Artisanal Brands, Inc.
Form 10-Q
October 03, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(x) Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange act of 1934

For the quarterly period ended February 28, 2013.

( ) Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange act of 1934

For the transition period from ________ to ________.

Commission File No. 0-26112

ARTISANAL BRANDS, INC.

(Exact name of registrant as specified in its charter)

New York (State of Jurisdiction)	41-1759882 (IRS Employer I.D. No.)
483 Tenth Avenue, New York, New York	10018
(Address of Principal Executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

Common Stock, $.001 par value per share

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 Exchange 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 such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 12b-2 of the Exchange Act.

Large accelerated filer.	**Accelerated filer.**
Non-accelerated filer.	**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

Indicate the number of shares outstanding of each of the issuer's classes of stock, as of the latest practicable date: 33,341,306 common shares and 6,399,154 Series A preferred shares issued and outstanding as of October 2, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Location in Form 10-Q	Incorporated Document
None	

ARTISANAL BRANDS, INC.

Index

PART I

ARTISANAL BRANDS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	February 28, 2013 (unaudited)	May 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash	$157,681	$43,016
Accounts receivable, net	243,958	173,496
Inventories	362,431	297,300
Advances to suppliers	34,780	-
Prepaid expenses and other current assets	113,975	23,059
Total Current Assets	912,825	536,871
FIXED ASSETS, net	461,987	500,583
OTHER ASSETS	36,017	31,514
INTANGIBLES - at cost, net	3,417,075	3,468,179
Total Assets	$4,827,904	$4,537,147
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable	$626,865	$596,636
Prepaid gift certificates and other deferred revenue	141,625	58,778
Note payable to shareholders'	674,000	984,000
Current portion of long term debt	818,000	250,000
Accrued expenses and other current liabilities	530,676	767,216
Accrued payroll taxes (see note 11)	1,293,879	1,093,483
Total Current Liabilities	4,085,045	3,750,113
LONG TERM LIABILITIES:		
Credit card facility loan, net of debt discount	1,470,790	-
Long term debt, net of current portion and debt discount	4,423,787	4,302,488
Total Liabilities	9,979,622	8,052,601
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' DEFICIT		
	6,199	6,514

Preferred stock - $0.001 par value, 10,000,000 shares authorized, 6,199,154 and 6,514,154 shares issued and outstanding, respectively		
Common stock - $0.001 par value, 100,000,000 shares authorized 31,582,982 and 28,093,982 shares issued and outstanding, respectively	31,584	28,094
Additional paid-in capital	19,976,168	19,368,435
Accumulated deficit	(25,165,669)	(22,918,497)
Total Shareholders' Deficit	(5,151,718)	(3,515,454)
Total Liabilities and Shareholders' Deficit	$4,827,904	$4,537,147

See notes to the unaudited condensed consolidated financial statements.

F-1

ARTISANAL BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Nine Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
SALES	$975,004	$1,315,625	$2,063,289	$2,921,179
COST OF GOODS SOLD	822,166	931,170	1,711,185	2,291,115
GROSS PROFIT	152,838	384,455	352,104	630,064
OPERATING EXPENSES:				
SELLING, GENERAL AND ADMINISTRATIVE	626,249	846,549	1,979,861	3,417,216
DEPRECIATION AND AMORTIZATION	32,610	54,696	102,404	164,088
LOSS FROM OPERATIONS BEFORE INCOME TAXES AND INTEREST	(506,021)	(516,790)	(1,730,162)	(2,951,240)
OTHER INCOME(EXPENSES):				
Interest income (expense) and other income	(177,055)	(145,656)	(517,010)	(484,442)
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(683,076)	(662,446)	(2,247,171)	(3,435,682)
INCOME TAXES	-	-	-	-
NET LOSS APPLICABLE TO COMMON SHARES	$(683,076)	$(662,446)	$(2,247,171)	$(3,435,682)
LOSS APPLICABLE PER COMMON SHARE				
Basic	$(0.02)	$(0.03)	$(0.08)	$(0.14)
Diluted	$(0.02)	$(0.03)	$(0.08)	$(0.14)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
basic	31,429,826	26,492,982	29,892,158	25,346,649
diluted	31,429,826	26,492,982	29,892,158	25,346,649

See notes to the unaudited condensed consolidated financial statements.

ARTISANAL BRANDS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	February 28, 2013	February 29, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(2,247,171)	$(3,435,682)
Adjustments to reconcile loss to net cash used in operating activities:		
Depreciation	50,770	101,088
Amortization of intangibles	51,634	63,000
Amortization of debt discount	125,011	183,128
Equity based compensation	195,726	997,047
Common stock issued for services	-	108,805
Changes in operating assets and liabilities		
Accounts receivable	(70,462)	124,677
Inventory	(65,131)	(46,062)
Prepaid expenses and other assets	(90,916)	(7,461)
Advances to suppliers	(34,780)	-
Accounts payable	30,229	206,067
Accrued expenses and other current liabilities	509,556	456,632
NET CASH USED IN OPERATING ACTIVITIES	(1,545,534)	(1,248,761)
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchase)/sale of fixed assets	(12,704)	(20,451)
(Increase)/decrease in security deposit	(4,503)	1,982
NET CASH USED IN INVESTING ACTIVITIES:	(17,207)	(18,469)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase/(decrease) in notes payable	1,850,000	200,000
Repayment in notes payable	(419,867)	-
Sale of preferred stock	-	800,250
Sale of common stock	289,000	-
Payment of term loan	(33,000)	(60,000)
Proceeds from shareholder loan	-	300,000
Benefits from sale of common stock	(8,727)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,677,406	1,240,250
NET INCREASE (DECREASE) IN CASH	114,665	(26,980)
CASH AT BEGINNING OF PERIOD	43,016	43,547
CASH AT END OF PERIOD	$157,681	$16,567
SUPPLEMENTAL CASH FLOW INFORMATION:		

Cash paid during the period for:		
Interest	$7,266	$2,085
Income taxes	$-	$-
Non-cash investing and financing activities:		
Conversion of preferred shares to common shares	$1,050	$1,019,300
Preferred shares issued for services	$-	$277,544
Common stock issued per loan agreement as debt financing cost	$146,500	$-
Conversion of accrued interest to long term debt	$462,788	$-

See notes to the unaudited condensed consolidated financial statements.

ARTISANAL BRANDS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED FEBRUARY 28, 2013
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Artisanal Brands, Inc. (the “Company”) have been prepared in accordance with U.S. 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 for the nine months ended February 28, 2013 are not necessarily indicative of the results that may be expected for the year ending May 31, 2013. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended May 31, 2012. Per share data for the periods are based upon the weighted average number of shares of common stock outstanding during such period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The unaudited 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, 2013 and May 31, 2012, was $20,000.

Revenue Recognition

The Company recognizes revenues associated with the sale of its products at the time of delivery to customers, when the price is fixed or determinable, persuasive evidence of an arrangement exists and collectability of the resulting receivable is reasonably assured.

Marketing and Advertising Costs

All advertising costs are expensed as incurred. Advertising expenses charged to operations for the nine months ended February 28, 2013 and February 29, 2012 were $43,467 and $119,138, respectively and for the three months ended February 28, 2013 and February 29, 2012 were $8,731 and $21,165, respectively.

Reclassifications

Certain reclassifications have been made to the prior period’s amounts presented to conform to the current period presentations. These reclassifications had no effect on reported income or losses.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Goodwill and Intangible Assets

Intangible assets at February 28, 2013 relates to the assets acquired by the Company in August 2007. The Company reviews long-lived assets, certain identifiable assets and any impairment related to those assets at least annually or whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable.

Equity-based Compensation

The Company accounts for equity-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 equity-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 equity-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, 2013 and February 29, 2012 was $195,726 and $1,105,852, respectively and for the three months ended February 28, 2013 and February 29, 2012 were $29,274 and $65,969, respectively. Of the equity-based compensation booked during the nine months ended February 29, 2012, $976,628 is attributable to the vesting of 4,440,000 common stock options that had been granted to KeHE Distributors in connection with the marketing and distribution agreement entered in February 2011 and amended in May 2011.

Net Loss Per Share

In accordance with the FASB guidance for, "Earnings Per Share", basic net loss per share is computed using the weighted average number of common shares outstanding during each period. For the nine months ended February 28, 2013, diluted loss per share is the same as basic loss per share since the inclusion of the 550,000 outstanding stock options would be antidilutive.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximated fair value as of February 28, 2013, 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, 2013	May 31, 2012
Trade accounts receivable	$261,057	$188,669
Employees	2,901	4,827
	263,958	193,496
Less allowance for doubtful accounts	(20,000)	(20,000)
	$243,958	$173,496

4. INVENTORIES

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

	February 28, 2013	May 31, 2012
Cheese inventory	$108,949	$60,701
Shipping/packing material inventory	184,704	166,716
Accessories & books inventory	63,447	67,986
Beverage	5,331	1,897
	$362,431	$297,300

5. PREPAID EXPENSES

As of February 28, 2013, the Company had prepaid expenses of $113,975, which consisted primarily of prepaid rent of $88,403, prepaid real estate taxes of $3,229, and prepaid insurance of $22,343. As of May 31, 2012, the Company had prepaid expenses of $23,059, which consisted primarily of prepaid insurance of $13,207, prepaid interest of $5,978 and other operating expense of $3,874.

F-7

6. FIXED ASSETS

Fixed Assets, net consist of the following: