

Edgar Filing: Vaughan Foods, Inc. - Form 10-Q

Vaughan Foods, Inc.  
Form 10-Q  
August 15, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

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

For the quarterly period ended June 30, 2011

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 001-33446

VAUGHAN FOODS, INC.

(Exact name of registrant as specified in its charter)

Oklahoma

73-1342046

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

216 N.E. 12th Street, Moore, OK  
(Address of principal executive offices)  
(405) 794-2530

73160  
(Zip Code)

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Number of shares outstanding of the registrant's common stock, as of August 9, 2011:

Class

Shares Outstanding

Common Stock, \$0.001 par value per share

9,408,334

---

VAUGHAN FOODS, INC.

Form 10-Q

For the Quarterly Period Ended June 30, 2011

INDEX

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements 1

Consolidated Balance Sheets as of June 30, 2011 (unaudited), and December 31, 2010 2

Unaudited Consolidated Statements of Operations for the Three Month and Six Month Periods Ended June 30, 2011 and 2010 3

Consolidated Statements of Stockholders' Equity for the Year Ended December 31, 2010 and Six Month Period Ended June 30, 2011 (unaudited) 4

Unaudited Consolidated Statements of Cash Flows for the Six Month Periods Ended June 30, 2011 and 2010 5

Notes to Unaudited Consolidated Financial Statements 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 17

Item 3. Quantitative and Qualitative Disclosures About Market Risk 20

Item 4. Controls and Procedures 20

PART II — OTHER INFORMATION

Item 1. Legal Proceedings 20

Item 1A. Risk Factors 21

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 21

Item 3. Defaults Upon Senior Securities 21

Item 4. [Removed and Reserved] 21

Item 5. Other Information 21

Item 6. Exhibits 21

SIGNATURES 22

EXHIBIT INDEX 23

---

PART 1 — FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Vaughan Foods, Inc. and Subsidiary

We have reviewed the accompanying consolidated balance sheet of Vaughan Foods, Inc. and subsidiary (the “Company”) as of June 30, 2011, and the related consolidated statements of operations for the three-month and six-month periods ended June 30, 2011 and 2010, and the consolidated statements of cash flows for the six-month periods ended June 30, 2011 and 2010, and the consolidated statements of stockholders' equity for the six-month period ended June 30, 2011. These consolidated financial statements are the responsibility of the Company’s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board, the balance sheet of the Company as of December 31, 2010, and the related statement of stockholders' equity for the year ended December 31, 2010, and the related statements of operations and cash flows for the year then ended (not presented herein); and in our report dated March 30, 2011, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2010, and the accompanying statement of stockholders' equity for the year ended December 31, 2010, are fairly stated, in all material respects, in relation to the financial statements from which they have been derived.

Oklahoma City, Oklahoma

August 15, 2011

/s/ Cole & Reed, P.C.

Cole & Reed, P.C.

Edgar Filing: Vaughan Foods, Inc. - Form 10-Q

Vaughan Foods, Inc.  
Consolidated Balance Sheets

June 30, 2011 and December 31, 2010

|   | June 30, 2011<br>(unaudited) | December 31,<br>2010 |
|---|------------------------------|----------------------|
| Assets  |                              |                      |
| Current assets:   |                              |                      |
| Cash and cash equivalents   | \$—                          | \$—                  |
| Cash receipts subject to account control agreement  | 712,217                      | 533,541              |
| Accounts receivable, net of allowance for credit losses of \$53,852 at June 30, 2011 and \$78,180 at December 31, 2010                        | 8,421,813                    | 6,088,245            |
| Inventories   | 4,071,541                    | 3,104,976            |
| Prepaid expenses and other assets   | 613,366                      | 246,001              |
| Deferred tax assets   | 433,703                      | 369,604              |
| Total current assets  | 14,252,640                   | 10,342,367           |
| Restricted assets:  |                              |                      |
| Cash  | 528,400                      | 937,336              |
| Investments   | 770,397                      | 557,566              |
| Total restricted assets   | 1,298,797                    | 1,494,902            |
| Property and equipment, net   | 13,977,676                   | 14,576,322           |
| Other assets:   |                              |                      |
| Loan origination fees, net of amortization  | 283,580                      | 286,767              |
| Intangible assets   | 30,817                       | 46,241               |
| Deferred tax assets, noncurrent   | 3,021,902                    | 2,604,045            |
| Total other assets  | 3,336,299                    | 2,937,053            |
| Total assets  | \$32,865,412                 | \$29,350,644         |
| Liabilities and Stockholders' Equity  |                              |                      |
| Current liabilities:  |                              |                      |
| Accounts payable  | \$9,288,597                  | \$6,980,713          |
| Disbursements in transit  | 1,958,501                    | 729,300              |
| Line of credit  | 3,406,456                    | 2,688,302            |
| Note payable to related party   | 28,312                       | 29,724               |
| Accrued liabilities   | 2,152,704                    | 1,945,094            |
| Current portion of long-term debt   | 1,019,055                    | 1,155,310            |
| Total current liabilities   | 17,853,625                   | 13,528,443           |
| Long term liabilities:  |                              |                      |
| Long-term debt, net of current portion  | 6,491,047                    | 6,694,917            |
| Note payable to related party, net of current portion   | 757,576                      | 811,023              |
| Deferred gain on sale of assets   | 5,800                        | 7,747                |
| Total long-term liabilities   | 7,254,423                    | 7,513,687            |
| Stockholders' equity:   |                              |                      |
| Common stock, \$0.001 par value; authorized 50,000,000 shares; 9,380,577 shares issued and outstanding at June 30, 2011 and December 31, 2010 | 9,381                        | 9,381                |
| Preferred stock, \$0.001 par value; authorized 5,000,000 shares; 0 shares issued and outstanding at June 30, 2011 and December 31, 2010       | —                            | —                    |
| Paid in Capital   | 14,570,145                   | 14,525,179           |
| Retained Earnings (deficit)   | (6,822,162)                  | (6,226,046)          |
| Total stockholders' equity  | 7,757,364                    | 8,308,514            |

Edgar Filing: Vaughan Foods, Inc. - Form 10-Q

|  |              |              |
|--|--------------|--------------|
| Total liabilities and stockholders' equity | \$32,865,412 | \$29,350,644 |
|--|--------------|--------------|

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

2

---

Edgar Filing: Vaughan Foods, Inc. - Form 10-Q

Vaughan Foods, Inc.

Unaudited Consolidated Statements of Operations

For the Three Month and Six Month Periods Ended June 30, 2011 and 2010

|  | Three Months Ended June 30, |              | Six Months Ended June 30, |              |
|--|-----------------------------|--------------|---------------------------|--------------|
|  | 2011                        | 2010         | 2011                      | 2010         |
|  | (unaudited)                 |              |                           |              |
| Net sales                                    | \$28,207,091                | \$26,225,764 | \$51,786,084              | \$47,921,629 |
| Cost of sales                                | 26,371,376                  | 23,476,533   | 47,776,477                | 42,410,244   |
| Gross profit                                 | 1,835,715                   | 2,749,231    | 4,009,607                 | 5,511,385    |
| Selling, general and administrative expenses | 2,328,127                   | 2,127,186    | 4,638,204                 | 4,397,614    |