LUCILLE FARMS INC
Form 10-Q
February 13, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly period Ended:
December 31, 2000
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 No.)
150 River Road,P.O. Box 517 Montville, New Jersey (Address of Principal Executive Offices)	07045 (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 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 February 8, 2001 was 2,971,342.

Item 1. Financial Statements

LUCILLE FARMS, INC.

CONSOLIDATED BALANCE SHEET

ASSETS

	DECEMBER 31, 2000 (UNAUDITED)	MARCH 31, 2000
CURRENT ASSETS:		
Cash and cash equivalents	$ 186,000	$ 447,000
Accounts receivable, net of allowances of $163,000 at December 31, 2000 and $103,000 at March 31, 2000	3,432,000	3,122,000
Inventories	2,089,000	2,175,000
Deferred income taxes	60,000	60,000
Prepaid expenses and other current assets	78,000	107,000
Total Current Assets	5,845,000	5,911,000
PROPERTY, PLANT AND EQUIPMENT, NET	8,675,000	8,328,000
OTHER ASSETS:		
Due from officers	150,000	144,000
Deferred income taxes	490,000	490,000
Deferred loan costs, net	273,000	256,000
Other	120,000	94,000
Total Other Assets	1,033,000	984,000
TOTAL ASSETS	$15,553,000	$15,223,000

see notes to consolidated financial statements

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LUCILLE FARMS, INC.

CONSOLIDATED BALANCE SHEET

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31, 2000	MARCH 31, 2000
CURRENT LIABILTIES:		
Accounts payable	$4,737,000	$3,556,000
Current portion of long-term debt	107,000	103,000
Accrued expenses	355,000	307,000
Total Current Liabilities	5,199,000	3,966,000
LONG TERM LIABILITIES		
Long-term debt	4,836,000	4,853,000
Revolving credit line	3,464,000	3,117,000
Deferred income taxes	550,000	550,000
Total Long-term Liabilities	8,850,000	8,520,000
TOTAL LIABILITIES	14,049,000	12,486,000
STOCKHOLDER'S EQUITY:		
Common stock- $.001 par value,10,000,000 shares authorized,3,021,342 shares issued	3,000	3,000
Additional paid-in capital	4,438,000	4,438,000
Retained (Deficit)earnings	(2,812,000)	(1,579,000)
	1,629,000	2,862,000
Less: 50,000 shares treasury stock at cost	(125,000)	(125,000)
Total Stockholders' Equity	1,504,000	2,737,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$15,553,000	$15,223,000

see notes to consolidated financial statements

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LUCILLE FARMS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE NINE MONTHS ENDED DECEMEBER 31, 2000 AND 1999

(UNAUDITED)

Nine Months Ended December 31,

	2000	1999
SALES	$29,532,000	$34,472,000
COST OF SALES	28,231,000	31,385,000
GROSS PROFIT	1,301,000	3,087,000
OTHER EXPENSE (INCOME):		
Selling	1,333,000	1,285,000
General and administrative	589,000	463,000
Interest income	(7,000)	(12,000)
Interest expense	617,000	511,000
Insurance proceeds realized -Key Man	-	(256,000)
TOTAL OTHER EXPENSE (INCOME)	2,532,000	1,991,000
(LOSS)INCOME BEFORE INCOME TAXES	(1,231,000)	1,096,000
(Provision) for income taxes	(2,000)	(8,000)
NET (LOSS)INCOME	$(1,233,000)	$1,088,000
NET (LOSS)INCOME PER SHARE:		
BASIC:	$(.42)	$.36
DILUTED:	$(.42)	$.36
WEIGHTED AVERAGE SHARES OUTSTANDING USED TO COMPUTE NET INCOME PER SHARE: BASIC	2,971,342	2,971,342
: DILUTED	2,971,342	2,984,848

see notes to consolidated financial statements

LUCILLE FARMS, INC.

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2000 AND 1999

(UNAUDITED)

Three Months Ended December 31,

	2000	1999

SALES	$9,190,000	$10,319,000
COST OF SALES	9,000,000	9,586,000
GROSS PROFIT	190,000	733,000
OTHER EXPENSE (INCOME)		
Selling	445,000	407,000
General and administrative	210,000	156,000
Interest income	(2,000)	(4,000)
Interest expense	217,000	156,000
Insurance proceeds realized -Key Man	-	-
TOTAL OTHER EXPENSE (INCOME)	870,000	715,000
(LOSS)INCOME BEFORE INCOME TAXES	(680,000)	18,000
(Provision) for income taxes	-	(6,000)
NET(LOSS)INCOME	$(680,000)	$12,000
NET(LOSS)INCOME PER SHARE:BASIC	$(.23)	$.00
:DILUTED	$(.23)	$.00
WEIGHTED AVERAGE SHARES OUTSTANDING USED TO COMPUTE NET INCOME PER SHARE: BASIC	2,971,342	2,971,342
: DILUTED	2,971,342	2,984,804

see notes to consolidated financial statements

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LUCILLE FARMS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended December 31,	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITES:		
NET(LOSS)INCOME	$(1,233,000)	$1,088,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	450,000	360,000

Provision for doubtful accounts	60,000	56,000
(Increase) decrease in assets:		
Accounts receivable	(370,000)	888,000
Inventories	86,000	61,000
Prepaid expenses & other current assets	29,000	45,000
Other assets	(49,000)	42,000
Increase (decrease) in liabilities:		
Accounts payable	1,181,000	(1,325,000)
Accrued expenses	48,000	(102,000)
Net Cash Provided by Operating Activities	202,000	1,113,000
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property, plant equipment	(797,000)	(959,000)
Net Cash (used by) Investing Activities	(797,000)	(959,000)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from(payments of) revolving credit loan-net	347,000	(1,582,000)
(Payments of) proceeds from long-term debt and notes	(13,000)	(19,000)
Net Cash Provided (Used By) by Financing Activities	334,000	(1,601,000)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(261,000)	(1,447,000)
CASH AND CASH EQUIVALENTS-BEGINNING	447,000	1,924,000
CASH AND CASH EQUIVALENTS-ENDING	$186,000	$477,000

see notes to consolidated financial statements

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LUCILLE FARMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Consolidated Balance Sheet as of December 31, 2000, the Consolidated Statement of Operations for the three and nine month periods ended December 31, 2000 and 1999 and the Consolidated Statement of Cash Flows for the nine month period ended December 31, 2000 and 1999 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 December 31, 2000, the results of its operations for the three months and nine months ended December 31, 2000 and 1999 and the changes in its cash flows for the nine months ended December 31, 2000 and 1999.

   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, 2000 included in the Company's 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 and nine months ended December 31, 2000 are not necessarily indicative of the results to be expected for the entire fiscal year.

3. Inventories are summarized as follows:

	December 31, 2000	March 31, 2000
Finished goods	$1,205,000	$1,169,000
Raw Materials	379,000	524,000
Supplies and Packaging	505,000	482,000
	$2,089,000	$2,175,000

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

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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.

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 and nine month periods ended December 31, 1999 is due to the net incremental effect of incentive stock options and warrants of 13,462 and 13,506. respectively. Basic and diluted per share amounts are the same for 2000, since the effect of stock options would be antidilutive and therefore not taken into consideration.

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

General

The Company's conventional cheese product's, 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 the 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 the Company's 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 prices on 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 December 31, 2000 compared to three months ended December 31, 1999.

Sales for the three months ended December 31, 2000 decreased to $9,190,000 from $10,319,000 for the comparable period in 1999, a decrease of $1,129,000(or 10.9%). Approximately $260,000 (or 23.0%) of such amount was due to a decrease in the number of pounds of cheese sold and approximately $869,000(or 77.0%) of such amount was due to a decrease in the average selling price for cheese. The volume decrease was due to decreased demand in the commodity cheese markets. The decrease in average selling price was the result of a decrease in block cheddar market prices resulting in a lower selling price per pound of cheese.

Cost of sales and gross profit margin for the three months ended December 31, 2000 was $9,000,000 (or 97.9% of sales) and $190,000 (or 2.1% of sales), respectively, compared to a cost of sales and gross profit margin of $9,586,000 (or 92.9% of sales) and $733,000 (or 7.1% of sales), respectively, for the comparable period in 1999. The increase in cost of sales (as a percentage of sales) and corresponding decrease in gross profit margin for 2000(as a percentage of sales) was primarily due to an increase in the Company's cost of raw materials as a percentage of selling price.
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Selling, general and administrative expense for the three months ended December 31, 2000 amounted to $655,000 (or 7.1% of sales) compared to $563,000 or (5.5% of sales) for the comparable period in 1999. The increase in selling, general, and administrative expenses as a percentage of sales was primarily due to the decreased sales in the period, and an increase in consulting and freight costs.

Interest expense for the three months ended December 31, 2000 amounted to $217,000 compared to $156,000 for the three months ended December 31, 1999 an increase of $61,000. This increase is the result of increased borrowing due to the addition of new production equipment and higher revolving line credit usage in the period.

No provision for income tax for the period ended December 31, 2000 was required. There was a $6,000 charge (due to provision for AMT) in the provision for income tax for the three month period ended December 31,1999. Charges and credits for Federal income taxes were offset by changes in the valuation allowances for the three months ended December 31, 2000 and December 31,1999. Such amounts are re-evaluated each quarter based on the results of operations.

The Company's net operating loss of $680,000 for the three months ended December 31, 2000 represents a decrease of $692,000 from the net income of $12,000 for the comparable period in 1999. The primary factors contributing to these changes are discussed above.

With respect to its gross profit margin, the Company is continuing its efforts to increase sales of its value added products which are less dependent on the Chicago Mercantile Exchange. The selling price for the Company's nutritional line of cheeses is less dependent on the Block Cheddar Market, which dictates the Company's commodity cheese prices. With respect to its nutritional line of cheeses, the Company is continuing its efforts to increase sales of such products. To date sales of nutritional cheese has not been significant. The Company has now positioned itself to co-pack private label retail products. However, there can be no assurance as to whether such sales can be achieved or maintained. In addition, the Company has continued to upgrade its equipment to enable it to reduce costs and add product lines with greater margins.

Nine months ended December 31, 2000 compared to nine months ended December 31, 1999.

Sales for the nine months ended December 31, 2000 decreased to $29,532,000 from $34,472,000 for the comparable period in 1999, a decrease of $4,940,000(or 14.3%). Approximately $990,000(or 20.0%) of such amount was due to a decrease in the number of pounds of cheese sold. Approximately $3,950,000 (or 80.0%) of such amount was due to a decrease in the average selling price for cheese.

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The volume decrease was due to decreased demand in the commodity cheese markets. The decrease in average selling price was the result of a decrease in block cheddar market prices resulting in a lower average selling price per pound of cheese in the period.

Cost of sales and gross profit margin for the nine months ended December 31, 2000 was $28,231,000 (or 95.6% of sales) and $1,301,000 (or 4.4% of sales), respectively, compared to a cost of sales and gross profit margin of $31,385,000 (or 91.0% of sales) and $3,087,000 (or 9.0% of sales), respectively, for the comparable period in 1999. The decrease in cost of sales and corresponding decrease in gross profit margin for 2000(as a percent of sales and corresponding decreases in gross profit margin in 2000) was primarily due to a increase in the Company's cost of raw materials as a percentage of selling price.

Selling, general and administrative expense for the nine months ended December 31, 2000 amounted to $1,922,000 (or 6.5% of sales) compared to $1,748,000 or (5.1% of sales) for the comparable period in 1999. The increase in selling, general, and administrative expenses as a percentage of sales was primarily due to the decreased sales in the period, and an increase in consulting and freight costs.

Interest expense for the six months ended September 30, 2000 amounted to $617,000 compared to $511,000 for the six months ended December 31, 1999 an increase of $106,000. This increase is the result of increased borrowing due to the addition of new production equipment and higher revolving line usage in the period.

The provision for income tax for the nine month period ended December 31, 2000 of $2,000 and December 31,1999 of $8,000 reflect minimum state taxes and provision for AMT. Charges for Federal income taxes were offset by changes in the valuation allowances for the nine months ended December 31, 2000 and December 31, 1999. Such amounts are re-evaluated each quarter based on the results of operations.

The Company realized key man insurance proceeds of $256,000 in the nine month period ended December 31, 1999. There was no corresponding recovery in the period ended December 31, 2000.

The Company's net operating loss of $1,233,000 for the nine months ended December 31, 2000 represents a decrease of $2,321,000 from the net income of $1,088,000 for the comparable period in 1999. The primary factors contributing to these changes are discussed above.

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With respect to its gross profit margin, the Company is continuing its efforts to increase sales of its value added products which are less dependent on the Chicago Mercantile Exchange. The selling price for the Company's nutritional line of cheeses is less dependent on the Block Cheddar Market, which dictates the Company's commodity cheese prices. With respect to its nutritional line of cheeses, the Company is continuing its efforts to increase sales of such products. To date sales of nutritional cheese has not been significant. The Company has now positioned itself to co-pack private label retail products. However, there can be no assurance as to whether such sales can be achieved or maintained. In addition, the Company has continued to upgrade its equipment to enable it to reduce costs and add product lines with greater margins.

Liquidity and Capital Resources

At December 31, 2000 the Company had working capital of $646,000 as compared to working capital of $1,945,000 at March 31, 2000. The Company's revolving bank line of credit is available for the Company's working capital requirements.

At December 31, 2000, $3,464,000 was outstanding under such revolving credit line of credit and there was no additional availability 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 agreement contains various restrictive covenants the most significant of which relates to limitations on capital expenditures ($1,000,000 annually without bank consent). In addition, the Company is required to maintain a minimum two million dollars of net worth. The Company has obtained an agreement from the bank increasing the limitation on annual capital expenditures to $1,500,000 and decreasing the minimum amount of net worth to $1,400,000 for fiscal year 2001. The Company intends to continue to utilize this line of credit as needed for operations.

On February 8, 1999, a new $4,950,000 bank loan agreement was signed. The new 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.

Proceeds of the new loans were used to repay the $2,647,000 of the long-term debt outstanding at December 31, 1998, reduce the revolving credit loan by $954,000 and the balance was added to the working capital of the Company.

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The Company's major source of external working capital financing has been and is currently the revolving line of credit. For the foreseeable future the Company believes that its current working capital 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 nine months ended December 31, 2000 cash provided by operating activities was $202,000. A loss from operations of $1,233,000 decreased cash. In addition an increase in accounts payable of $1,181,000, a decrease in inventories of $86,000 and a decrease in prepaid expenses and other current assets of $29,000 provided cash. Cash was decreased by an increase in accounts receivable of $370,000 and a increase in other assets of $49,000. An increase in accrued expenses of $48,000 also increased cash.

Net cash used by investing activities was $797,000 for the period ended December 31, 2000 which represented purchase of property, plant and equipment.

Net cash provided by financing activities was $334,000 for the period ended December 31, 2000. Net proceeds from the revolving credit loan of $347,000 provided cash in the period. Payments of long-term debt and notes of $13,000 decreased 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, should be sufficient to meet its anticipated needs for at least 12 months. If, however, the cheese markets and/or milk market do not provide improved operating margins, the Company may be required to seek additional financing for its operating needs.

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 value added and nutritional 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.

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PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

An Annual Meeting of Stockholders was held on November 16, 2000. The matters voted on at the meeting and the votes cast were as follows.

(a) The following directors were reappointed to serve as directors until the Annual Meeting of Stockholders of the Company to be held in the year 2001.

	Votes For	Votes Withheld
Gennaro Falivene	2,640,962	22,882
Alfonso Falivene	2,640,962	22,882
Stephen M. Katz	2,616,394	47,450
Howard S. Breslow	2,469,634	194,210
Jay M. Rosengarten	2,470,234	193,610

(b) The selection of Citrin, Cooperman & Company, LLP as independent auditors for the year ending March 31, 2001 was ratified.

For	Against	Abstain
2,627,542	34,532	1700

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 27. Financial Data Schedule

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the three months ended December 31, 2000.

SIGNATURES

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

February 12, 2001 Lucille Farms, Inc.
(Registrant)

By: /s/Alfonso Falivene
Alfonso Falivene
President (Duly Authorized)

By: /s/Stephen M. Katz
Vice President-Finance
and Administration
(Principal Financial Officer)