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LUCILLE FARMS INC
Form 10-Q/A
February 20, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(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, 2002

Commission File Number 1-12506

LUCILLE FARMS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware ----- (State or other Jurisdiction Of Incorporation)	13-2963923 ----- (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

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act). YES NO x

The number of shares of Registrant's common stock, par value \$.001 per share, outstanding as of February 12, 2003 was 3,284,775.

Item 1. Financial Statements

LUCILLE FARMS, INC.
CONSOLIDATED BALANCE SHEETS
ASSETS

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	DECEMBER ----- (UNAUD
CURRENT ASSETS:	
Cash	\$
Accounts receivable, net of allowances of \$107,000 at December 31, 2002 and \$144,000 at March 31, 2002	3,
Inventories	2,
Deferred income taxes	
Prepaid expenses and other current assets	-----
Total Current Assets	6, -----
PROPERTY, PLANT AND EQUIPMENT, NET	10, -----
OTHER ASSETS:	
Due from officers	
Deferred loan costs, net	
Other	-----
Total Other Assets	-----
TOTAL ASSETS	\$ 17, -----

See notes to consolidated financial statements

LUCILLE FARMS, INC.
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER ----- (UNAUD
CURRENT LIABILITIES:	

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Revolving credit loan	\$ 2,
Accounts payable	2,
Current portion of long-term debt	
Accrued expenses	-----
Total Current Liabilities	6, -----
LONG-TERM LIABILITIES:	
Long-term debt, net of current portion	7,
Deferred income taxes	-----
Total Long-term Liabilities	7, -----
TOTAL LIABILITIES	14, -----
STOCKHOLDERS' EQUITY:	
Preferred Stock- face value 250,000 shares authorized:	
216 shares Series A convertible issued and outstanding	
583 shares Series B convertible issued and outstanding	
Common stock, \$ 0.001 per value, 25,000,000 shares authorized 3,284,775 shares issued at December 31, 2002 and 3,021,342 shares issued at March 31, 2002	
Additional paid-in capital	8,
Accumulated deficit	(4, -----
	3,
Less: 69,900 shares of treasury stock, at cost	(-----
Total Stockholders' Equity	3, -----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 17, -----

See notes to consolidated financial statements

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LUCILLE FARMS, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED DECEMBER 31, 2002 AND 2001
(UNAUDITED)

	200

SALES	\$ 28,
COST OF SALES	27,

GROSS PROFIT	

EXPENSE (INCOME) :	
SELLING	
GENERAL AND ADMINISTRATIVE	
INTEREST INCOME	
INTEREST EXPENSE	

TOTAL EXPENSE (INCOME)	1,

(LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(1,
(PROVISION) FOR INCOME TAXES	

(LOSS) BEFORE EXTRAORDINARY ITEM	(1,
EXTRAORDINARY ITEM: GAIN ON DEBT RESTUCTURING, NET	

NET LOSS	\$ (
NET INCOME (LOSS) PER SHARE	
BASIC AND DILUTED:	
Income (loss) before extraordinary item	\$
Extraordinary item	\$
Net loss	\$
WEIGHTED AVERAGE SHARES	
OUTSTANDING USED TO COMPUTE	
NET INCOME PER SHARE	
: BASIC	3,

: DILUTED	3,

See notes to consolidated financial statements

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LUCILLE FARMS, INC.
 CONSOLIDATED STATEMENT OF OPERATIONS
 FOR THE THREE MONTHS ENDED DECEMBER 31, 2002 AND 2001
 (UNAUDITED)

	2002

SALES	\$ 9,
COST OF SALES	9,

GROSS PROFIT	-----
OTHER EXPENSE (INCOME):	
SELLING	
GENERAL AND ADMINSTRATIVE	
INTEREST INCOME	
INTEREST EXPENSE	

TOTAL OTHER EXPENSE (INCOME)	-----
INCOME (LOSS) BEFORE INCOME TAXES	(
(Provision) for income taxes	
NET LOSS	\$ (

NET INCOME (LOSS) PER SHARE	
: Basic	\$

: Diluted	\$

WEIGHTED AVERAGE SHARES	
OUTSTANDING USED TO COMPUTE	
NET INCOME PER SHARE	
:Basic	3,

:Diluted	3,

See notes to consolidated financial statements

LUCILLE FARMS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

		NINE ----- 200 -----
CASH FLOWS FROM OPERATING ACTIVITIES:		
NET INCOME (LOSS)	\$	(
Adjustments to reconcile net (loss)/ income to net cash (used) by operating activities:		
Gain on debt restructuring		(
Value of options issued for service		
Depreciation and amortization		
Provision for doubtful accounts		
(Increase) decrease in assets:		
Accounts receivable		
Inventories		
Prepaid expenses and other current assets		(
Other assets		(
Increase (decrease) in liabilities		
Accounts payable		1,
Accrued expenses		
Net cash provided (used) by operating activities		----- 1, -----
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property, plant equipment		(
Net Cash (used by) Investing Activities		----- (-----
CASH FLOW FROM FINANCING ACTIVITIES:		
(Payments of) proceeds from revolving credit loan-net		(1,
(Payments of) proceeds from long-term debt and notes - net		(
Net Cash (Used) Provided by Financing Activities		----- (1, -----
NET INCREASE IN CASH		
CASH -BEGINNING		-----
CASH -ENDING	\$	-----

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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, 2002, the Consolidated Statement of Operations for the three and nine month periods ended December 31, 2002 and 2001 and the Consolidated Statement of Cash Flows for the nine month periods ended December 31, 2002 and 2001 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, 2002, the results of its operations for the three months and nine months ended December 31, 2002 and 2001 and its cash flows for the nine months ended December 31, 2002 and 2001.

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, 2002 included in the Company's Annual Report on Form 10-K as filed with the SEC. The company also suggests that the Form 8-K filed with the SEC on July 11, 2002, be read in conjunction with this report.

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, 2002 are not necessarily indicative of the results to be expected for the entire fiscal year.
3. Inventories are summarized as follows:

	December 31, 2002	March 31, 2002
Finished goods	\$1,347,000	\$2,244,000
Raw Materials	502,000	281,000
Supplies and Packaging	475,000	644,000
	-----	-----
	\$2,324,000	\$3,169,000
	-----	-----

4. In May 2001, the Company obtained a \$2,000,000 bank loan. The loan collateralized 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 first installment, due May 2003, has been classified as a current liability at December 31, 2002.

The Company is presently seeking to replace its \$4,000,000 secured revolving credit line, the maturity of which has been extended to June

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1, 2003. Should the Company not be able to secure alternative financing by the extended due date it will request an additional extension of this maturity until such financing is secured. However, there can be no assurance that such financing can be secured or the extension granted. Should the Company be unable to secure such financing or receive such extension it will result in a significant negative effect on the Company's liquidity.

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. Basic and diluted per share amounts are the same for the three and nine months periods ended December 31, 2002, 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 nine months ended December 31, 2002, non-cash investing and financing activities were \$5,500,000 for accounts payable restructuring for a value ascribed to common stock, preferred stock, warrants and debt issued in connection with the restructuring of \$4,500,000.

For the nine months ended December 31, 2001, non-cash investing and financing activities were \$540,000 for preferred stock issued for equipment.

The Company paid interest of approximately \$603,000 and \$646,000 for the nine months ended December 31, 2002 and 2001, respectively.

The company paid no income taxes for the nine months ended December 31, 2002 and 2001.

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7. We adopted FAS 144 "accounting for the Impairment of Disposal of Long-Lived Assets", on April 1, 2002. FAS 144 supersedes FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". The primary objectives of FAS 144 are to develop an accounting model based on the framework established in FAS 121 for long-lived assets to be disposed of by sale, and to address significant implementation issues. Our adoption of FAS 144 did not have a material impact on our financial position or results of operations.

In June 2002, the Financial Accounting Standards Board (or FASB) issued FAS 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses accounting for restructuring, discontinued operation, plant closing, or other exit or disposal activity. FAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. FAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of FAS 146 is not expected to have a significant impact on our financial position and results of operations.

8. In May 2002, the Company restructured \$5,500,000 of accounts payable from its main supplier thorough the issuance of 333,333 shares of common stock, 583 shares of Series B Preferred Stock with a detachable 10-year warrant and a \$1,000,000 convertible note payable in April 2005, which had an ascribed value of approximately \$4,500,000.

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The restructuring resulted in an extraordinary gain of \$875,000, net of expenses of \$125,000 and income taxes calculated to be zero due to the offset of net operating loss carry forwards previously unrealized.

9. In June 2002, the Company issued a 10-year warrant to B & W Investment Associates, a partnership in which a director of the Company is a partner, to purchase 500,000 shares of common stock at \$3.00 per share. The warrant was issued to satisfy outstanding professional services in connection with the restructuring of accounts payable.
10. In October 2002, the Company entered into an employment agreement with its chief executive officer which included a ten year option to purchase 250,000 shares of common stock at \$3.00 per share, which vest over a four-year period.
11. On November 1, 2002 the 2002 Stock Option Plan ("Plan") became effective. The Plan allows a maximum of 1,000,000 shares of common stock to be issued of which options to purchase 275,000 shares have been granted.

The Plan authorizes the granting of incentive stock options to the Company's employees and non-statutory stock options to the Company's employees, directors and certain consultants and advisors. The options to be granted are intended to receive incentive stock option tax treatment pursuant to section 422 of the Internal Revenue Code.

The Plan provides that the Board of Directors, or committee of the Board, shall administer the Plan, and shall have the authority to interpret and prescribe, amend and rescind the rules and regulations relating thereto. Unless previously terminated in certain circumstances, the Plan will terminate on October 30, 2012.

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

Results of Operations

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 block cheddar price (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. Regulatory factors effecting our milk suppliers such as dairy subsidies and price supports may have an effect on our raw material costs, but that impact cannot be predicted. Milk is generally sold above the subsidy price, which is established by government regulation. The subsidy price generally establishes a floor for such costs. While the Company generally can anticipate a change in the price of milk, it cannot anticipate the extent thereof. There is no corresponding floor on the Chicago Mercantile Exchange block cheddar price. Therefore, if the block cheddar price, to which our selling price is referenced, changes at a different rate than the price of milk our margins are affected. By virtue of the pricing structure for our cheese, the delay in the determination of the cost, and the

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competitive nature of the marketplace, the Company cannot pass along to the customer the changes in the cost of fluid 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 and cash flows.

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 block cheddar price on the Chicago Mercantile Exchange, the extent of such movement and the timing thereof 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, 2002 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2001.

Sales for the three months ended December 31, 2002 increased to \$9,746,000 from \$9,568,000 for the comparable period in 2001, an increase of \$178,000 (or 1.9%). Approximately \$370,000 (or 207.8%) of such increase was due to an increase in the number of pounds of cheese sold while a decrease in the sale of whey accounted for \$192,000 (or 107.8%).

During the three month period ended December 31, 2002, the average quarterly selling price of cheese was approximately \$1.31. During the three month period ended December 31, 2001, the average quarterly selling price was approximately \$1.37. There is no way to predict the trend of block cheddar prices on the Chicago Mercantile Exchange and, therefore, we can provide no guidance as to the future range of selling prices for commodity cheese.

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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 block cheddar price on the Chicago Mercantile Exchange. 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.

In the three month period ended December 31, 2002, and December 31, 2001, sales of whey amounted to \$577,000 and \$769,000, respectively.

Cost of sales and gross profit margin for the three months ended December 31, 2002 were \$9,374,000 (or 96.2% of sales) and \$372,000 (or 3.8% of sales), respectively, compared to a cost of sales and gross profit margin of \$9,861,000 (or 103.1% of sales) and \$(293,000) (or 3.1% of sales), respectively, for the comparable period in 2001. The cost of sales and corresponding increase in gross profit margin for 2002 as a percentage of sales was the result of lower raw material costs and a reduction of payroll costs for the period.

Selling, general and administrative expenses for the three month period ended December 31, 2002 amounted to \$471,000 (or 4.8% of sales) compared to \$446,000 (or 4.7% of sales) for the comparable period in 2001. The company is currently classifying all freight expense as a component of cost of sales and has reclassified prior years to conform.

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Selling expenses are mainly variable in nature. The most significant amount in selling expense is sales commission expense, which was \$73,000 and \$108,000 in 2002 and 2001, respectively. The decrease resulted from a decrease in commissionable sales in the period ended December 31, 2002. General and administrative expenses were up slightly due to increased professional fees.

Interest expense (net) for the period ended December 31, 2002 amounted to \$196,000 compared to \$197,000 for the period ended December 31, 2001, virtually the same for each period.

The provision for income tax for the periods ended December 31, 2002, and 2001 of \$0.00 and (\$1,000), respectively, reflect minimum state taxes with the tax benefits of operating losses being offset by the effect of changes in the valuation allowance. Such amounts are re-evaluated each period based on the results of the operations.

The Company's net loss of \$295,000 for the three month period ended December 31, 2002, represents a decrease of \$639,000 from the net loss of \$934,000 for the comparable period in 2001. The primary factors contributing to these changes are discussed above.

NINE MONTHS ENDED DECEMBER 31, 2002, COMPARED TO NINE MONTHS ENDED DECEMBER 31, 2001.

Sales for the nine months ended December 31, 2002 were \$28,262,000 down from \$34,698,000 for the comparable period in 2001, a decrease of \$6,436,000 (or 18.5%). Approximately \$6,172,000 (or 95.7%) of such amount was due to a decrease in the average selling price of cheese. This was offset by \$708,000 (or 11.0%) increase of pounds of cheese sold. Whey sales decreased to \$1,426,000 from \$2,408,000, a decline of approximately \$982,000 (or 15.3%) due to falling prices and less volume.

Cost of sales and gross profit margins for the nine months ended December 31, 2002, was \$27,522,000 (or 97.4%) of sales and \$740,000 (or 2.6%) of sales respectively, compared to a cost of sales and gross profit margin of \$33,381,000 (or 96.2%) of sales and \$1,317,000 (or 3.8%) of sales respectively for the comparable period in 2001. The increase in the cost of sales and corresponding decrease in gross profit margin in 2002 was primarily due to a decline in the cheddar block market.

Selling, general and administrative expenses for the nine months ended December 31, 2002, amounted to \$1,292,000 (or 4.6% of sales) compared to \$1,224,000 (or 3.5% of sales) for the comparable period in 2001. The increase in selling, general and administrative expenses were primarily due to an increase in sales promotion expense, commissionable sales, and business travel expenses.

Interest expense (net) for the nine months ended December 31, 2002, amounted to \$598,000 compared to \$639,000 for the nine months ended December 31, 2001, a decrease of \$41,000.

The provision for income tax for the nine month period ended December 31, 2002, of \$1000 and December 31, 2001 of \$2,000 reflect minimum state taxes. Charges for federal taxes were offset by changes in the valuation allowances for the nine months ended December 31, 2002, and December 31, 2001. Such amounts are re-evaluated each quarter based in the results of operations.

The company's net loss of \$276,000 for the nine months ended December 31, 2002, represents a decrease of \$272,000 from the net loss of \$548,000 for the comparable period in 2001. The primary factors contributing to these changes are discussed above, including the restructuring of \$5,500,000 of accounts payable resulting in an extraordinary gain of \$875,000 during May 2002.

Liquidity and Capital Resources

The Company had available a \$5,000,000 revolving credit facility at December 31, 2002 that was to expire on June 1, 2002 and had been extended to February 1, 2003. The bank has provided an additional extension of the facility to June 1, 2003, and has reduced the maximum amount available from \$5,000,000 to \$4,000,000, at which time the outstanding principal is due. The rate of interest on amounts borrowed against the revolving credit facility is based upon the New York prime rate plus 1% (5.25% at December 31, 2002). Advances under this facility are limited to 50% of inventory (with a cap on inventory borrowings of \$1,000,000) and 80% of receivables as defined in the agreement. The commitment 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 generate an increase in its dollar amount of net worth annually. The Company is seeking alternative financing to replace this loan. Should the Company not be able to secure alternative financing by the extended due date it will request an additional extension until such financing is secured. However, there is no assurance that such financing can be secured or the extension granted. Failure to secure such financing or receive such extension will result in a significant negative effect in the Company's liquidity.

At December 31, 2002, the Company had negative working capital of \$(243,000) as compared to negative working capital of (\$3,885,000) at March 31, 2002. The Company's revolving bank line of credit is available for the Company's working capital requirements.

At December 31, 2002, \$2,742,000 was outstanding under such revolving credit line and \$740,000 was available for additional borrowing at that time.

On February 8, 1999, a \$4,950,000 bank loan agreement was signed. The loan is collateralized by the Company's plant and equipment and guaranteed by the USDA. 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 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 maturity in February 2019.

On May 23, 2001, a \$2,000,000 bank loan agreement was signed. The loan is collateralized by a second position of 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 principal repayable in four consecutive annual installments of \$500,000 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.

On May 16, 2002, Lucille Farms, Inc. entered into an agreement with St. Albans Cooperative Creamery, Inc., the Company's primary supplier of raw materials, pursuant to which St. Albans (i) converted \$1,000,000 of accounts payable owed by Lucille Farms to St. Albans into 333,333 shares of common stock, (ii) converted \$3,500,000 of accounts payable owed by Lucille Farms to St. Albans into (A) preferred stock convertible into 583,333 shares of common stock, which preferred stock (1) automatically converts into such number of shares of common stock if the common stock is \$8.00 or higher for 30 consecutive trading days, and (2) may be redeemed by Lucille Farms for \$3,500,000, and (B) a 10-year warrant to purchase 583,333 shares of common stock (subject to adjustment under certain circumstances to a maximum of 1,416,667 shares of common stock) at \$.01 per share, which warrant (1) may not be exercised for a period of three-years, (2) terminates if, during such three-year period, Lucille Farms' common stock is \$8.00 or higher for 30 consecutive trading days, and, (3) in the event Lucille Farms' common stock is not \$8.00 or higher for 30 consecutive trading days during such three-year period, may only be exercised on the same basis percentage wise as the preferred shares are converted, (iii) converted an additional \$1,000,000 of accounts payable owed by Lucille Farms to St. Albans into a convertible promissory note due on April 14, 2005, which note is convertible into common stock at \$6.00 per share at anytime by St. Albans and, at the option of Lucille Farms, automatically shall be converted into common stock at \$6.00 per share if the common stock is \$8.00 or higher for a period of 30 consecutive trading days, and (iv) provided Lucille Farms with a pricing structure for milk and milk by-products, for a minimum of one-year and a maximum of four-years (subject to renegotiation at the expiration of the applicable period), designed to produce profitability for Lucille Farms.

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 the Company's revolving line of credit will continue to represent the major source of working capital financing. However, there is no assurance that replacement of the revolving line or an extension thereof can be secured and failure to secure such replacement financing or extension can have a significant negative effect on the Company's liquidity.

Accounts receivable turnover is directly related to the sales volume in the month preceding the statement date. Therefore, any change in turnover rate is not attributable to rate of collections or changes in customer base.

For the nine-month period ended December 31, 2002, cash provided by operating activities was \$1,559,000. A loss from operations before extraordinary item of \$1,151,000 decreased cash. In addition, decreases in accounts receivable and inventory and increases in accounts payable and accrued expenses provided cash of \$2,536,000 in the period. Increases in prepaid expenses and other assets of \$527,000 used cash in the period.

Net cash used by investing activities was \$330,000 for the period ended December 31, 2002, which represented purchase of property, plant and equipment.

Net cash used by financing activities was \$1,261,000 for the period ended December 31, 2002. Payments of the revolving credit loan of \$1,001,000 decreased cash. Payments of long-term debt and notes of \$160,000 provided cash in the period.

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The Company presently is seeking to replace its \$5,000,000 secured revolving credit line, the maturity of which has been extended to June 1, 2003. The Company estimates that based on current plans and its ability to replace or extend the revolving line of credit, its resources, including revenues from operations and utilization of its revolving credit lines, should be sufficient to meet anticipated needs for at least 12 months. Failure to secure such financing or receive such extension will result in a significant negative effect on the Company's liquidity.

The Company's website is www.lucille-farms.com. The Company is in the process of updating of its website to enable users to access its filings with the SEC as soon as reasonably practicable. When updated, the Company will make available, free of charge through its website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Until such time as the website is updated, the Company will provide electronic or paper copies free of charge upon request.

Safe Harbor Statement

This Quarterly Report on Form 10-Q (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 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. QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

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

The Company is subject to interest rate exposure on variable rate debt. The amount of that debt at balance sheet date, December 31, 2002 and March 31, 2002 amounted to \$4,742,000, and \$5,744,000, respectively. In as much as this debt is based upon the Prime Rate plus 1%, the cost of this debt will increase or decrease accordingly with changes in the prime rate.

The Company has exposure to the commodity price for cheese, dry whey and fluid milk. We have addressed these exposures in the general paragraph of MD&A Item 2.

ITEM 4. CONTROLS AND PROCEDURES

Within 90 days prior to the date of filing this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and

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procedures are effective in timely alerting them to material information relating to the company required to be included in the Company's periodic SEC filings. Subsequent to the date of that evaluation, there have been no significantly changes in the Company's internal controls or in other factors that could significantly affect internal controls, nor were any corrective actions required with regard to significant deficiencies and material weaknesses.

Part II - Other Information

Item 4. Controls and Procedures

An annual meeting of Stockholders' was held on December 20, 2002. The matters voted on at the meeting and the votes cast were as follows:

- (a) The following directors were appointed to serve as directors until the Annual Meeting of Stockholders of the Company to be held in the year 2003:

	VOTES FOR -----	VOTES WITHHELD -----
Mr. Alfonso Falivene	2,647,041	1,221,067
Mr. Howard Breslow	2,647,041	1,221,067
Mr. Jay Rosengarten	2,647,041	1,221,067
Mr. Leon Berthiaume	2,647,041	1,221,067
Mr. George Bell	2,647,041	1,221,067
Mr. Ralph Singer	2,647,041	1,221,067

- (b) The approval of the issuance of shares of common stock in connection with a financing transaction with St. Albans Cooperative Creamery, Inc.

FOR ---	AGAINST -----	ABSTAIN -----
1,518,092	4,600	200

- (c) Approval to amend the Company's Certificate of Incorporation to increase the authorized shares of common stock from 10,000,000 shares to 25,000,000 shares.

FOR ---	AGAINST -----	ABSTAIN -----
2,642,812	6,850	0

- (d) Approval of the 2002 Stock Option Plan.

FOR ---	AGAINST -----	ABSTAIN -----
2,100,172	222,000	0

- (e) The selection of Wiss & Company as independent auditors for the year ending March 31, 2003 was ratified.

FOR	AGAINST	ABSTAIN
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2,648,941	900	100

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 99.1 Certification of Periodic Report dated February 14, 2003

Exhibit 99.2 Certification of Periodic Report dated February 14, 2003

(b) Reports on Form 8-K

Current Report on Form 8-K filed November 11, 2002, relating to the transaction between the Company and St. Albans Cooperative Creamery, Inc.

Current Report on Form 8-K filed November 21, 2002, relating to the transaction between the Company and St. Albans Cooperative Creamery, Inc.

Current Report on Form 8-K filed December 5, 2002, relating to the transaction between the Company and St. Albans Cooperative Creamery, Inc.

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 14, 2003

Lucille Farms, Inc.

(Registrant)

By:/s/ Jay M. Rosengarten

Jay M. Rosengarten
Chief Executive Officer

By:/s/ Albert N. Moussab

Albert N. Moussab
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

I, Jay Rosengarten, Chief Executive Officer of Lucille Farms, Inc. (the "Company"), certify that:

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1. I have reviewed this quarterly report on Form 10-Q of the Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The Company's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The Company's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: February 14, 2003

By: /s/ Jay M. Rosengarten

Jay Rosengarten
Chief Executive Officer

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CERTIFICATION

I, Albert N. Moussab, Chief Financial Officer of Lucille Farms, Inc. (the "Company"), certify that:

5. I have reviewed this quarterly report on Form 10-Q of the Company;
6. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
7. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
8. The Company's other certifying officers and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The Company's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: February 14, 2003

By: /s/ Albert N. Moussab

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Albert N. Moussab
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
99.1*	Certification of Periodic Report dated February 14, 2003
99.2*	Certification of Periodic Report dated February 14, 2003

* Filed herewith