

Vaughan Foods, Inc.
Form 10-Q
November 15, 2010

**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 September 30, 2010

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

(State or other jurisdiction of
incorporation or organization)

73-1342046

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

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

73160
(Zip Code)

(405) 794-2530

(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

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Number of shares outstanding of the registrant's common stock, as of November 15, 2010:

Class	Shares Outstanding
Common Stock, \$0.001 par value per share	9,380,577

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VAUGHAN FOODS, INC.
Form 10-Q
For the Quarterly Period Ended September 30, 2010
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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 September 30, 2010, and the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2010 and 2009, and the consolidated statements of cash flows for the nine-month periods ended September 30, 2010 and 2009, and the consolidated statements of stockholders' equity for the nine-month period ended September 30, 2010. 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, 2009, and the related statement of stockholders' equity for the year ended December 31, 2009, and the related statements of operations and cash flows for the year then ended (not presented herein); and in our report dated March 19, 2010, 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, 2009, and the accompanying statement of stockholders' equity for the year ended December 31, 2009, are fairly stated, in all material respects, in relation to the financial statements from which they have been derived.

Oklahoma City, Oklahoma
November 15, 2010

Vaughan Foods, Inc.
Consolidated Balance Sheets
September 30, 2010 & December 31, 2009

	September 30, 2010	December 31, 2009
	(unaudited)	
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$	\$
Cash receipts subject to account control agreement	502,339	523,454
Accounts receivable, net of allowance for credit losses of \$56,375 at September 30, 2010 and \$106,375 at December 31, 2009	5,798,193	5,311,989
Inventories	2,952,545	3,054,819
Prepaid expenses and other assets	208,315	210,516
Deferred tax assets	299,865	264,772
Total current assets	9,761,257	9,365,550
Restricted assets:		
Cash	528,000	528,000
Investments	930,255	541,398
Total restricted assets	1,458,255	1,069,398
Property and equipment, net	15,108,469	15,797,007
Other assets:		
Loan origination fees, net of amortization	308,744	421,791
Intangible assets	53,953	77,090
Deferred tax assets, noncurrent	2,552,348	2,655,925
Total other assets	2,915,045	3,154,806
Total assets	\$ 29,243,026	\$ 29,386,761
<u>Liabilities and Stockholders Equity</u>		
Current liabilities:		
Accounts payable	\$ 7,015,431	\$ 8,431,570
Disbursements in transit	1,535,933	1,269,790
Line of credit	1,919,577	2,322,063
Note payable to former owners of Allison's Gourmet Kitchens, LP	28,880	875,617
Accrued liabilities	1,636,987	1,392,817
Current portion of long-term debt	1,011,433	1,138,602
Current portion of capital lease obligation		94,479
Total current liabilities	13,148,241	15,524,938

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Long term liabilities:		
Long-term debt, net of current portion	6,606,265	6,943,639
Note payable to former owners of Allisons Gourmet Kitchens, LP, net of current portion	811,867	
Deferred gain on sale of assets	16,712	43,607
	<u> </u>	<u> </u>
Total long-term liabilities	7,434,844	6,987,246
	<u> </u>	<u> </u>
Stockholders' equity:		
Common stock, \$0.001 par value; authorized 50,000,000 shares; 9,380,577 shares issued and outstanding at September 30, 2010 and 4,623,077 shares issued and outstanding at December 31, 2009	9,381	4,623
Preferred stock, \$0.001 par value; authorized 5,000,000 shares; 0 shares issued and outstanding at September 30, 2010 and December 31, 2009		
Paid in Capital	14,502,695	12,734,115
Retained Earnings (deficit)	(5,852,135)	(5,864,161)
	<u> </u>	<u> </u>
Total stockholders' equity	8,659,941	6,874,577
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 29,243,026	\$ 29,386,761
	<u> </u>	<u> </u>

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

Vaughan Foods, Inc.
Unaudited Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2010 and 2009

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net sales	\$ 23,286,922	\$ 24,107,433	\$ 71,208,551	\$ 73,892,354
Cost of sales	21,512,987	22,123,101	63,923,231	67,310,730
Gross profit	1,773,935	1,984,332	7,285,320	6,581,624
Selling, general and administrative expenses	2,145,875	2,067,191	6,543,488	6,551,704
Operating income (loss)	(371,940)	(82,859)	741,832	29,920
Interest expense	(214,305)	(306,074)	(690,976)	(821,954)
Gain (loss) on sale of asset	8,965	8,965	29,654	15,044
Interest income	2	2	2	112
Other income and expense, net	(205,340)	(297,107)	(661,322)	(806,798)
Net income (loss) before income taxes	(577,280)	(379,966)	80,510	(776,878)
Income tax expense (benefit)	(212,541)	(161,923)	68,484	(310,436)
Net income (loss)	\$ (364,739)	\$ (218,043)	\$ 12,026	\$ (466,442)
Weighted average shares outstanding				
Basic and diluted	9,380,577	4,623,077	8,439,533	4,623,077
Net income (loss) per share Basic and diluted	\$ (0.04)	\$ (0.05)	\$ 0.00	\$ (0.10)

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

Vaughan Foods, Inc.
Consolidated Statements of Stockholders' Equity
For the Year Ended December 31, 2009 and the Nine Months Ended September 30, 2010

	Common Stock		Paid in Capital	Retained Earnings (Deficit)	Total Stockholders Equity
	Shares issued	Amount			
Balance at January 1, 2009	4,623,077	\$ 4,623	\$ 12,571,302	\$ (5,363,934)	\$ 7,211,991
Issuance of stock options in connection with Equity Incentive Plan			88,352		88,352
Issuance of stock warrants in connection with refinancing revolving line of credit			74,461		74,461
Net (loss)				(500,227)	(500,227)
Balance at December 31, 2009	4,623,077				