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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
SECURITIES 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.

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CONSOLIDATED BALANCE SHEET

ASSETS

	JUNE 30, 2001	MARCH 31, 2001
	-----	-----
	(UNAUDITED)	
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

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	----- (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

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(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

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CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Three Months Ended June 30,	
	2001	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

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

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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.

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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 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

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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:

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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 collateralized 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 installments 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.

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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

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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 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.

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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.

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(Registrant)

By: /s/ Alfonso Falivene

Alfonso Falivene,
President

By: /s/ Stephen M. Katz

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

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Prospectus dated January 8, 2016:

<http://www.sec.gov/Archives/edgar/data/1000275/000121465916008810/j18160424b3.htm>

As used in this pricing supplement, "we," "us" or "our" refers to Royal Bank of Canada.

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Investor Suitability

The Securities may be suitable for you if, among other considerations:

- .. You fully understand the risks inherent in an investment in the Securities, including the risk of loss of your entire initial investment.
- .. You can tolerate the loss of all or a substantial portion of the principal amount of the Securities and are willing to make an investment that may have the full downside market risk as a hypothetical investment in the Underlying.
- .. You seek an investment with a return linked to the performance of the Underlying and believe the Final Level is likely to be at or above the Step Barrier on the Final Valuation Date.
- .. You understand and accept that your potential positive return from the Contingent Absolute Return feature is limited by the Downside Threshold.
- .. You are willing to invest in the Securities based on the Step Return set forth on the cover page.
- .. You can tolerate fluctuations in the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations in the level of the Underlying.
- .. You do not seek current income from your investment and are willing to forgo dividends paid on the securities represented by the Underlying.
- .. You are willing to hold the Securities to maturity and accept that there may be little or no secondary market for the Securities.
- .. You are willing to assume our credit risk for all payments under the Securities, and understand that if we default on our obligations, you may not receive any amounts due to you, including any repayment of principal.
- .. You fully understand and accept the risks associated with the Underlying.

The Securities may not be suitable for you if, among other considerations:

- .. You do not fully understand the risks inherent in an investment in the Securities, including the risk of loss of your entire initial investment.
- .. You require an investment designed to provide a full return of principal at maturity.
You cannot tolerate the loss of all or a substantial portion of the principal amount of the Securities, and you are not
- .. willing to make an investment that may have the full downside market risk as a hypothetical investment in the Underlying.
- .. You believe that the Final Level is unlikely to be at or above the Step Barrier on the Final Valuation Date.
- .. You believe the Underlying Index will depreciate from the Initial Level over the term of the Securities and is likely to close below the Downside Threshold on the Final Valuation Date.
- .. You do not understand and accept that your potential positive return from the Contingent Absolute Return feature is limited by the Downside Threshold.
- .. You are unwilling to invest in the Securities based on the Step Return set forth on the cover page.
- .. You cannot tolerate fluctuations in the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations in the level of the Underlying.
- .. You seek current income from this investment or prefer to receive the dividends paid on the securities represented by the Underlying.
- .. You are unable or unwilling to hold the Securities to maturity or you seek an investment for which there will be an active secondary market.
- .. You are not willing to assume our credit risk for all payments under the Securities, including any repayment of principal.
- .. You do not fully understand and accept the risks associated with the Underlying.

The suitability considerations identified above are not exhaustive. Whether or not the Securities are a suitable investment for you will depend on your individual circumstances, and you should reach an investment decision only after you and your investment, legal, tax, accounting, and other advisers have carefully considered the suitability of an investment in the Securities in light of your particular circumstances. You should also review carefully the “Key Risks” in this pricing supplement and “Risk Factors” in the accompanying product prospectus supplement UBS-IND-1 for risks related to an investment in the Securities. In addition, you should review carefully the section “Information About the Underlying” below for more information about the Underlying.

Final Terms of the Securities¹ Investment Timeline

Issuer:	Royal Bank of Canada
Issue Price:	\$10 per Security (subject to a minimum purchase of 100 Securities).
Principal Amount:	\$10 per Security.
Term:	Approximately five years
Underlying:	EURO STOXX 50 [®] Index
	If the Underlying Return is positive, we will pay you: $\$10 + \$10 \times (\text{the greater of: (a) the Step Return and (b) the Underlying Return});$ If the Underlying Return is negative, but the Final Level is greater than or equal to the Downside Threshold, we will pay you: $\$10 + (\$10 \times \text{Contingent Absolute Return})$
Payment at Maturity (per \$10 Security):	In this scenario, you will receive a 1% positive return on the Securities for each 1% negative return on the Underlying. If the Underlying Return is negative and the Final Level is less than the Downside Threshold, we will pay you a cash payment that is less than the principal amount of \$10, resulting in a loss of principal that is proportionate to the negative Underlying Index Return, calculated as follows: $\$10 + (\$10 \times \text{Underlying Return})$ In this scenario, you will lose some or all of the principal amount of the Securities.
Underlying Return:	$\frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}}$
Contingent Absolute Return:	The absolute value of the Underlying Return. For example, if the Underlying Return is -5%, the Contingent Absolute Return will be equal to 5%.
Downside Threshold:	2,454.22, which is 70% of the Initial Level (rounded to two decimal places).
Step Barrier:	100% of the Initial Level
Step Return:	59.00%
Initial Level:	3,506.03, which was the closing level of the Underlying on the Trade Date.
Final Level:	The closing level of the Underlying on the Final Valuation Date
Trade Date:	The Initial Level, Downside Threshold, Step Barrier and Step Return were determined.

The Final Level and Underlying Return are determined.

If the Final Level is greater than or equal to the Step Barrier, we will pay you a cash payment per Security equal to:

$\$10 + [\$10 \times (\text{the greater of (i) the Step Return and (ii) the Underlying Return})]$

If the Final Level is less than the Initial Level, but greater than or equal to the Downside Threshold, we will pay you a cash payment equal to:

$\$10 + (\$10 \times \text{Contingent Absolute Return});$

If the Final Level is less than the Downside Threshold, we will pay you a cash payment that is less than the principal amount of \$10 per Security, calculated as follows:

$\$10 + (\$10 \times \text{Underlying Return})$

In this scenario, you will lose some or all of the principal amount of the Securities.

Maturity Date:

INVESTING IN THE SECURITIES INVOLVES SIGNIFICANT RISKS. YOU MAY LOSE SOME OR ALL OF YOUR PRINCIPAL AMOUNT. ANY PAYMENT ON THE SECURITIES, INCLUDING ANY REPAYMENT OF PRINCIPAL, IS SUBJECT TO OUR CREDITWORTHINESS. IF WE WERE TO DEFAULT ON OUR PAYMENT OBLIGATIONS, YOU MAY NOT RECEIVE ANY AMOUNTS OWED TO YOU UNDER THE SECURITIES AND YOU COULD LOSE YOUR ENTIRE INVESTMENT.

¹ Terms used in this pricing supplement, but not defined herein, shall have the meanings ascribed to them in the product prospectus supplement.

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Key Risks

An investment in the Securities involves significant risks. Investing in the Securities is not equivalent to investing directly in any of the component securities of the Underlying. These risks are explained in more detail in the “Risk Factors” section of the accompanying product prospectus supplement UBS-IND-1. We also urge you to consult your investment, legal, tax, accounting and other advisors before investing in the Securities.

Your Investment in the Securities May Result in a Loss of Principal — The Securities differ from ordinary debt securities in that we are not necessarily obligated to repay the full principal amount of the Securities at maturity. The return on the Securities at maturity is linked to the performance of the Underlying and will depend on whether, and the extent to which, the Underlying Return is positive or negative. If the Final Level is less than the Downside Threshold, the Contingent Absolute Return feature will no longer be available, you will be fully exposed to any negative Underlying Return and we will pay you less than your principal amount at maturity, resulting in a loss proportionate to the decrease in the value of the Underlying from the Initial Level to the Final Level. Accordingly, you could lose the entire principal amount of the Securities.

The Step Return and the Contingent Absolute Return Apply Only if You Hold the Securities to Maturity: You should be willing to hold the Securities to maturity. If you are able to sell your Securities in the secondary market, the price you receive will likely not reflect the full economic value of the Step Return or the Securities themselves, and the return you realize may be less than the Underlying’s return at the time of sale even if that return is positive.

The Contingent Repayment of Principal Applies Only if You Hold the Securities to Maturity: The contingent repayment of principal only applies at maturity. If you are able to sell your Securities prior to maturity in the secondary market, you may have to sell them at a loss even if the level of the Underlying is above the Downside Threshold at the time of sale.

The Potential for a Positive Return if the Underlying Depreciates is Limited. Any positive return on the Securities if the Underlying depreciates will be limited by the Downside Threshold, because the Contingent Absolute Return feature will apply only if the Final Level is greater than or equal to the Downside Threshold. If the Final Level is less than the Downside Threshold, you will not receive a Contingent Absolute Return and will instead lose some or all of your investment.

No Interest Payments: We will not pay any interest with respect to the Securities.

An Investment in the Securities Is Subject to Our Credit Risk: The Securities are unsubordinated, unsecured debt obligations of the issuer, Royal Bank of Canada, and are not, either directly or indirectly, an obligation of any third party. Any payment to be made on the Securities, including any repayment of principal at maturity, depends on our ability to satisfy our obligations as they come due. As a result, our actual and perceived creditworthiness may affect the market value of the Securities and, in the event we were to default on our obligations, you may not receive any amounts owed to you under the terms of the Securities and you could lose your entire initial investment.

Your Return on the Securities May Be Lower than the Return on a Conventional Debt Security of Comparable Maturity: The return that you will receive on the Securities, which could be negative, may be less than the return you could earn on other investments. Even if your return is positive, your return may be less than the return you could earn if you bought a conventional senior interest bearing debt security of ours with the same maturity date or if you were able to invest directly in the Underlying or the securities included in the Underlying. Your investment may not reflect the full opportunity cost to you when you take into account factors that affect the time value of money.

No Dividend Payments or Voting Rights: Investing in the Securities is not equivalent to investing directly in any of the component securities of the Underlying. As a holder of the Securities, you will not have voting rights or rights to receive cash dividends or other distributions or other rights that holders of the equity securities represented by the Underlying would have. The Underlying is a price return index, and the Underlying Return excludes any cash dividend payments paid on its component stocks.

The Initial Estimated Value of the Securities Is Less than the Price to the Public: The initial estimated value that is set forth on the cover page of this document, which is less than the public offering price you pay for the Securities, does not represent a minimum price at which we, RBCCM or any of our other affiliates would be willing to purchase the Securities in any secondary market (if any exists) at any time. If you attempt to sell the Securities prior to maturity, their market value may be lower than the price you paid for them and the initial estimated value. This is due to, among other things, changes in the level of the Underlying, the borrowing rate we pay to issue securities of this kind, and the inclusion in the price to the public of the underwriting discount, and our estimated profit and the

costs relating to our hedging of the Securities. These factors, together with various credit, market and economic factors over the term of the Securities, are expected to reduce the price at which you may be able to sell the Securities in any secondary market and will affect the value of the Securities in complex and unpredictable ways. Assuming no change in market conditions or any other relevant factors, the price, if any, at which you may be able to sell your Securities prior to maturity may be less than the price to public, as any such sale price would not be expected to include the underwriting discount and our estimated profit and the costs relating to our hedging of the Securities. In addition, any price at which you may sell the Securities is likely to reflect customary bid-ask spreads for similar trades. In addition to bid-ask spreads, the value of the Securities determined for any secondary market price is expected to be based on the secondary market rate rather than the internal borrowing rate used to price the Securities and determine the initial estimated value. As a result, the secondary price will be less than if the internal borrowing rate was used. The Securities are not designed to be short-term trading instruments. Accordingly, you should be able and willing to hold your Securities to maturity.

Our Initial Estimated Value of the Securities Is an Estimate Only, Calculated as of the Time the Terms of the Securities Were Set: The initial estimated value of the Securities is based on the value of our obligation to make the payments on the Securities, together with the mid-market value of the derivative embedded in the terms of the Securities. See “Structuring the Securities” below. Our estimate is based on a variety of assumptions, including our credit spreads, expectations as to dividends, interest rates and volatility, and the expected term of the Securities. These assumptions are based on certain forecasts about future events, which may prove to be incorrect. Other entities may value the Securities or similar securities at a price that is significantly different than we do.

The value of the Securities at any time after the Trade Date will vary based on many factors, including changes in market conditions, and cannot be predicted with accuracy. As a result, the actual value you would receive if you sold the Securities in any secondary market, if any, should be expected to differ materially from the initial estimated value of your Securities and the amount that may be paid at maturity.

Changes Affecting the Underlying: The policies of the index sponsor concerning additions, deletions and substitutions of the stocks included in the Underlying and the manner in which the index sponsor takes account of certain changes affecting those stocks included in the Underlying may adversely affect its level. The policies of the index sponsor with respect to the calculation of the Underlying could also adversely affect its level. The index sponsor may discontinue or suspend calculation or dissemination of the Underlying and has no obligation to consider your interests in the Securities when taking any action regarding the Underlying. Any such actions could have an adverse effect on the value of the Securities and the amount that may be paid at maturity.

Lack of Liquidity: The Securities will not be listed on any securities exchange. RBC Capital Markets, LLC (“RBCCM”) intends to offer to purchase the Securities in the secondary market, but is not required to do so. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Securities easily.

Because other dealers are not likely to make a secondary market for the Securities, the price at which you may be able to trade your Securities is likely to depend on the price, if any, at which RBCCM is willing to buy the Securities.

Potential Conflicts: We and our affiliates play a variety of roles in connection with the issuance of the Securities, including hedging our obligations under the Securities. In performing these duties, the economic interests of the calculation agent and other affiliates of ours are potentially adverse to your interests as an investor in the Securities.

Potentially Inconsistent Research, Opinions or Recommendations by RBCCM, UBS or Their Affiliates: RBCCM, UBS or their affiliates may publish research, express opinions or provide recommendations that are inconsistent with investing in or holding the Securities, and which may be revised at any time. Any such research, opinions or recommendations could affect the level of the Underlying or the equity securities included in the Underlying, and therefore the market value of the Securities.

Uncertain Tax Treatment: Significant aspects of the tax treatment of an investment in the Securities are uncertain. You should consult your tax adviser about your tax situation.

Potential Royal Bank of Canada and UBS Impact on Price: Trading or other transactions by Royal Bank of Canada, UBS and our respective affiliates in the equity securities included in the Underlying or in futures, options, exchange-traded funds or other derivative products on the equity securities included in the Underlying may adversely affect the market value of those equity securities the level of the Underlying and, therefore, the market value of the Securities.

The Probability That the Underlying Will Fall Below the Downside Threshold on the Final Valuation Date Will Depend on the Volatility of the Underlying: “Volatility” refers to the frequency and magnitude of changes in the level of the Underlying. Greater expected volatility with respect to the Underlying reflects a higher expectation as of the Trade Date that the Underlying could close below its Downside Threshold on the Final Valuation Date, resulting in the loss of some or all of your investment. However, the Underlying’s volatility can change significantly over the term of the Securities. The level of the Underlying could fall sharply, which could result in a significant loss of principal.

An Investment in the Securities Is Subject to Risks Associated with Non-U.S. Securities Markets — The securities included in the Underlying have been issued by non-U.S. companies. An investment in securities linked to the value of non-U.S. equity securities involves particular risks. Non-U.S. securities markets may be more volatile than U.S. securities markets, and market developments may affect non-U.S. securities markets differently from the U.S. securities markets. Direct or indirect government intervention to stabilize these non-U.S. securities markets, as well as cross shareholdings among non-U.S. companies, may affect trading prices and volumes in those markets. Also, there is generally less publicly available information in the U.S. about non-U.S. companies than about those U.S. companies that are subject to the reporting requirements of the SEC, and non-U.S. companies are subject to accounting, disclosure, auditing and financial reporting standards and requirements that differ from those applicable to U.S. reporting companies.

Prices of securities in non-U.S. countries are subject to political, economic, financial and social factors that may be unique to the particular countries. These factors, which could negatively affect the non-U.S. securities markets, include the possibility of recent or future changes in the economic and fiscal policies of non-U.S. governments, the possible imposition of, or changes in, currency exchange laws or other non-U.S. laws or restrictions applicable to non-U.S. companies or investments in non-U.S. equity securities, the possibility of fluctuations in the rate of exchange between currencies, the possibility of outbreaks of hostility and political instability and the possibility of natural disaster or adverse public health developments in the relevant region. Moreover, the economies of certain foreign countries may differ favorably or unfavorably from the U.S. economy in important respects, such as growth of gross national product, rate of inflation, trade surpluses or deficits, capital reinvestment, resources and self-sufficiency.

As a Holder of the Securities, You Will Not Have Direct Exposure to Fluctuations in the U.S. Dollar/Euro Exchange Rate Related to the Underlying — The value of the Securities will not be adjusted for exchange rate fluctuations between the U.S. dollar and the euro, even though any currency fluctuations could affect the performance of the Underlying. Therefore, if the euro appreciates or depreciates relative to the U.S. dollar over the term of the Securities, you will not receive any additional payment or incur any reduction in any payment on the Securities.

The Terms of the Securities at Issuance Were Influenced and Their Market Value Prior to Maturity Will Be Influenced by Many Unpredictable Factors — Many economic and market factors influenced the terms of the Securities at issuance and will affect their value prior to maturity. These factors are similar in some ways to those that could affect the value of a combination of instruments that might be used to replicate the payments on the Securities, including a combination of a bond with one or more options or other derivative instruments. For the market value of the Securities, we expect that, generally, the level of the Underlying on any day will affect the value of the Securities more than any other single factor. However, you should not expect the value of the Securities in the secondary market to vary in proportion to changes in the level of the Underlying. The value of the Securities will be affected by a number of other factors that may either offset or magnify each other, including:

• the actual or expected volatility of the Underlying;

• the time remaining to maturity of the Securities;

• the dividend rates on the equity securities included in the Underlying;

• interest and yield rates in the market generally, as well as in each of the markets of the equity securities included in the Underlying;

• a variety of economic, financial, political, regulatory or judicial events; and

• our creditworthiness, including actual or anticipated downgrades in our credit ratings.

Some or all of these factors influenced the terms of the Securities at issuance and will influence the price you will receive if you choose to sell the Securities prior to maturity. The impact of any of the factors set forth above may enhance or offset some or all of any change resulting from another factor or factors. You may have to sell the Securities at a substantial discount from the principal amount if, for example, the level of the Underlying is at, below or not sufficiently above, the Initial Level.

Hypothetical Examples and Return Table at Maturity

Hypothetical terms only. Actual terms may vary. See the cover page for the actual offering terms.

The following table and hypothetical examples below illustrate the payment at maturity per \$10 Security for a hypothetical range of Underlying Returns from -100.00% to +100.00, reflect the Downside Threshold of 70% of the Initial Level and a Step Return of 59.00%, and assume a hypothetical Initial Level of 2,000. The actual Initial Level is set forth on the cover page of this pricing supplement. The hypothetical Payment at Maturity examples set forth below are for illustrative purposes only and may not be the actual returns applicable to a purchaser of the Securities. The actual payment at maturity will be determined based on the Final Level on the Final Valuation Date. You should consider carefully whether the Securities are suitable to your investment goals. The numbers appearing in the table below have been rounded for ease of analysis.

Example 1 – On the Final Valuation Date, the Underlying closes 5% above the Initial Level. Because the Underlying Return is positive, we will pay you an amount based upon the lesser of the Underlying Return and Step Return, calculated as follows:

$$\text{Underlying Return} = (2,100 - 2,000) / 2,000 = 5.00\%$$

$$\text{Payment at Maturity} = \$10 + [\$10 \times \text{the greater of (i) 59.00\% and (ii) 5.00\%}] = \$15.90$$

Because the Final Level is greater than or equal to the Step Barrier but the Underlying Return is less than the Step Return of 59.00%, the Payment at Maturity is equal to \$15.90 per \$10.00 Principal Amount of Securities, resulting in a total return on the Securities of 59.00%.

Example 2 – On the Final Valuation Date, the Underlying closes 60% above the Initial Level. Because the Underlying Return is positive, we will pay you an amount based upon the lesser of the Underlying Return and Step Return, calculated as follows:

$$\text{Underlying Return} = (3,200 - 2,000) / 2,000 = 60.00\%$$

$$\text{Payment at Maturity} = \$10 + [\$10 \times \text{the greater of (i) 59.00\% and (ii) 60.00\%}] = \$16.00$$

Because the Final Level is greater than or equal to the Step Barrier but the Underlying Return is greater than the Step Return of 59.00%, the Payment at Maturity is equal to \$16.00 per \$10.00 Principal Amount of Securities, resulting in a total return on the Securities of 60.00%.

Example 3 – On the Final Valuation Date, the Underlying closes 10% below the Initial Level. Because the Underlying Return is negative and the Final Level is greater than the Downside Threshold, the payment at maturity will be calculated as follows:

$$\$10 + (\$10 \times 10.00\%) = \$10.00 + \$1.00 = \$11.00$$

Example 4 – On the Final Valuation Date, the Underlying closes 40% below the Initial Level. Because the Final Level is less than the Downside Threshold, we will pay you at maturity a cash payment of \$6.00 per \$10 principal amount Security (a 40% loss on the principal amount), calculated as follows:

$$\$10 + (\$10 \times -40\%) = \$10.00 - \$4.00 = \$6.00$$

Hypothetical Final Level	Hypothetical Underlying Return*	Hypothetical Payment at Maturity (\$)	Total Return on Securities (%) ¹
4,000.00	100.00%	\$20.00	100.0000%
3,500.00	75.00%	\$17.50	75.0000%
3,200.00	60.00%	\$16.00	60.0000%
3,180.00	59.00%	\$15.90	59.0000%
3,000.00	50.00%	\$15.90	59.0000%
2,800.00	40.00%	\$15.90	59.0000%
2,600.00	30.00%	\$15.90	59.0000%

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2,500.00	25.00%	\$15.90	59.0000%
2,200.00	10.00%	\$15.90	59.0000%
2,000.00	0.00%	\$10.00	0.0000%
1,800.00	-10.00%	\$11.00	10.0000%
1,700.00	-15.00%	\$11.50	15.0000%
1,600.00	-20.00%	\$12.00	20.0000%
1,400.00	-30.00%	\$13.00	30.0000%
1,200.00	-40.00%	\$6.00	-40.0000%
1,000.00	-50.00%	\$5.00	-50.0000%
500.00	-75.00%	\$2.50	-75.0000%
0.00	-100.00%	\$0.00	-100.0000%

* The Underlying Return excludes any cash dividend payments.

¹ The “total return” is the number, expressed as a percentage, that results from comparing the payment at maturity per \$1,000 principal amount Security to the purchase price of \$1,000 per Security.

What Are the Tax Consequences of the Securities?

U.S. Federal Income Tax Consequences

Set forth below, together with the discussion of U.S. federal income tax in the accompanying product prospectus supplement, prospectus supplement, and prospectus, is a summary of the material U.S. federal income tax consequences relating to an investment in the Securities. The following summary supplements and to the extent inconsistent with supersedes the discussion under the section entitled "Supplemental Discussion of U.S. Federal Income Tax Consequences" in the accompanying product prospectus supplement, the section entitled "Certain Income Tax Consequences" in the accompanying prospectus supplement, and the section entitled "Tax Consequences" in the accompanying prospectus, which you should carefully review prior to investing in the Securities. The discussions below and in the accompanying product prospectus supplement, prospectus supplement, and prospectus, do not address the tax consequences applicable to holders subject to Section 451(b) of the Code.

In the opinion of our counsel, Morrison & Foerster LLP, it would generally be reasonable to treat a Security with terms described herein as a pre-paid cash-settled derivative contract in respect of the Underlying for U.S. federal income tax purposes, and the terms of the Securities require a holder and us (in the absence of a change in law or an administrative or judicial ruling to the contrary) to treat the Securities for all tax purposes in accordance with such characterization. If the Securities are so treated, subject to the discussion in the accompanying product prospectus supplement concerning the potential application of the "constructive ownership" rules under Section 1260 of the Code, a holder should generally recognize capital gain or loss upon the sale or maturity of the Securities in an amount equal to the difference between the amount a holder receives at such time and the holder's tax basis in the Securities. Capital gain recognized by an individual U.S. holder is generally taxed at preferential rates where the property is held for more than one year and is generally taxed at ordinary income rates where the property is held for one year or less. The deductibility of capital losses is subject to limitations.

Alternative tax treatments are also possible and the Internal Revenue Service might assert that a treatment other than that described above is more appropriate. In addition, the Internal Revenue Service has released a notice that may affect the taxation of holders of the Securities. According to the notice, the Internal Revenue Service and the U.S. Treasury Department are actively considering whether the holder of an instrument such as the Securities should be required to accrue ordinary income on a current basis. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the Securities will ultimately be required to accrue income currently and this could be applied on a retroactive basis. The Internal Revenue Service and the U.S. Treasury Department are also considering other relevant issues, including whether additional gain or loss from such instruments should be treated as ordinary or capital and whether the special "constructive ownership rules" of Section 1260 of the Code might be applied to such instruments. Holders are urged to consult their tax advisors concerning the significance, and the potential impact, of the above considerations.

Under Section 871(m) of the Code, a "dividend equivalent" payment is treated as a dividend from sources within the United States. Such payments generally would be subject to a 30% U.S. withholding tax if paid to a non-U.S. holder. Under U.S. Treasury Department regulations, payments (including deemed payments) with respect to equity-linked instruments ("ELIs") that are "specified ELIs" may be treated as dividend equivalents if such specified ELIs reference an interest in an "underlying security," which is generally any interest in an entity taxable as a corporation for U.S. federal income tax purposes if a payment with respect to such interest could give rise to a U.S. source dividend. However, the IRS has issued guidance that states that the U.S. Treasury Department and the IRS intend to amend the effective dates of the U.S. Treasury Department regulations to provide that withholding on dividend equivalent payments will not apply to specified ELIs that are not delta-one instruments and that are issued before January 1, 2019. Based on our determination that the Securities are not delta-one instruments, non-U.S. holders should not be subject to withholding on dividend equivalent payments, if any, under the Securities. However, it is possible that the Securities could be treated as deemed reissued for U.S. federal income tax purposes upon the occurrence of certain events affecting the Underlying or the Securities (for example, upon an Underlying rebalancing), and following such occurrence the Securities could be treated as subject to withholding on dividend equivalent payments. Non-U.S. holders that enter, or have entered, into other transactions in respect of the Underlying or the Securities should consult their tax advisors as to the application of the dividend equivalent withholding tax in the context of the Securities and their other transactions. If any payments are treated as dividend equivalents subject to withholding, we (or the applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with

respect to amounts so withheld.

Individual holders that own “specified foreign financial assets” may be required to include certain information with respect to such assets with their U.S. federal income tax return. You are urged to consult your own tax advisor regarding such requirements with respect to the Securities.

Please see the discussion under the section entitled “Supplemental Discussion of U.S. Federal Income Tax Consequences” in the accompanying product prospectus supplement for a further discussion of the U.S. federal income tax consequences of an investment in the Securities.

Canadian Federal Income Tax Consequences

For a discussion of the material Canadian federal income tax consequences relating to an investment in the Securities, please see the section entitled "Tax Consequences—Canadian Taxation" in the accompanying prospectus, which you should carefully review prior to investing in the Securities.

Information About the Underlying

All disclosures contained in this document regarding the Underlying, including, without limitation, its make up, method of calculation, and changes in its components, have been derived from publicly available sources. The information reflects the policies of, and is subject to change by, STOXX Limited, as the sponsor of the Underlying (“STOXX”). STOXX, which owns the copyright and all other rights to the Underlying, has no obligation to continue to publish, and may discontinue publication of, the Underlying. Neither we nor RBCCM accepts any responsibility for the calculation, maintenance or publication of the Underlying or any successor index.

The Underlying was created by STOXX Limited, a subsidiary of Deutsche Börse AG. Publication of the Underlying began in February 1998, based on an initial index level of 1,000 at December 31, 1991.

Composition and Maintenance

The Underlying is composed of 50 component stocks of market sector leaders from within the 19 EURO STOXX® Supersector indices, which represent the Eurozone portion of the STOXX Europe 600® Supersector indices.

The composition of the Underlying is reviewed annually, based on the closing stock data on the last trading day in August. The component stocks are announced on the first trading day in September. Changes to the component stocks are implemented on the third Friday in September and are effective the following trading day. Changes in the composition of the Underlying are made to ensure that the Underlying includes the 50 market sector leaders from within the Underlying.

The free float factors for each component stock used to calculate the Underlying, as described below, are reviewed, calculated, and implemented on a quarterly basis and are fixed until the next quarterly review.

The Underlying is also reviewed on an ongoing monthly basis. Corporate actions (including initial public offerings, mergers and takeovers, spin-offs, delistings, and bankruptcy) that affect the Underlying composition are announced immediately, implemented two trading days later and become effective on the next trading day after implementation.

Calculation of the Underlying

The Underlying is calculated with the “Laspeyres formula,” which measures the aggregate price changes in the component stocks against a fixed base quantity weight. The formula for calculating the Underlying value can be expressed as follows:

$$\text{Underlying} = \frac{\text{Free float market capitalization of the Underlying}}{\text{Divisor}}$$

The “free float market capitalization of the Underlying” is equal to the sum of the products of the price, the number of shares, the free float factor and the weighting cap factor for each component stock as of the time the Underlying is being calculated.

The Underlying is also subject to a divisor, which is adjusted to maintain the continuity of the Underlying values across changes due to corporate actions, such as the deletion and addition of stocks, the substitution of stocks, stock dividends, and stock splits.

License Agreement

We have entered into a non-exclusive license agreement with STOXX providing for the license to us and certain of our affiliated or subsidiary companies, in exchange for a fee, of the right to use indices owned and published by STOXX (including the Underlying) in connection with certain securities, including the Securities offered hereby.

The license agreement between us and STOXX requires that the following language be stated in this document: STOXX has no relationship to us, other than the licensing of the Underlying and the related trademarks for use in connection with the Securities. STOXX does not:

- sponsor, endorse, sell, or promote the Securities;
- recommend that any person invest in the Securities offered hereby or any other securities;
- have any responsibility or liability for or make any decisions about the timing, amount, or pricing of the Securities;
- have any responsibility or liability for the administration, management, or marketing of the Securities; or
- consider the needs of the Securities or the holders of the Securities in determining, composing, or calculating the Underlying, or have any obligation to do so.

STOXX will not have any liability in connection with the Securities. Specifically:

- STOXX does not make any warranty, express or implied, and disclaims any and all warranty concerning: the results to be obtained by the Securities, the holders of the Securities or any other person in connection with the use of the Underlying and the data included in the Underlying;

- the accuracy or completeness of the Underlying and its data;
 - the merchantability and the fitness for a particular purpose or use of the Underlying and its data;
 - STOXX will have no liability for any errors, omissions, or interruptions in the Underlying or its data; and
- Under no circumstances will STOXX be liable for any lost profits or indirect, punitive, special, or consequential damages or losses, even if STOXX knows that they might occur.

The licensing agreement between us and STOXX is solely for their benefit and our benefit, and not for the benefit of the holders of the Securities or any other third parties.

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Historical Information

The following table sets forth the quarterly high, low and period-end closing levels of the Underlying, as reported by Bloomberg Financial Markets. The historical performance of the Underlying should not be taken as an indication of its future performance. We cannot give you assurance that the performance of the Underlying will result in the return of any of your initial investment.

Quarter Begin	Quarter End	Quarterly Closing High	Quarterly Closing Low	Quarterly Period-End Close
1/1/2008	3/31/2008	4,339.23	3,431.82	3,628.06
4/1/2008	6/30/2008	3,882.28	3,340.27	3,352.81
7/1/2008	9/30/2008	3,445.66	3,000.83	3,038.20
10/1/2008	12/31/2008	3,113.82	2,165.91	2,447.62
1/1/2009	3/31/2009	2,578.43	1,809.98	2,071.13
4/1/2009	6/30/2009	2,537.35	2,097.57	2,401.69
7/1/2009	9/30/2009	2,899.12	2,281.47	2,872.63
10/1/2009	12/31/2009	2,992.08	2,712.30	2,964.96
1/1/2010	3/31/2010	3,017.85	2,631.64	2,931.16
4/1/2010	6/30/2010	3,012.65	2,488.50	2,573.32
7/1/2010	9/30/2010	2,827.27	2,507.83	2,747.90
10/1/2010	12/31/2010	2,890.64	2,650.99	2,792.82
1/1/2011	3/31/2011	3,068.00	2,721.24	2,910.91
4/1/2011	6/30/2011	3,011.25	2,715.88	2,848.53
7/1/2011	9/30/2011	2,875.67	1,995.01	2,179.66
10/1/2011	12/31/2011	2,476.92	2,090.25	2,316.55
1/1/2012	3/31/2012	2,608.42	2,286.45	2,477.28
4/1/2012	6/30/2012	2,501.18	2,068.66	2,264.72
7/1/2012	9/30/2012	2,594.56	2,151.54	2,454.26
10/1/2012	12/31/2012	2,659.95	2,427.32	2,635.93
1/1/2013	3/31/2013	2,749.27	2,570.52	2,624.02
4/1/2013	6/30/2013	2,835.87	2,511.83	2,602.59
7/1/2013	9/30/2013	2,936.20	2,570.76	2,893.15
10/1/2013	12/31/2013	3,111.37	2,902.12	3,109.00
1/1/2014	3/31/2014	3,172.43	2,962.49	3,161.60
4/1/2014	6/30/2014	3,314.80	3,091.52	3,228.24
7/1/2014	9/30/2014	3,289.75	3,006.83	3,225.93
10/1/2014	12/31/2014	3,277.38	2,874.65	3,146.43
1/1/2015	3/31/2015	3,731.35	3,007.91	3,697.38
4/1/2015	6/30/2015	3,828.78	3,424.30	3,424.30
7/1/2015	9/30/2015	3,686.58	3,019.34	3,100.67
10/1/2015	12/31/2015	3,506.45	3,069.05	3,267.52
1/1/2016	3/31/2016	3,178.01	2,680.35	3,004.93
4/1/2016	6/30/2016	3,151.69	2,697.44	2,864.74
7/1/2016	9/30/2016	3,091.66	2,761.37	3,002.24
10/1/2016	12/31/2016	3,290.52	2,954.53	3,290.52
1/1/2017	3/31/2017	3,500.93	3,230.68	3,500.93
4/1/2017	6/30/2017	3,658.79	3,409.78	3,441.88
7/1/2017	9/30/2017	3,594.85	3,388.22	3,594.85
10/1/2017	12/31/2017	3,697.40	3,503.96	3,503.96
1/1/2018	3/29/2018	3,672.29	3,278.72	3,361.50
4/1/2018	4/26/2018*	3,513.06	3,340.35	3,506.03

* This document includes information for the second calendar quarter of 2018 for the period from April 1, 2018 through April 26, 2018. Accordingly, the “Quarterly Closing High,” “Quarterly Closing Low” and “Quarterly Period-End Close” data indicated are for this shortened period only and do not reflect complete data for the second calendar quarter

of 2018.

The graph below illustrates the performance of the Underlying from January 1, 2008 to April 26, 2018.

HISTORIC PERFORMANCE IS NOT AN INDICATION OF FUTURE PERFORMANCE.

Source: Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg Financial Markets.

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Supplemental Plan of Distribution (Conflicts of Interest)

We have agreed to indemnify UBS and RBCCM against liabilities under the Securities Act of 1933, as amended, or to contribute payments that UBS and RBCCM may be required to make relating to these liabilities as described in the prospectus supplement and the prospectus. We have agreed that UBS may sell all or a part of the Securities that it will purchase from us to investors at the price to public listed on the cover hereof, or its affiliates at the price indicated on the cover of this pricing supplement.

UBS may allow a concession not in excess of the underwriting discount set forth on the cover of this pricing supplement to its affiliates for distribution of the Securities.

Subject to regulatory constraints and market conditions, RBCCM intends to offer to purchase the Securities in the secondary market, but it is not required to do so.

We or our affiliates may enter into swap agreements or related hedge transactions with one of our other affiliates or unaffiliated counterparties in connection with the sale of the Securities and RBCCM and/or an affiliate may earn additional income as a result of payments pursuant to the swap or related hedge transactions. See “Use of Proceeds and Hedging” beginning on page PS-11 of the accompanying product prospectus supplement UBS-IND-1.

We expect to deliver the Securities on a date that is greater than two business days following the Trade Date. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Securities more than two business days prior to the original issue date will be required to specify alternative settlement arrangements to prevent a failed settlement.

The value of the Securities shown on your account statement may be based on RBCCM’s estimate of the value of the Securities if RBCCM or another of our affiliates were to make a market in the Securities (which it is not obligated to do). That estimate will be based upon the price that RBCCM may pay for the Securities in light of then prevailing market conditions, our creditworthiness and transaction costs. For a period of approximately 16 months after the issue date, the value of the Securities that may be shown on your account statement may be higher than RBCCM’s estimated value of the Securities at that time. This is because the estimated value of the Securities will not include the underwriting discount and our hedging costs and profits; however, the value of the Securities shown on your account statement during that period may be a higher amount, reflecting the addition of the underwriting discount and our estimated costs and profits from hedging the Securities. Any such excess is expected to decrease over time until the end of this period. After this period, if RBCCM repurchases your Securities, it expects to do so at prices that reflect their estimated value. This period may be reduced at RBCCM’s discretion based on a variety of factors, including but not limited to, the amount of the Securities that we repurchase and our negotiated arrangements from time to time with UBS.

For additional information as to the relationship between us and RBCCM, please see the section “Plan of Distribution—Conflicts of Interest” in the prospectus dated January 8, 2016.

No Prospectus (as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”)) will be prepared in connection with these Securities. Accordingly, these Securities may not be offered to the public in any member state of the European Economic Area (the “EEA”), and any purchaser of these Securities who subsequently sells any of these Securities in any EEA member state must do so only in accordance with the requirements of the Prospectus Directive, as implemented in that member state.

The Securities are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, the expression “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities, and a “retail investor” means a person who is one (or more) of: (a) a retail client, as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or (b) a customer, within the meaning of Insurance Distribution Directive 2016/97/EU, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (c) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared, and therefore, offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Structuring the Securities

The Securities are our debt securities, the return on which is linked to the performance of the Underlying. As is the case for all of our debt securities, including our structured notes, the economic terms of the Securities reflect our actual or perceived creditworthiness at the time of pricing. In addition, because structured notes result in increased operational, funding and liability management costs to us, we typically borrow the funds under these Securities at a rate that is more favorable to us than the rate that we might pay for a conventional fixed or floating rate debt security of comparable maturity. Using this relatively lower implied borrowing rate rather than the secondary market rate is a factor that resulted in a higher initial estimated value of the Securities at the time their terms are set than if the secondary market rate was used. Unlike the estimated value included on the cover of this document, any value of the Securities determined for purposes of a secondary market transaction may be based on a different borrowing rate, which may result in a lower value for the Securities than if our initial internal borrowing rate were used.

In order to satisfy our payment obligations under the Securities, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) on the issue date with RBCCM or one of our other subsidiaries. The terms of these hedging arrangements take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Underlying, and the tenor of the Securities. The economic terms of the Securities and their initial estimated value depend in part on the terms of these hedging arrangements.

The lower implied borrowing rate is a factor that reduced the economic terms of the Securities to you. The initial offering price of the Securities also reflects the underwriting commission and our estimated hedging costs. These factors resulted in the initial estimated value for the Securities on the Trade Date being less than their public offering price. See “Key Risks—The Initial Estimated Value of the Securities Is Less than the Price to the Public” above.

Terms Incorporated in Master Note

The terms appearing above under the caption “Final Terms of the Securities” and the provisions in the accompanying product prospectus supplement no. UBS-IND-1 dated January 5, 2017 under the caption “General Terms of the Securities,” are incorporated into the master note issued to DTC, the registered holder of the Securities. In addition to those terms, the following two sentences are also so incorporated into the master note: RBC confirms that it fully understands and is able to calculate the effective annual rate of interest applicable to the Notes based on the methodology for calculating per annum rates provided for in the Securities. RBC irrevocably agrees not to plead or assert Section 4 of the Interest Act (Canada), whether by way of defense or otherwise, in any proceeding relating to the Securities.

Validity of the Securities

In the opinion of Norton Rose Fulbright Canada LLP, the issue and sale of the Securities has been duly authorized by all necessary corporate action of the Bank in conformity with the Indenture, and when the Securities have been duly executed, authenticated and issued in accordance with the Indenture and delivered against payment therefor, the Securities will be validly issued and, to the extent validity of the Securities is a matter governed by the laws of the Province of Ontario or Québec, or the laws of Canada applicable therein, and will be valid obligations of the Bank, subject to equitable remedies which may only be granted at the discretion of a court of competent authority, subject to applicable bankruptcy, to rights to indemnity and contribution under the Securities or the Indenture which may be limited by applicable law; to insolvency and other laws of general application affecting creditors’ rights, to limitations under applicable limitations statutes, and to limitations as to the currency in which judgments in Canada may be rendered, as prescribed by the Currency Act (Canada). This opinion is given as of the date hereof and is limited to the laws of the Provinces of Ontario and Québec and the federal laws of Canada applicable thereto. In addition, this opinion is subject to customary assumptions about the Trustee’s authorization, execution and delivery of the Indenture and the genuineness of signatures and certain factual matters, all as stated in the letter of such counsel dated January 8, 2016, which has been filed as Exhibit 5.1 to Royal Bank’s Form 6-K dated January 8, 2016.

In the opinion of Morrison & Foerster LLP, when the Securities have been duly completed in accordance with the Indenture and issued and sold as contemplated by the prospectus supplement and the prospectus, the Securities will be valid, binding and enforceable obligations of the Bank, entitled to the benefits of the Indenture, subject to applicable bankruptcy, insolvency and similar laws affecting creditors’ rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith). This opinion is given as of the date hereof and is limited to the laws of the State of New York. This opinion is subject to customary assumptions about the Trustee’s authorization, execution and delivery of the Indenture and the genuineness of signatures and to such counsel’s reliance on the Bank and other sources as to certain factual matters, all as stated in the legal opinion dated January 8, 2016, which has been filed as Exhibit 5.2 to the Bank’s Form 6-K dated January 8, 2016.