FRESH AMERICA CORP
Form 10-Q
September 12, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 30, 2001.

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________.

Commission File Number 000-24124

FRESH AMERICA CORP.
(Exact name of registrant as specified in its charter)

Texas (State or other jurisdiction of incorporation or organization)	76-0281274 (I.R.S. Employer Identification No.)

6600 LBJ FREEWAY, SUITE 180, DALLAS, TX 75240
(Address of principal executive offices and Zip Code)

Registrant's telephone number, including area code: (469) 791-5700

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 [ ] No [X]

At August 10, 2001, the Registrant had 8,410,098 shares of its Common Stock outstanding.

Total number of pages in this report, including the cover page is 15. Exhibit index is on page 15.

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PART I - FINANCIAL INFORMATION
ITEM 1. - FINANCIAL STATEMENTS

FRESH AMERICA CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	MAR 2
ASSETS	(una
Current Assets:	
Cash and cash equivalents	$
Accounts receivable, net	
Inventories	
Prepaid expenses	
Deferred tax asset	
Income tax receivable	

Total current assets	
Property and equipment, net	
Goodwill, net of accumulated amortization of $4,067 and $3,655, respectively	
Other assets	

Total assets	$
	====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Notes payable and current portion of long-term debt	$
Accounts payable	
Accrued salaries and wages	
Other accrued expenses	

Total current liabilities	
Long-term debt, less current portion	
Other liabilities	

Total liabilities	

12% redeemable cumulative preferred stock $1.00 par value (50,000 shares authorized and issued); liquidation value of $5,000 plus accrued and unpaid dividends	

Shareholders' Equity:	
Common stock $.01 par value (authorized 10,000,000 shares; issued 5,243,404 shares)	
Additional paid-in capital	
Foreign currency translation adjustment	
Accumulated deficit	

Total shareholders' equity	
Commitments and contingencies	

Total liabilities and shareholders' equity	$
	====

The notes to consolidated financial statements are an integral part of these statements.

FRESH AMERICA CORP.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	QUARTER ENDED	
	MARCH 30, 2001	MARCH 31, 2000
Net sales	$ 86,901	$ 142,652
Cost of sales	78,203	127,503
Gross profit	8,698	15,149
Selling, general and administrative expenses	12,038	13,998
Bad debt expense	361	229
Depreciation and amortization	807	1,512
Total operating costs and expenses	13,206	15,739
Operating loss	(4,508)	(590)
Other income (expense):		
Interest expense	(1,021)	(1,405)
Interest income	39	87
Other, net	(95)	216
	(1,077)	(1,102)
Loss before income taxes	(5,585)	(1,692)
Income tax expense (benefit)	(858)	189
Net loss	(4,727)	(1,881)
Preferred dividends and accretion	256	--
Net loss applicable to common shareholders	$ (4,983)	$ (1,881)
Basic and diluted net loss per share	$ (.95)	$ (.36)

The notes to consolidated financial statements are an integral part of these statements.

FRESH AMERICA CORP. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	MARC 2
Cash flows from operating activities:	
Net loss	$
Adjustments to reconcile net loss to net cash provided by operating activities:	
Bad debt expense	
Depreciation and amortization	
Other	
Deferred income taxes	
Change in assets and liabilities	
Accounts receivable	
Inventories	
Prepaid expenses	
Income tax receivable and other assets	
Accounts payable	
Accrued expenses and other current liabilities	
Total adjustments	
Net cash provided by operating activities	
Cash flows from investing activities:	
Additions to property and equipment, net	
Proceeds from Canadian note receivable	
Proceeds from sale of property and equipment	
Net cash provided by (used in) investing activities	
Cash flows from financing activities:	
Proceeds from Canadian revolving line of credit	
Repayments of Canadian revolving line of credit	
Repayments of Canadian short-term indebtedness	
Payments of long-term indebtedness	
Net cash used in financing activities	
Effect of exchange rate changes on cash	
Net increase (decrease) in cash and cash equivalents	
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	$

Supplemental disclosures of cash flow information:

Cash paid for interest	$
Cash paid for income taxes	$

The notes to consolidated financial statements are an integral part of these statements.

FRESH AMERICA CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND CONSOLIDATION
Fresh America Corp. ("Fresh America", the "Company", "we", "us" or "our") provides procurement, processing, repacking, warehousing and distribution services of fresh produce and other refrigerated products for a wide variety of customers in the retail, food service and food distribution businesses. The Company was founded in 1989 and distributes throughout the United States and Canada through 9 distribution and processing facilities.

The Company's fiscal year is a 52-week period ending on the last Friday in December. The quarters ended March 30, 2001 and March 31, 2000 each consisted of 13 weeks. The consolidated financial statements include the accounts of Fresh America Corp. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

UNAUDITED INTERIM FINANCIAL INFORMATION
The consolidated balance sheet as of March 30, 2001, the consolidated statements of operations and the consolidated statements of cash flows for the quarter ended March 30, 2001 and March 31, 2000 and related notes have been prepared by the Company and are unaudited. In the opinion of the Company, the interim financial information includes all normal recurring adjustments necessary for a fair statement of the results of the interim periods.

Certain information, definitions and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from the interim financial information. The interim financial information should be read in conjunction with the Company's audited consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended December 29, 2000. The results for the periods ended March 30, 2001 and March 31, 2000 may not be indicative of operating results for the full year.

Prior year balances include certain reclassifications to conform to the current year presentation.

EARNINGS PER SHARE
Basic loss per share ("EPS") is calculated by dividing net loss applicable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. See Note 4 - "Loss Per Share" for a calculation of EPS.

NEW ACCOUNTING STANDARDS
The Company has assessed the reporting and disclosure requirements of Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting For Derivative

Instruments and Hedging Activities". This statement, as amended, establishes accounting and reporting standards for derivative instruments and hedging activities and will require the Company to recognize all derivatives on its balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivatives will either be offset against the change in fair value of the hedged item through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The provisions of SFAS No. 133 were adopted in the first quarter of fiscal 2001, and since the Company is not party to any derivative contracts, adoption of this statement did not have any effect on the Company's results of operations or financial position.

FRESH AMERICA CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SEGMENT AND RELATED INFORMATION
The Company provides disclosure required by SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," which establishes standards for the way public business enterprises report information about products and services. Since each business unit is similarly engaged in procurement, processing and distribution services, the business units have been aggregated into one reportable segment for reporting purposes.

USE OF ESTIMATES
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. DEBT AND LIQUIDITY

Throughout its operational restructuring during the past two years, the Company has pursued various financing opportunities in an effort to restructure its debt. In September 2001, the Company completed a financial restructure whereby The North Texas Opportunity Fund LP, ("NTOF") purchased 8% Series D redeemable cumulative preferred stock and warrants exercisable for 84,100,980 shares of our common stock, which is approximately 50% of the Company's fully-diluted common stock, for cash proceeds of $5 million. In connection with the NTOF investment in the Company, John Hancock Life Insurance Company, John Hancock Variable Life Insurance Company, Investors Partner Life Insurance, Signature 1A (Cayman), Ltd. and Signature 3 Limited (collectively, the "Subordinated Lender") exchanged $20 million of subordinated debt, warrants to purchase 576,134 shares of common stock, $5 million of 10% redeemable cumulative preferred stock and all accrued interest and dividends for $2.7 million of 8% Series D redeemable cumulative preferred stock and warrants exercisable for 45,114,529 shares of our common stock, which is approximately 27% of the Company's fully-diluted common stock.

Bank Debt. In conjunction with this restructure, Bank of America, N.A. (the "Senior Lender") agreed to a payment schedule which will reduce the Company's indebtedness to the Senior Lender from $5.3 million, which was owed at the time of closing of the NTOF transaction, to $3.8 million by year-end 2001. The indebtedness, previously a revolving credit facility, was converted to a term note with a maturity of the remaining balance in January 2002. The Company is working to refinance the term debt prior to its maturity. There can be no assurance that the Company will be able to replace its Senior Lender as anticipated or extend its term note beyond January 2002, if that becomes

necessary.

Prior to its sale in March 2001, OTF had a demand agreement with Royal Bank of Canada to provide revolving credit facilities, which were collateralized by substantially all assets of OTF. The Canadian Revolver had an outstanding balance of CDN $5.6 million (U.S. $3.8 million) as of December 29, 2000. This outstanding balance was fully retired in March 2001 in conjunction with the sale of OTF's operating assets.

Subordinated Debt. Prior to the restructure in September 2001, the Company had $20 million of subordinated debt owing to the Subordinated Lender. Additionally in April 2000, the Company issued to the Subordinated Lender $5 million (50,000 shares) of the Company's 12% redeemable cumulative preferred stock. The Company was not in compliance with certain covenants under the terms of its agreements with the Subordinated Lender at March 30, 2001. The preferred stock, the subordinated debt owing to the Subordinated Lender and the accrued but unpaid interest and dividends thereon were

FRESH AMERICA CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

exchanged for a new issue of the Company's preferred stock and warrants as part of the restructure discussed above.

Acquisitions. In July 2000, the Company entered into an agreement amending the stock purchase agreement related to the Company's November 1998 acquisition of Perricone Citrus Company. As part of the amended agreement, unsecured promissory notes owed by the Company totaling $3.5 million and the accrued and unpaid interest therein were restructured whereby, the Company agreed to the following: payments totaling $100,000 upon execution of the amended agreement; lump-sum payments of $350,000 and $150,000 on January 1, 2002 and July 1, 2002, respectively; and 24 monthly installment payments of $37,500 totaling $900,000. The installment and lump-sum payments accrue interest at 10% per annum. However, all accrued interest will be forgiven if scheduled principal payments are made timely. Additionally, the Company issued the noteholders 300,000 warrants to purchase common shares of the Company at an exercise price of $2.50 per share. The warrants are exercisable for a duration of seven years. The issuances of these securities was exempt from registration under the Securities Act under Regulation D. The restructuring of the promissory notes and related accrued interest resulted in an extraordinary gain to the Company of $1.9 million in the third quarter of 2000.

Under the terms of the purchase agreement for Jos. Notarianni & Co. ("Notarianni"), a portion of the purchase price is contingent upon Notarianni's earnings subsequent to its acquisitions. The contingent payment for Notarianni will be equal to 1.4 times Notarianni's average annual pretax earnings over a three-year period from October 3, 1998 to October 3, 2001. Any contingent payment is payable in cash or common stock at the Company's sole discretion. As of March 2001, no amounts were owing in relation to the Notarianni acquisition.

The Company's purchase agreement with Hereford Haven Inc. d/b/a Martin Bros. ("Martin Bros.") also contains a contingent payment component in the purchase price. The Martin Bros. contingent payment is equal to 4 times the average annual pretax earnings for the three-year period from January 3, 1998 to January 3, 2001. The total contingent payment was $5.0 million at December 29, 2000. The payment was due March 31, 2001 and was payable in either cash, common stock or a

combination of cash and common stock to the extent of 75% at the Company's option and 25% at the selling shareholder's option.

In satisfaction of 75% of the contingent payment, in April 2001, the Company issued 3,166,694 shares of its common stock to Larry Martin, the former owner of Martin Bros. The issuance of these securities to Mr. Martin was exempt from registration under the Securities Act under Regulation D. At the time of issuance, the shares represented a 38% ownership interest in the Company. These shares were valued at $1.17 per share, the market value of the Company's common stock at the time of the transaction. The remaining $1.2 million of contingent consideration remained a financial obligation of the Company and was restructured as part of the financial restructuring discussed above. It is payable in cash subject to the approval of the Company's Senior Lender. This payment has been extended and is now due and payable in January 2002.

Equipment Financing. The Company is party to a master lease agreement with SunTrust Bank that has been used to provide equipment financing for several of the Company's operating units. The Company was not in compliance with certain financial covenants under the terms of the lease at December 29, 2000 and received waivers for noncompliance through January 2, 2002. The Company is currently renegotiating the financial covenants of this agreement and anticipates this agreement will be revised prior to the expiration of the waiver in January 2002. The lease agreement provides that future lease payments can be accelerated in the event of default. There can be no assurance that the Company will be

FRESH AMERICA CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

in compliance with such covenants subsequent to the waiver period or will be successful in renegotiating the covenants.

Management believes that the combination of the effects of the financial restructure completed in September 2001, the anticipated refinancing of the indebtedness to the Senior Lender on a long-term basis, cash generated from ongoing operating activities, and the realization of recent reductions in overhead expenses will enable the Company to meet its obligations as they come due in the foreseeable future. However, there can be no assurance the Company will be able to replace its Senior Lender as anticipated or extend the term note beyond January 2002, if that becomes necessary.

NOTE 3. COMPREHENSIVE LOSS

The following table reconciles the Company's net loss to its comprehensive loss (in thousands):

	QUARTER ENDED	
	March 30, 2001	March 31, 2000
Net loss	$ (4,727)	$ (1,881)
Other comprehensive loss - foreign currency translation adjustments	(81)	11

Comprehensive loss	$ (4,808)	$ (1,870)

NOTE 4. LOSS PER SHARE

The following table reconciles the calculations of the Company's basic and diluted EPS (in thousands, except per share amounts):

	QUARTER ENDED	
	March 30, 2001	March 31, 2000
BASIC & DILUTED EPS		
Net loss	$ (4,727)	$ (1,881)
Less: Preferred stock dividends	223	--
Accretion of preferred stock	33	--
Net loss applicable to common shareholders	$ (4,983)	$ (1,881)
Weighted average common shares outstanding	5,243	5,243
Net loss per share	$ (.95)	$ (.36)

Options and warrants to purchase approximately 1,455,000 and 732,000 shares of common stock were outstanding for the quarter ended March 30, 2001 and March 31, 2000, respectively. These common stock equivalents were not included in the computation of diluted EPS because to do so would have been anti-dilutive.

FRESH AMERICA CORP. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5. INCOME TAXES

The income tax benefit for the quarter ended March 31, 2001 relates principally to the loss of Ontario Tree Fruits (OTF), the Company's Canadian subsidiary which can be carried back to recover Canadian taxes paid in prior years. The Canadian tax benefit of $906,000 has been provided at an effective tax rate of 44.5%, reflecting combined provincial and federal Canadian income taxes.

Additionally, a US state tax provision of approximately $48,000 was recorded.

Income tax expense in the first quarter of 2000 consisted solely of Canadian income taxes.

Based on the Company's assessment of its ability to carry back net operating losses, scheduled reversals of taxable and deductible temporary differences and

future taxable income, a valuation allowance has been provided at March 30, 2001 and March 31, 2000 to eliminate the Company's U.S. net deferred tax assets.

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

RESULTS OF OPERATIONS

The following table presents the components of the consolidated statements of operations as a percentage of net sales for the periods indicated:

	QUARTER ENDE
	March 30, 2001
Net sales	100.0%
Cost of sales	90.0
Gross profit	10.0
Selling, general and administrative expenses	13.9
Bad debt expense	0.4
Depreciation and amortization	.9
Total operating costs and expenses	15.2
Operating loss	(5.2)
Other expense	1.2
Loss before income taxes	(6.4)
Income tax expense (benefit)	(1.0)
Net loss	(5.4)
Preferred dividends and accretion	0.3
Net loss applicable to common shareholders	(5.7)%

COMPARISON OF QUARTER ENDED MARCH 30, 2001 TO QUARTER ENDED MARCH 31, 2000

Net sales. Net sales decreased $55.8 million, or 39.1% to $86.9 million the first quarter of 2001 from $142.7 million in the first quarter of 2000. Approximately $47.6 million of this decrease in revenues is attributed to the loss of the Sam's contract in October 2000. As a percentage of net sales, Sam's represented 33.4% in first quarter of 2000. In addition, the Company's sales at OTF decreased by $11.6 million during the first quarter of 2001. This decrease is due to the sale of the OTF facility and the loss of a significant customer of OTF in 1999 which had accounted for approximately 65% of the Canadian

operation revenue. The decreases in sales were partially offset by increased sales throughout the Company, primarily related to incremental business from national and regional sales programs.

Cost of Sales. Cost of sales decreased $49.3 million, or 38.7% to $78.2 million in the first quarter of 2001 from $127.5 million in the first quarter of 2000. As a percentage of net sales, cost of sales increased to 90.0% from 89.4%, which in turn decreased the Company's gross profit percentage to 10.0% from 10.6%. This increase in cost of sales as a percentage of sales was due to a settlement of on-going product purchase commitments that were terminated prior to expiration when the sale of OTF was completed. Excluding the effects of the OTF charges, gross profit increased to 11.2% in the first quarter of 2001 from 10.6% in the first quarter of 2000. This increase was primarily attributable to the loss of Sam's business that typically represented lower margin sales.

Selling, general and administrative expenses. Selling, general and administrative expenses ("SG&A") expenses decreased by $2.0 million, or 14.0% to $12.0 million in the first quarter of 2001 from $14.0 million in the first quarter of 2000. Approximately $900,000 of the decrease relates to the four distribution centers where the Company significantly reduced overhead and operating expenses when the Sam's agreement ended in October 2000. In addition, during the first quarter of 2000, the Company initiated a transition of its corporate office from Houston to Dallas, Texas and closed its market operation in Los Angeles, California. These changes resulted in savings to SG&A in the first quarter of 2001 of $565,000 related to the reduction of headcount and improved efficiencies associated with the corporate office move and $493,000 related to the closing in Los Angeles. These decreases were partially offset by certain fees related to the Company's refinancing efforts in 2001. These expenses are expected to continue throughout the second quarter and into the third quarter of 2001.

Bad debt expense. Bad debt expense increased by $0.2 million to $0.4 million in the first quarter of 2001 from $0.2 million in the first quarter of 2000.

Operating loss. As a result of the foregoing factors, the operating loss increased $3.9 million to $4.5 million in the first quarter of 2001 from $.6 million in the first quarter of 2000.

Income tax expense (benefit). The income tax benefit in the first quarter of 2001 consists of a Canadian income tax benefit of $906,000 related to the loss incurred by the Company's Canadian subsidiaries which can be carried back to recover prior year income taxes paid, and U.S state income tax expense of $48,000. Income tax expense in the first quarter of 2000 consisted solely of Canadian income taxes. No U.S. federal income tax benefit was provided in either period because the Company cannot carryback U.S. losses to recover any prior year federal income taxes.

Net loss. As a result of the foregoing factors, the Company reported a net loss of $4.7 million in the first quarter of 2001 compared to a net loss of $1.9 million in the first quarter of 2000, an increased loss of $2.8 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities was $3.2 million for the first quarter of 2001 compared to $6.0 million for the first quarter of 2000. The decrease of $2.8 million is mainly attributed to the increase in the net loss. Cash provided by investing activities was $1.0 million in the first quarter of 2001, an increase of $1.6 million from cash used in investing activities of $0.6 million in the first quarter of 2000. The increase is attributable to proceeds from the sale of OTF property and equipment, collection of a note receivable, and fewer capital expenditures. Cash used in financing activities was $4.0 million in the first quarter of 2001 compared to cash used of $5.5 million in the first quarter of 2000. The decrease in cash flows used in financing activities compared to the prior year is primarily due to more debt retirements in fiscal 2000.

At March 30, 2001, the Company had negative working capital of $4.6 million compared to working capital of $2.6 million at December 29, 2000. The decrease in working capital is primarily due to the substantial decreases in accounts receivable and inventory, partially offset by reductions in short-term debt and in accounts payable, all resulting from the reduced scope of business operations after the termination of the Sam's agreement in October 2000.

FINANCIAL RESTRUCTURING

Throughout its operational restructuring during the past two years, the Company has pursued various financing opportunities in an effort to restructure its debt. In September 2001, the Company completed a financial restructure whereby The North Texas Opportunity Fund LP, ("NTOF") purchased 8% Series D cumulative redeemable preferred stock and warrants exercisable for 84,100,980 shares of our common stock, which is approximately 50% of the Company's fully-diluted common stock, for cash proceeds of $5 million. In connection with the NTOF investment in the Company, John Hancock Life Insurance Company, John Hancock Variable Life Insurance Company, Investors Partner Life Insurance, Signature 1A (Cayman), Ltd., and Signature 3 Limited (collectively, the "Subordinated Lender") exchanged $20 million of subordinated debt, warrants to purchase 576,134 shares of common stock, $5 million of 10% redeemable cumulative preferred stock and all accrued interest and dividends for $2.7 million of 8% Series D redeemable cumulative preferred stock and warrants exercisable for 45,114,529 shares of our common stock, which is approximately 27% of the Company's fully-diluted common stock.

Bank Debt. In conjunction with this restructure, Bank of America, N.A. (the "Senior Lender") agreed to a payment schedule which will reduce the Company's indebtedness to the Senior Lender from $5.3 million, which was owed at the time of closing of the NTOF transaction, to $3.8 million by year-end 2001. The indebtedness, previously a revolving credit facility, was converted to a term note with a maturity of the remaining balance in January 2002. The Company is working to refinance the term debt prior to its maturity. There can be no assurance that the Company will be able to replace its Senior Lender as anticipated or extend its term note beyond January 2002, if that becomes necessary.

Prior to its sale in March 2001, OTF had a demand agreement with Royal Bank of Canada to provide revolving credit facilities, which were collateralized by substantially all assets of OTF. The Canadian Revolver had an outstanding balance of CDN $5.6 million (U.S. $3.8 million) as of December 29, 2000. This outstanding balance was fully retired in March 2001 in conjunction with the sale of OTF's operating assets.

Subordinated Debt. Prior to the restructure in September 2001, the Company had $20 million of subordinated debt owing to the Subordinated Lender. Additionally in April 2000, the Company issued to the Subordinated Lender $5 million (50,000 shares) of the Company's 12% redeemable cumulative preferred stock. The Company was not in compliance with certain covenants under the terms of its agreements with the Subordinated Lender at March 30, 2001. The preferred stock, the subordinated debt owing to the Subordinated Lender and the accrued but unpaid interest and dividends thereon were converted to new issues of the Company's preferred stock as part of the restructure discussed above.

Acquisitions. In July 2000, the Company entered into an agreement amending the stock purchase agreement related to the Company's November 1998 acquisition of Perricone Citrus Company. As part of the amended agreement, unsecured promissory notes owed by the Company totaling $3.5 million and the accrued and unpaid

interest therein were restructured whereby, the Company agreed to the following: payments totaling $100,000 upon execution of the amended agreement; lump-sum payments of $350,000 and $150,000 on January 1, 2002 and July 1, 2002, respectively; and 24 monthly installment payments of $37,500 totaling $900,000. The installment and lump-sum payments accrue interest at 10% per annum. However, all accrued interest will be forgiven if scheduled principal payments are made timely. Additionally, the Company issued the noteholders 300,000 warrants to purchase common shares of the Company at an exercise price of $2.50 per share. The warrants are exercisable for a duration of seven years. The issuances of these securities was exempt from registration under the Securities Act under

Regulation D. The restructuring of the promissory notes and related accrued interest resulted in an extraordinary gain to the Company of $1.9 million in the third quarter of 2000.

Under the terms of the purchase agreement for Jos. Notarianni & Co. ("Notarianni"), a portion of the purchase price is contingent upon Notarianni's earnings subsequent to its acquisitions. The contingent payment for Notarianni will be equal to 1.4 times Notarianni's average annual pretax earnings over a three-year period from October 3, 1998 to October 3, 2001. Any contingent payment is payable in cash or common stock at the Company's sole discretion. As of March 2001, no amounts were owed in relation to the Notarianni acquisition.

The Company's purchase agreement with Hereford Haven Inc. d/b/a Martin Bros. ("Martin Bros.") also contains a contingent payment component in the purchase price. The Martin Bros. contingent payment is equal to 4 times the average annual pretax earnings for the three-year period from January 3, 1998 to January 3, 2001. The total contingent payment was $5.0 million at December 29, 2000. The payment was due March 31, 2001 and was payable in either cash, common stock or a combination of cash and common stock to the extent of 75% at the Company's option and 25% at the selling shareholder's option.

In satisfaction of 75% of the contingent payment, in April 2001, the Company issued 3,166,694 shares of its common stock to Larry Martin, the former owner of Martin Bros. The issuance of these securities to Mr. Martin was exempt from registration under the Securities Act under Regulation D. At the time of issuance, the shares represented a 38% ownership interest in the Company. These shares were valued at $1.17 per share, the market value of the Company's common stock at the time of the transaction. The remaining $1.2 million of contingent consideration was remained a financial obligation of the Company and was restructured as part of the financial restructuring discussed above. It is payable in cash subject to the approval of the Company's Senior Lender. This payment has been extended and is now due and payable in January 2002.

Equipment Financing. The Company is party to a master lease agreement with SunTrust Bank that has been used to provide equipment financing for several of the Company's operating units. The Company was not in compliance with certain financial covenants under the terms of the lease at December 29, 2000 and received waivers for noncompliance through January 2, 2002. The Company is currently renegotiating the financial covenants of this agreement and anticipates this agreement will be revised prior to the expiration of the waiver in January 2002. The lease agreement provides that future lease payments can be accelerated in the event of default. There can be no assurance that the Company will be in compliance with such covenants subsequent to the waiver period or will be successful in renegotiating the covenants.

Management believes that the combination of the effects of the financial

restructure completed in September 2001, the anticipated refinancing of the indebtedness to the Senior Lender on a long-term basis, cash generated from ongoing operating activities, and the realization of recent reductions in overhead expenses will enable the Company to meet its obligations as they come due in the foreseeable future. However, there can be no assurance the Company will be able to replace its Senior Lender as anticipated or extend the term note beyond January 2002, if that becomes necessary.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets". SFAS No. 141 requires that all business combinations initiated after June 30 2001, be accounted for under the purchase method and SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The provisions of SFAS No. 142 will be effective for fiscal years beginning after December 15, 2001. Also, the FASB has voted to issue SFAS No. 143 "Accounting for Asset Retirement Obligations" which establishes requirements for the accounting of removal-type costs associated with asset retirements. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier

application encouraged. The Company is currently assessing the impact of these standards on its financial statements.

QUARTERLY RESULTS AND SEASONALITY

The Company's business is somewhat seasonal, with its greatest quarterly sales volume historically occurring in the fourth quarter. With the change in the current mix of business resulting from the Company's divestitures of certain specialty food service operations, the termination of the Sam's agreement in October 2000 and the increasing effect of global sourcing, seasonal fluctuations may diminish in future years. A substantial portion of the Company's produce sales consists of staple items such as apples, oranges, grapefruit, potatoes and onions, which are strongest during the fall, winter and spring. The supply and quality of these items declines during the summer, although lower sales of these items are partially replaced by more seasonal products such as peaches, plums, nectarines, strawberries and melons. Sales of refrigerated, prepackaged products, such as vegetable trays, are strongest during the fourth quarter holiday season. In any given quarter, an adverse development such as the unavailability of high quality produce or harsh weather conditions could have a disproportionate impact on the Company's results of operations for the full year.

INFLATION

Although the Company cannot determine the precise effects of inflation, management does not believe inflation has had a material effect on the Company's sales or results of operations. However, independent of normal inflationary pressures, the Company's produce products are subject to fluctuating prices, which result from factors discussed above in "Quarterly Results and Seasonality".

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk. The Company's Canadian operations are subject to foreign currency risk. However, we have not experienced any material foreign currency

transaction gains or losses during the last three fiscal years. Foreign currency translation adjustments are recorded in our consolidated shareholders' equity as accumulated comprehensive income. We manage foreign currency risk by maintaining portfolios of currency denominated in the currency which is required to make payments. As of March 2001, the Company no longer conducts business in Canada.

Interest Rate Risk. Our senior credit facilities accrue interest at a market rate at the time of borrowing plus an applicable margin on certain borrowings. The interest rate is based on the lending bank's prime rate or the Eurodollar rate. We manage our borrowings under our credit facilities each day in order to minimize interest expense. The impact on the Company's results of operations of a one-percentage point interest rate change on the outstanding balance of the variable rate debt as of March 30, 2001 would be immaterial.

Commodity Pricing Risk. For reasons discussed previously, prices of high quality produce can be extremely volatile. In order to reduce the impact of these factors, the Company generally sets prices based on current delivered cost.

OUTLOOK AND UNCERTAINTIES

Certain information in this Quarterly Report on Form 10-Q may contain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. Although the Company believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurance that

such expectations or any of its forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the Company's forward-looking statements. The Company's future financial condition and results, as well as any forward-looking statements, are subject to inherit risks and uncertainties, including, without limitation, potential limitations on the Company's ability to pursue its business strategy, the expiration of the agreement with its primary customer, significant competition, general economic and market conditions, the availability and cost of borrowed funds and limitations arising from the Company's indebtedness, the ability to refinance its existing bank facility and raise additional capital, government regulation, and seasonality. Additional information concerning these and other risk factors is contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2000, a copy of which may be obtained from the Company upon request.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON 8-K.

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

Items 1, 2, 3, 4, and 5 of Part II are not applicable and have been omitted.

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

FRESH AMERICA CORP.
(Registrant)

/s/ Cheryl A. Taylor Date: September 12, 2001

Cheryl A. Taylor
Executive Vice President and Chief
Financial Officer