

American Home Food Products, Inc.
Form 10QSB
April 21, 2006

FORM 10-QSB

**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, 2006
or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

AMERICAN HOME FOOD PRODUCTS INC.

(Formerly Novex Systems International Inc.)
(Exact name of registrant as specified in its charter)

| | | |
|--|-----------------------------|--------------------------------------|
| New York | 0-26112 | 41-1759882 |
| State of Jurisdiction) | (Commission File Number) | (IRS Employer Identification No.) |
| 42 Forest Lane | Bronxville, New York | 10708 |
| (Address of Principal Executive offices) | | (Zip Code) |

Registrant's telephone number, including area code 914-337-0231

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

The Company had 3,756,455 shares of its \$.001 par value common stock and no shares of its \$.001 par value preferred stock issued and outstanding on February 28, 2006.

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AMERICAN HOME FOOD PRODUCTS, INC.
BALANCE SHEET
February 28, 2006
(unaudited)

ASSETS

CURRENT ASSETS:

| | | |
|-----------------------------|----|---------------|
| Cash | \$ | |
| Royalty/Licensee receivable | | 37,412 |
| | | <u>37,412</u> |
| Total Current Assets | | 37,412 |

| | | |
|----------------------------|--|----------------|
| INTANGIBLES - at cost, net | | 452,787 |
| | | <u>452,787</u> |

\$ 490,199

LIABILITIES AND SHAREHOLDERS DEFICIENCY

CURRENT LIABILITIES:

| | | |
|--|----|------------------|
| Current portion of long term debt | \$ | 1,679,844 |
| Accounts payable | | 449,757 |
| Loans payable - shareholder | | 214,749 |
| Accrued expenses and other current liabilities | | 696,870 |
| Accrued payroll taxes | | 469,891 |
| | | <u>3,511,111</u> |

| | | |
|----------------------------------|--|------------------|
| Total Current Liabilities | | 3,511,111 |
|----------------------------------|--|------------------|

COMMITMENTS AND CONTINGENCY

SHAREHOLDERS DEFICIENCY:

| | | |
|---|--|---------------------|
| Preferred stock - \$0.001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding | | |
| Common stock - \$0.001 par value, 40,000,000 shares authorized 3,756,455 shares issued and outstanding | | 3,756 |
| Additional paid-in capital | | 8,106,889 |
| Accumulated deficit | | (11,131,557) |
| | | <u>(11,131,557)</u> |

Total shareholders' deficiency (3,020,912)

ASSETS

\$ 490,199

See notes to financial statements.

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AMERICAN HOME FOOD PRODUCTS, INC.
STATEMENTS OF OPERATIONS

| | <u>Three Months Ended February 28,</u> | | <u>Nine Months Ended February 28,</u> | |
|--|--|------------------|---------------------------------------|------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| | <u>Unaudited</u> | <u>Unaudited</u> | <u>Unaudited</u> | <u>Unaudited</u> |
| ROYALTY REVENUE | 51,712 | 57,893 | 154,181 | 156,450 |
| GROSS PROFIT | 51,712 | 57,893 | 154,181 | 156,450 |
| SELLING, GENERAL AND ADMINISTRATIVE | 96,694 | 112,571 | 278,988 | 336,323 |
| LOSS FROM OPERATIONS | (44,982) | (54,678) | (124,807) | (179,873) |
| OTHER INCOME(EXPENSES): | | | | |
| Interest income (expense) | (39,586) | (39,175) | (118,721) | (120,664) |
| Gain on property conveyance | 0 | 0 | 0 | 15,821 |
| OTHER EXPENSES, net | (39,586) | (39,175) | (118,721) | (104,843) |
| NET LOSS BEFORE INCOME TAXES | (84,568) | (93,853) | (243,528) | (284,716) |
| Income taxes | 0 | 0 | 0 | 0 |
| NET LOSS | (84,568) | (93,853) | (243,528) | (284,716) |
| LOSS PER COMMON SHARE, basic and diluted | \$ (0.02) | \$ (0.03) | \$ (0.07) | \$ (0.08) |

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| | <u>Three Months Ended February 28,</u> | | <u>Nine Months Ended February 28,</u> | |
|--|--|-----------|---------------------------------------|-----------|
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, basic and diluted | 3,681,455 | 3,606,455 | 3,636,455 | 3,606,455 |

See notes to financial statements.

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AMERICAN HOME FOOD PRODUCTS, INC.
STATEMENTS OF CASH FLOWS

| | <u>Nine Months ended February 28,</u> | |
|---|---------------------------------------|--------------------|
| | <u>2006</u> | <u>2005</u> |
| | <u>(Unaudited)</u> | <u>(Unaudited)</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (243,528) | \$ (284,716) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Amortization of goodwill | 37,884 | 37,884 |
| Changes in assets and liabilities, net of the effect from acquisition: | | |
| Royalty/Licensee receivable | (18,348) | 16,596 |
| Accounts payable | 6,251 | 4,374 |
| Accrued expenses and other current liabilities | 121,918 | 193,344 |
| Accrued payroll taxes | 45,938 | 5,686 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (49,885) | (26,832) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from loans payable - shareholders | 22,885 | 41,542 |
| Stock issued for debt settlement | 27,000 | |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 49,885 | 41,542 |

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Nine Months ended February 28,

| | | |
|---|----------|-----------|
| NET INCREASE IN CASH | | 14,710 |
| CASH AT BEGINNING OF YEAR | _____ | 180 |
| CASH AT END OF PERIOD | \$ _____ | \$ 14,890 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | \$ _____ | \$ _____ |
| Income taxes | _____ | _____ |

See notes to financial statements.

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AMERICAN HOME FOOD PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED FEBRUARY 28, 2006

(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements of American Home Food Products, Inc. (the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation S-B. 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, 2006 are not necessarily

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indicative of the results that may be expected for the year ending May 31, 2006. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended May 31, 2005. 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

a. GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered from recurring losses from operations, and has a negative working capital and shareholder deficiency as of February 28, 2006. The Company is also in arrears with paying payroll taxes and in default with certain of its debt holders. These factors raise substantial doubt as to the Company's ability to continue as a going concern. Management expects to incur additional losses in the foreseeable future and recognizes the need to raise capital to achieve their business plans. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

b. STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation plans under Accounting Principles Board Opinion 25, (APB25) Accounting for Stock Issued to Employees and the related interpretation, for which no compensation cost is recorded in the statement of operations for the estimated fair value of stock options issued with an exercise price equal to the fair value

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of the common stock on the date of grant. Statement of Financial Accounting Standards No. 123 (SFAS 123) Accounting for Stock-Based Compensation, as amended by Statement of Financial Accounting Standards No. 148 (SFAS 148) Accounting for Stock-Based Compensation Transition and Disclosure, requires the companies, which do not elect to account for stock-based compensation as prescribed by this statement, to disclose the pro-forma effects on earnings and earnings per share as if SFAS 123 has been adopted. No options or warrants have been granted to employees, officers and directors during fiscal year ended 2005 and through February 28, 2006.

c. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash and cash equivalents, accounts receivable, other receivables, due to factor, accounts payable and accrued expenses approximate their fair values based on the short-term maturity of these instruments. The carrying amounts of long-term debt were also estimated to approximate fair value.

d. LOSS PER SHARE

Basic net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding. For the periods ended February 28, 2006 and 2005, diluted loss per share is the same as basic loss per share since the inclusion of stock operations and warrants would be antidilutive.

e. 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.

f. NEW ACCOUNTING PRONOUNCEMENTS

FASB 155 Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued FASB Statement No. 155, which is an amendment of FASB Statements No. 133 and 140. This Statement; a) permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, b) clarifies which interest-only strip and principal-only strip are not subject to the requirements of Statement 133, c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, e) amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of

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the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

FASB 156 Accounting for Servicing of Financial Assets

In March 2006, the FASB issued FASB Statement No. 156, which amends FASB Statement No. 140. This Statement establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. This Statement amends Statement 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. By electing that option, an entity may simplify its accounting because this Statement permits income statement recognition of the potential offsetting changes in fair value of those servicing assets and servicing liabilities and derivative instruments in the same accounting period. This Statement is effective for financial statements for fiscal years beginning after September 15, 2006. Earlier adoption of this Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued any financial statements for that fiscal year. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

3. DEBT AND EQUITY TRANSACTIONS

In January 2005, the Company authorized a reverse stock split of seven shares of common stock for one share of common stock. All related per share and common share presentation have been adjusted to compensate for such reverse stock split.

In late November 2005, a judgment creditor served a writ of attachment on the Company's licensee. In January 2006, the parties reached an agreement whereby the creditor agreed to refrain from any further litigation and to limit the judgment to \$400,000 in exchange for a monthly payment of interest on the creditor's original loan to the Company and the Company's commitment to pay the judgment upon the earlier of the recapitalization of the Company or September 30, 2006. The parties further agreed that the warrant to purchase 600,000 shares of common stock (pre-split) which the creditor had received as part of the original transaction would be cancelled and that the Company would issue to the creditor 150,000 shares of common stock (post-split), for which a \$27,000 expense was recorded.

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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-QSB. The Financial Statements for the nine month period ending February 28, 2006, included in this Form 10-QSB 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, 2006 vs. February 28, 2005

In the nine month period ended February 28, 2006, the Company had net sales of \$154,181 versus \$156,450 in the corresponding nine month period in 2005. In both periods the Company generated a gross margin of 100% which is attributable to the Company's conversion of its business from a manufacturing company into a licensing company. On February 1, 2003, the Company entered into an exclusive licensing agreement with CGM, Inc., whereby CGM fulfills all orders for products sold under the trade names that the Company continues to own and thereafter pays the Company a cash royalty on sales (Licensing Agreement). All royalty payments are based on actual sales in the previous month and are paid on a monthly basis.

In this nine month period, the Company recorded a loss from operations of \$97,807 and a net loss to common shareholders of \$243,528. In the nine month period, the Company incurred financing charges of \$118,721. Until the Company can either refinance its outstanding debt, or merge with another company which will include a refinancing of the debt, it will continue to accrue inordinate debt charges. The Company incurred selling, general and administrative costs of \$251,998, which included \$37,884 of amortization charges and \$27,000 of expense relating to the issuance of 150,000 shares of common stock to a judgment creditor as part of a settlement in January 2006.

On February 28, 2006, the Company had \$37,412 in current assets, which represented the royalty receivable. The Company has intangible assets of \$452,787, which represents the book value of its trademarks, trade names and customer list, which collectively are the assets that generate the royalty income that the Company earns.

Three Months Ending February 28, 2006 vs. February 28, 2005

In the three month period ended February 28, 2006, the Company had net sales of \$51,712, versus \$57,893 in the corresponding three month period in 2005. The net loss of \$84,568 includes \$12,000 of amortization charges.

Liquidity and Financial Resources at February 28, 2006

As of February 28, 2006, the Company had \$3,511,111 in current liabilities, which includes loans (including interest) that are now due totaling \$2,591,463 which were used to fund the Company's operations. These loans are principally to shareholders of the Company. It had accounts payable

of \$449,757 and accrued taxes of \$469,891.

Of the principal loans outstanding, \$1,120,958 is held by one person that has properly perfected security interest against the Company's remaining assets, being all its intangible property.

The Company is planning to increase its royalty revenue and use excess cash proceeds to pay down its debt while it continues to pursue a new business that could be merged with the Company. With any merger the Company will seek to refinance its debt by either paying off all debt in cash or an offer of cash and stock. Although the Company is required to carry its intangible property at a net value of \$452,787, it believes that the fair market value for these assets is much higher. As such, the Company believes that a refinancing that would enable creditors to receive cash and some additional equity in the company will eliminate all debts.

Until such time as the Company shall merge with another entity, its current cash flow is sufficient to meet its fixed monthly expenses.

Inflation and Changing Prices

The Company no longer manufactures its products and is no longer subject to risks associated with inflation or substantial price increase in the near future.

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. We believe that our critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies see our note 2 to our financial statements.

Long-Lived Assets (including Tangible and Intangible Assets)

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We acquired businesses in recent years, which resulted in tangible 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 assets 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 differ from these estimates or we adjust these estimates in future periods we may need to adjust such valuation recorded.

Going Concern

The financial statements of the Company have been prepared assuming that the Company will continue as a going concern. The Company has had negative working capital for each of the last two years ended May 31, 2005 and 2004, however the Company currently has little if any mandatory expenses associated with its operating business and, therefore, can continue to operate, while it seeks new acquisition candidates that will enable the Company to complete its recapitalization plan. Notwithstanding these future plans, which the Company can provide no assurances that they will happen, the current level of liabilities that accumulate through monthly accruals raise substantial doubt about the Company's ability to continue as a going concern. The financial statements of the Company do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

Item 3. Controls and Procedures

Our principal executive officer and principal financial officer, who is the sole officer and employee, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer have concluded that the controls and procedures are effective in providing reasonable assurance that the information required to be disclosed in this report has been recorded, processed, summarized and reported as of the end of the period covered by this report.

During the period covered by this report, there have not been any significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our internal controls.

Part II **Other Information**

Item 1. **Legal Proceedings**

On June 18, 2004 the settlement agreement with Dime was released from settlement. [Dime Commercial Corp. v. Novex Systems International, Inc., Superior Court of New Jersey, Docket No. PAS-L-1577-2.](#)

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The former shareholders of the Sta-Dri company filed a lawsuit for unpaid royalty payments and received a judgment in the amount of \$95,000.

Other trade creditors have commenced lawsuits against the Company to secure payment on unsecured claims, however none of these judgment can be satisfied against the Company assets due to there being a properly perfected security interest in place with a financial creditor that is willing to work with the company.

In late November 2005, a judgment creditor served a writ of attachment on the Company's licensee. In mid-December 2005, the court ordered that any sale of the assets would be subject to any and all valid security interests and/or liens. The Company maintains that all assets, including the royalty, are subject to the valid security interest of a financial creditor who provided capital to the Company in December 2000 and who is willing to work with the Company, and that any other outstanding judgments and/or liens are subordinate to that creditor's first security interest. In January 2006, the parties reached an agreement whereby the creditor agreed to refrain from any further litigation and to limit its judgment at \$400,000 in exchange for a monthly payment of interest on the creditor's original loan to the Company and the Company's commitment to pay the judgment upon the earlier of the recapitalization of the Company or September 30, 2006.

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Item 2. Changes in Securities.

In January 2005, the Company authorized a reverse stock split of seven shares of common stock for one share of common stock. All related per share and common share presentation have been adjusted to compensate for such reverse stock split.

Item 3. Defaults Upon Senior Securities. See Item 1 above.

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

Item 5. Other Information. None.

Item 6. Exhibits and Reports on Form 8-K. None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, American Home Food Products, 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.

AMERICAN HOME FOOD PRODUCTS, INC.

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

Date: April 20, 2006

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