling \$411,604. The Company's current liabilities also include outstanding prepaid gift certificates and other deferred revenue totaling \$93,050.



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In October 2009, the board approved the Company's intentions to obtain an \$850,000 term loan and to raise an additional \$2 million in equity. The board subsequently increased the limit on the term loan to \$1,650,000. The Company had secured from existing shareholders a \$150,000 bridge loan at an annual interest rate of nine percent (9%) which matured on September 8, 2009 (the "Bridge Loan") and \$1,214,000 of the term loan at an annual interest rate of nine percent (9%) to mature on or about September 10, 2010 (the "Term Loan"). The proceeds were used to finance the Company's new packaging and retail displays and its expansion into big-box and chain retailers. The Company has defaulted on repayment of the Bridge Loan by the maturity date, however, the lender has agreed to forbear collection until such time as the Company completes the equity raise. The Term Loan amount was subsequently reduced to \$924,000 (excluding interest) through the repayment of \$290,000 to one of the term lenders in exchange in part for a new loan of \$2.9 million (see below). All but two of the shareholders that had previously loaned money to the company in the form of a Term Loan, agreed to extend the maturity date of the Term Loan from September 10, 2010 to December 31, 2011 to enable the Company to re-classify the loan into a long-term loan. As of February 28, 2011, the total amount due under the Bridge Loan including interest is \$167,983 and the total amount due under the Term Loan including interest is \$913,258.

On or about February 22, 2010, the Company entered a loan agreement with one of its preferred shareholders and term loan participants (the "Lender") for a loan of \$2.5 million (the "Long Term Loan"). On August 31, 2010 and November 3, 2010, the Company increased the Long Term Loan by \$400,000. The original loan was conditional upon the Lender obtaining a first security position on all of the Company's assets subject only to the priority security interest in certain intellectual property of the Company pursuant to Sellers' notes entered at the time the Company acquired the business from its previous owners. The loan was also conditional upon the Company's repurchase from Lender and its affiliate of 500,000 shares of the redeemable convertible preferred stock held by them collectively, repayment to the Lender of amounts Lender had previously advanced to Borrower under the term loan agreements (discussed above), and issuance to Lender of 9,275,000 shares of the Company's \$.001 par value common stock representing twenty percent of the Company's outstanding common stock on a fully-diluted basis. As of February 28, 2011, the total amount due under the Long Term Loan including interest is \$3,147,786.

On or about February 11, 2011, the Company entered into a three-year marketing and distribution agreement granting KeHE Distributors LLC the exclusive rights to distribute into retail outlets all Artisanal products with primary focus on the Company's 16-cheese CheeseClock program. KeHE's exclusivity is dependent upon KeHE meeting specific minimum annual sales. Under the agreement, KeHE earns a commission of five percent (5%) on all net sales to accounts serviced by KeHE and may also earn stock options upon meeting specified sales thresholds over the term of the agreement (See Notes to Financials, Note 10, Shareholders Equity for details). The agreement further provides that KeHE will loan up to \$520,000 to the Company to facilitate the purchase of inventory required for the KeHE accounts and that KeHE will advance up to an additional \$100,000 of marketing funds to be used for in-store demonstrations and related marketing costs. The loan bears interest at a rate of 3-Month LIBOR plus 5% to be paid quarterly and is secured by the Company's accounts receivable and inventory. (See Notes to Financials, Note 6 for additional details on the loan). For so long as any amounts remain outstanding under the loan or KeHE maintains its exclusive distributor status and meets its annual minimum purchases, the Company may not incur any debt or issue any additional common stock without KeHE's consent, which consent shall not be unreasonably withheld; except that the Company is permitted under the agreement to sell or otherwise issue the remaining 1,135,000 shares of its Series A Preferred Stock. As of February 28, 2011, the Company had drawn down \$320,000 of the total amount permitted under the agreement.

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The Company generates cash from the sales of its product. Wholesale and retail customers purchasing on an open account basis have 30-day payment terms. All others sales pertaining to cheese and related items from our print catalog or website or sales relating to classes at the cheese center are paid through credit card which generally settle within three days of purchase. While the Company believes its cash flow will be sufficient to meet its fixed monthly expenses, it intends to complete the sale of the remaining 1,135,000 shares of Preferred Stock as authorized by the board in 2007 to further expand its sales into specialty, big-box and chain retail markets.

For so long as more than \$1,500,000 of the Preferred stock is issued and outstanding, the Company shall require the prior written consent of holders representing two-thirds of the Preferred stock issued and outstanding to (a) sell, merge with, acquire or consolidate with another business entity, (b) incur additional leverage beyond the leverage contemplated by the Company and the preferred stock holders as part of the Company's acquisition of Artisanal Cheese, LLC in 2007, or (c) issue any new shares of common stock or securities convertible or exercisable into Common Stock in excess of 2% of the shares of Common Stock issued and outstanding on a fully diluted basis as of August 14, 2007. If the Company cannot obtain the requisite two-thirds approval, these restrictions may affect our liquidity and our ability to execute our business plan.

### Inflation and Changing Prices

The Company does not foresee any risks associated with inflation or substantial price increases in the near future. In addition, the cheeses that are selected by the Company in its affinage process are often available from various sources. As such, while the Company has exposure to inflation, it does not believe that inflation will have any materially significant impact on its operations in the near future.

The Company does not foresee any increase in costs that cannot be passed on to its customer in the ordinary course of business. The company adjusts its wholesale and online prices throughout the year to reflect increase costs attributable to increases in energy prices. Under very limited circumstances, the Company has entered into agreements with certain customers for which the Company provides third-party drop-ship fulfillment with contracted pricing for various cheese collections. The Company, in turn, usually has a corresponding agreement with the cheese suppliers whose products are incorporated into these collections for fixed prices to ensure that the company achieves its anticipated gross margin.

### Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure on contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions and conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. The Company believes that its critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies see Note 3 to our financial statements.

### Long-Lived Assets (including Tangible and Intangible Assets)

We acquired businesses in recent years, which resulted in intangible assets being recorded. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect our consolidated

financial statements. We assess potential impairment to the intangible and tangible assets on a quarterly basis or when evidence of events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Our judgments regarding the existence of impairment indicators, if any, and future cash flows related to these assets are based on operational performance of our business, market conditions and other factors.

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Accounting for Income Taxes

As part of the process of preparing our financial statements we are required to estimate our income taxes. Management judgment is required in determining our provision of our deferred tax asset. We recorded a valuation for the full deferred tax asset from our net operating losses carried forward due to the Company not demonstrating any consistent profitable operations. In the event that the actual results may differ from these estimates or we adjust these estimates in future periods we may need to adjust such valuation recorded.

Stock-Based Compensation

The computation of the expense associated with stock-based compensation requires the use of a valuation model. The Company currently uses a Black-Scholes option pricing model to calculate the fair value of its stock options. The Company primarily uses historical data to determine the assumptions to be used in the Black-Scholes model and has no reason to believe that future data is likely to differ materially from historical data. However, changes in the assumptions to reflect future stock price volatility and future stock award exercise experience could result in a change in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of stock-based awards. Although every effort is made to ensure the accuracy of our estimates and assumptions, significant unanticipated changes in those estimates, interpretations and assumptions may result in recording stock option expense that may materially impact our financial statements for each respective reporting period.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Omitted.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of our president who is also the chief financial officer, carried out an evaluation of the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, the president/chief financial officer concluded that as of the Evaluation Date, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to management, including the president/chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

The Company's management, including the president/chief financial officer, does not expect that the Company's disclosure controls and procedures or its internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Artisanal Brands, Inc. can be prevented.

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(b) Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). The Company's management has assessed the effectiveness of our internal control over financial reporting as of February 28, 2011. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Our management has concluded that, as of February 28, 2011, our internal control over financial reporting is effective based on these criteria. This quarterly report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting.

(c) Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

CIT Technology Financing Services, Inc. v. Artisanal Cheese, LLC, New York Supreme Court (New York), Index No. 06159/10 – Plaintiff sought approximately \$107,000 pursuant to two copier leases. The Company negotiated a settlement with plaintiff to resume monthly payments for the copiers.

Christopher Calise and Perry Lerner v. Artisanal Cheese, LLC, New York Supreme Court (New York County), Index No. 5073/2010. Plaintiffs each loaned \$50,000 to the Company on or about July 10, 2009. In June 2010, they commenced an action for unpaid interest and requesting acceleration of the loan. The Company negotiated a settlement with plaintiffs to pay off the note by December 31, 2011.

Central Business Solutions v. Artisanal Cheese, LLC New York City Civil Court (New York County), Index No. 043515/2010. Plaintiff is seeking approximately \$13,000 for equipment maintenance services. The Company rejects Plaintiff's claim in full and has counterclaimed for damages resulting from Plaintiff's breach of contract, misrepresentation and fraud.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In the nine months ended February 28, 2011, the Company issued a total of 65,000 shares of common stock to two employees. The company recorded an expense of \$5,200 in connection with these shares.

Item 3. Defaults Upon Senior Securities. None.

Item 4. Submission of Matters to a Vote of Security Holders. None.

Item 5. Other Information. None.

Item 6. Exhibits.





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The following exhibits are included with this filing:

|                       |   |
|-----------------------|---|
| Exhibit <u>31.1</u> * | Certification of Principal Executive Officer    |
| Exhibit <u>31.2</u> * | Certification of Principal Accounting Officer   |
| Exhibit <u>32.1</u> * | Certification Pursuant to 18 U.S.C Section 1350 |
| Exhibit <u>32.2</u> * | Certification Pursuant to 18 U.S.C Section 1350 |

\* Filed herewith

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, Artisanal Brands, Inc. has duly caused this report to be signed on its behalf by the undersigned person who is duly authorized to sign on behalf of the Company as its principal executive officer and principal financial officer.

ARTISANAL BRANDS, INC.

By: /s/ Daniel W. Dowe  
Daniel W. Dowe  
Chief Executive Officer and Chief Financial Officer

Date: April 14, 2011

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