LUCILLE FARMS INC
Form 10-Q
August 06, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITITES AND EXCHANGE ACT OF 1934

For the Quarterly Period Ended:
June 30, 2001
Commission File Number 1-12506

LUCILLE FARMS INC.
(Exact Name of Registrant as Specified in its charter)

Delaware	13-2963923
(State or other Jurisdiction of Incorporation)	(I.R.S. Employer Identification number)

150 River Road, P.O. Box 517 Montville, New Jersey	07045
(Address of Principal Executive Offices)	(zip code)

(Registrant's Telephone Number, Including Area Code)
(973)334-6030

Former name, former address and former fiscal year, if changed since last report. N/A

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 and 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 [X] NO [ ]

The number of shares of Registrant's common stock, par value $.001 per share, outstanding as of August 2, 2001 was 2,971,342.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LUCILLE FARMS, INC.

CONSOLIDATED BALANCE SHEET

ASSETS

	JUNE 30, 2001 (UNAUDITED)	MARCH 31, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 199,000	$ 212,000
Accounts receivable, net Of allowances of $153,000 At June 30, 2001 and $132,000 At March 31, 2001	4,796,000	4,614,000
Inventories	2,885,000	2,163,000
Deferred income taxes	71,000	71,000
Prepaid expenses and other Current assets	109,000	119,000
Total current assets	8,060,000	7,179,000
PROPERTY, PLANT AND EQUIPMENT, NET	9,557,000	9,011,000
OTHER ASSETS:		
Due from officers	134,000	133,000
Deferred income taxes	527,000	527,000
Deferred loan costs, net	261,000	247,000
Other	83,000	97,000
Total Other Assets	1,005,000	1,004,000
TOTAL ASSETS	$18,622,000	$17,194,000

See notes to consolidated financial statements

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LUCILLE FARMS,INC.

CONSOLIDATED BALANCE SHEET

LIABILITIES AND STOCKHOLDER'S EQUITY

JUNE 30,2001 MARCH 31, 2001

	(UNAUDITED)	
CURRENT LIABILITES:		
Accounts Payable	$ 4,208,000	$ 5,515,000
Current portion of long-term debt	171,000	171,000
Revolving credit line	4,510,000	--
Accrued expenses	213,000	390,000
Total Current Liabilities	9,102,000	6,076,000
LONG TERM LIABILITIES:		
Long-term debt	6,869,000	4,983,000
Revolving credit line	--	4,267,000
Deferred income taxes	598,000	598,000
Total Long-Term Liabilities	7,467,000	9,848,000
TOTAL LIABILITIES	16,569,000	15,924,000
STOCKHOLDERS EQUITY:		
Preferred stock- face value	540,000	--
Common stock - $.001 par value, 10,000,000 shares authorized, 3,021,342 share issued	3,000	3,000
Additional paid-in capital	4,450,000	4,448,000
Retained (Deficit) earnings	(2,815,000)	(3,056,000)
	2,178,000	1,395,000
Less: 50,000 shares treasury Stock at cost	(125,000)	(125,000)
Total Stockholders' Equity	2,053,000	1,270,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 18,622,000	$ 17,194,000

See notes to consolidated financial statements

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LUCILLE FARMS, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,	
	2001	2000
SALES	$ 12,136,000	$ 9,401,000
COST OF SALES	10,873,000	8,948,000
GROSS PROFIT	1,263,000	453,000
OTHER EXPENSE/(INCOME):		
SELLING	560,000	427,000
GENERAL AND ADMINISTRATIVE	260,000	167,000
INTEREST INCOME	(3,000)	(3,000)
INTEREST EXPENSE	204,000	192,000
TOTAL OTHER EXPENSE (INCOME)	1,021,000	783,000
(LOSS)INCOME BEFORE INCOME TAXES	242,000	(330,000)
(PROVISION) FOR INCOME TAXES	(1,000)	(1,000)
NET(LOSS) INCOME	$ 241,000	$ (331,000)
NET(LOSS)INCOME PER SHARE :BASIC	$ .08	$ (.11)
:DILUTED	.08	$ (.11)
WEIGHTED AVERAGE SHARES OUTSTANDING USED TO COMPUTE NET INCOME PER SHARE:BASIC	2,971,342	2,971,342
:DILUTED	2,977,649	2,971,342

See notes to consolidated financial statements

LUCILLE FARMS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000
Cash flows from operating activities:		
NET (LOSS)INCOME	$ 241,000	$ (331,000)
Adjustments to reconcile net(loss)/ income To net cash provided(used) by Operating activities:		
Value of options issued for service	2,000	--
Depreciation and amortization	154,000	153,000
Provision for doubtful accounts	21,000	19,000
(Increase) decrease in assets:		
Accounts receivable	(203,000)	(165,000)
Inventories	(722,000)	(220,000)
Prepaid expenses and other current assets	10,000	33,000
Other assets	(5,000)	(15,000)
Increase (decrease) in liabilities		
Accounts payable	(1,307,000)	697,000
Accrued expenses	(177,000)	11,000
Net Cash provided(used) by Operating Activities	(1,986,000)	182,000
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property, plant And equipment	(156,000)	(333,000)
Net Cash (Used by) Investing Activities	(156,000)	(333,000)
CASH FLOW FROM FINANCING ACTIVITIES:		
(Payments of) proceeds from revolving credit loan-net	243,000	12,000
(Payments of)proceeds from long-term debt and notes	1,886,000	143,000
Net Cash Provided by Financing Activities	2,129,000	155,000
NET INCREASE(DECREASED) IN CASH AND CASH EQUIVALENTS	(13,000)	4,000
CASH AND CASH EQUIVALENTS-BEGINNING	212,000	447,000
CASH AND CASH EQUIVALENTS-ENDING	$ 199,000	$ 451,000

See notes to consolidated financial statements

LUCILLE FARMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Consolidated Balance Sheet as of June 30, 2001, the Consolidated Statement of Operations for the three month periods ended June 30, 2001 and 2000 and the Consolidated Statement of Cash Flows for the three month periods ended June 30, 2001 and 2000 have been prepared by the Company without audit. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of Lucille Farms, Inc. as of June 30, 2001, the results of its operations for the three months ended June 30, 2001 and 2000 and its cash flows for the three months ended June 30, 2001 and 2000.

   Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principals have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these financial statements be read in conjunction with the year-end financial statements and notes thereto for the fiscal year ended March 31, 2001 included in the Companies Annual Report on Form 10-K as filed with the SEC.

   The accounting policies followed by the Company are set forth in the notes to the Company's consolidated financial statements as set forth in its Annual Report on Form 10-K as filed with the SEC.

2. The results of operations for the three months ended June 30, 2001 are not necessarily indicative of the results to be expected for the entire fiscal year.

3. Inventories are summarized as follows:

	June 30, 2001	March 31, 2001
Finished goods	$2,181,000	$1,011,000
Raw Materials	147,000	617,000
Supplies and Packaging	557,000	535,000
	$2,885,000	$2,163,000

4. In May 2001 the Company obtained a new $2,000,000 bank loan. The loan, collaterized by the Company's plant and equipment, bears interest at 1% above the bank's national variable rate. The loan is due in annual principal installments of $500,000 beginning May 2003. Interest is payable monthly.

The Company's revolving credit line of $5,000,000 matures on June 1,2002.

5. Income (loss) per share of common stock was computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period in accordance with the provisions of the Statement of Financial Accounting Standards No. 128. The dilution in the three month period ended June 30, 2001 is due to the net incremental effect of incentive stock options and warrants of 6,307 shares. Basic and diluted per share amounts are the same for the three month period ended June 30,2000 since the effect of stock options would be antidilutive and therefore not taken into consideration. Conversion of preferred stock was not taken into consideration since the effect would be antidilutive.

6. For the 3 months ended June 30,2001, non cash investing and financing activities were $540,000 for the preferred stock issued for equipment.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

General

The Company's conventional cheese products, which account for substantially all of the Company's sales, are commodity items. The Company prices its conventional cheese products competitively with others in the industry, which pricing, since May 1997, is referenced to the Chicago Mercantile Exchange (and was formerly referenced to the Wisconsin Block Cheddar Market). The price the Company pays for fluid milk, a significant component of cost of goods sold, is not determined until the month after its cheese has been sold. While the Company generally can anticipate a change in price of milk, it cannot anticipate the extent thereof. By virtue of the pricing structure for its cheese and the competitive nature of the marketplace, the Company cannot always pass along to the customer the changes in the cost of milk in the price of its conventional cheese. As a consequence thereof, the Company's gross profit margin for such cheese is subject to fluctuation, which fluctuation, however slight, can have a significant effect on profitability.

The Company is unable to predict any future increase or decrease in the prices in the Chicago Mercantile Exchange as such markets are subject to fluctuation based on factors and commodity markets outside of the control of the Company. Although the cost of fluid milk does tend to move correspondingly with the Chicago Mercantile Exchange, the extent of such movement and the timing thereof also is not predictable as it is subject to government control and support. As a result of these factors, the Company is unable to predict pricing trends.

Three months ended June 30, 2001 compared to the three months ended June 30, 2000.

Sales for the three months ended June 30, 2001 increased to $12,136,000 from $9,401,000 for the comparable period in 2000, an increase of $2,735,000 (or 29.1%). Approximately $2,815,000 (or 102.9%) of such amount was due to an increase in the average selling price of cheese and approximately $ 281,000 or (10.3%) was due to increased whey sales produced in our new facility. These increases were offset by a decrease in the number of pounds of cheese sold resulting in a $361,000 or (13.2%) decrease in sales when compared to the year ago period.

Cost of sales and gross profit margin for the three months ended June 30, 2001 were $10,873,000 (or 89.6% of sales) and $1,263,000 (or 10.4% of sales), respectively, compared to a cost of sales and gross profit margin of $8,948,000 (or 95.2% of sales) and $453,000 (or 4.8% of sales), respectively, for the comparable period in 2000. The decrease in cost of sales and corresponding increase in gross profit margin for 2001 as a percentage of sales is primarily due to a decrease in the Company's cost of raw materials as a percentage of selling price

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Selling, general and administrative expenses for the period ended June 30, 2001 amounted to $820,000 (or 6.7% of sales) compared to $594,000 (or 6.3% of sales) for the comparable period in 2000. The increase in selling, general and administrative expenses as a percentage of sales was primarily due to the increased sales in the period and a corresponding increase in freight out expenses and consulting fees.

Interest expense for the period ended June 30, 2001 amounted to $204,000 compared to $192,000 for the period ended June 30, 2000 an increase of $12,000. This increase is the result of increased borrowing due to the addition of new production equipment and higher revolving credit line usage in the period.

The provision for income tax for the period ended June 30, 2001 of $1,000 and June 30, 2000 of $1,000 reflect minimum state taxes. Charges and credits for Federal income taxes were offset by changes in the valuation allowances for the three months ended June 30, 2001 and June 30, 2000. Such amounts are re-evaluated each quarter based on the results of operations.

The Company's net income of $241,000 for the period ended June 30, 2001 represents an increase of $572,000 from the net loss of $331,000 for the comparable period in 2000. The primary factors contributing to these changes are discussed above.

Liquidity and Capital Resources

The Company's revolving bank line of credit which is available for the Company's working capital requirements has been reclassified from long term to current due to an expiration date of June 1, 2002.

At June 30, 2001, $4,510,000 was outstanding under such revolving line of credit and $245,000 was available for additional borrowing at that time (based on the inventory and receivable formula). Advances under this facility are limited to 50% of inventory and 80% of receivables. The rate of interest on amounts borrowed against the revolving credit facility is prime plus 1%. A .25% annual unused line fee is also charged on this facility. The Company intends to continue to utilize this line of credit as needed for operations.

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On February 8, 1999, a $4,950,000 bank loan agreement was signed. The loan is collateralized by the Company's plant and equipment. Provisions of the loan are as follows:

A $3,960,000 commercial term note with interest fixed at 9.75 percent having an amortization period of 20 years with a maturity in February, 2019.

A $990,000 commercial term note with interest fixed at 10.75 percent having an amortization period of 20 years with a maturity in February, 2019.

On May 23, 2001, a new $ 2,000,000 bank loan agreement was signed. The new loan is collaterized by the Company's plant and equipment. Provisions of the loan are as follows:

A promissory note with interest payable at 1% above the rate of interest established by the bank as its National Variable Rate and principle repayable in four consecutive annual installements of $500,000.00 with the first such installment due on May 1, 2003 and the last such installment due on May 1, 2006.

Proceeds of the new loan were used for working capital.

The Company's major source of external working capital financing has been the revolving line of credit. For the foreseeable future the Company believes that its current working capital, it's new $2,000,000 bank loan, and its existing lines of credit will continue to represent the Company's major source of working capital financing besides income generated from operations.

For the three months ended June 30, 2001 cash used by operating activities was $1,986,000. Income from operations of $241,000 increased cash. In addition increases in accounts receivable of $203,000, and an increase in inventories of $722,000 decreased cash. Decreases in accounts payable of $1,305,000, accrued expenses of $177,000 also decreased cash. A net decrease in prepaid expenses and other assets of $5,000 provided cash.

Net cash used by investing activities was $156,000 for the period ended June 30, 2001 which represented purchase of property, plant and equipment.

Net cash provided by financing activities was $2,128,000 for the period ended June 30, 2001. Net proceeds from the revolving credit loan of $243,000 and net proceeds from long-term debt of $1,886,000 provided cash in the period.

The Company estimates that based upon its current plans, its resources including revenues from operations and utilization of its existing credit lines, will be sufficient to meet its anticipated needs for at least 12 months.

Forward Looking Statements

This Quarterly Report on Form 10Q (and any other reports issued by the Company from time to time) contains certain forward-looking statements made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, including statements regarding the Company's ability to improve margins and increase retail sales, are based on current expectations that involve numerous risks and uncertainties. Actual results could differ materially from those anticipated in such forward-looking statements as a result of various known and unknown factors including, without limitation, future economic, competitive, regulatory, and market conditions, future business decisions, the uncertainties inherent in the pricing of cheese on the Chicago Mercantile Exchange upon which the Company's prices are based, changes in consumer tastes, fluctuations in milk prices, and those factors discussed above under Management's Discussion and Analysis of Financial Condition and Results of Operations. Words such as "believes," "anticipates," "expects," "intends," "may," and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. The Company undertakes no obligation to revise any of these forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The registrant does not utilize market rate sensitive instruments for trading or other purposes.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

On June 12, 2001, the Company sold $540,000 of Series A Redeemable Convertible Preferred Stock to an accredited investor in exchange for roll drying equipment. The shares were sold pursuant to Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the three months ended June 30, 2001.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 2, 2001 Lucille Farms, Inc.

(Registrant)

By: /s/ Alfonso Falivene

Alfonso Falivene,
President

By: /s/ Stephen M. Katz

Stephen M. Katz,
Vice President-Finance
and Administration
(Principal Financial Officer)