

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

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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 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.

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Vaughan Foods, Inc.
Consolidated Balance Sheets

June 30, 2011 and December 31, 2010

	June 30, 2011 (unaudited)	December 31, 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

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Total liabilities and stockholders' equity	\$32,865,412	\$29,350,644
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The accompanying notes are an integral part of these consolidated financial statements.

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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
Operating income (loss)	(492,412)	) 622,045	(628,597)	) 1,113,771
Interest expense	(228,008)	) (207,488)	) (451,422)	) (476,670)
Gain (loss) on sale of asset	968	11,724	1,947	20,689
Other income and expense, net	(227,040)	) (195,764)	) (449,475)	) (455,981)
Net income (loss) before income taxes	(719,452)	) 426,281	(1,078,072)	) 657,790
Income tax expense (benefit)	(336,629)	) 166,107	(481,956)	) 281,025
Net income (loss)	\$(382,823)	) \$260,174	\$(596,116)	) \$376,765
Weighted average shares outstanding				
Basic	9,380,577	9,380,577	9,380,577	7,961,212
Diluted	9,396,320	9,384,660	9,403,354	7,962,165
Net income (loss) per share				
Basic	\$(0.04)	) \$0.03	\$(0.06)	) \$0.05
Diluted	\$(0.04)	) \$0.03	\$(0.06)	) \$0.05

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, 2010 and the Six Month Period Ended June 30, 2011

Common Stock

	Shares issued	Amount	Paid in Capital	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance at January 1, 2010	4,623,077	\$4,623	\$12,734,115	\$(5,864,161)	) \$6,874,577
Stock-based compensation expense	—	—	89,934	—	89,934
Issuance of common stock and warrants in connection with private placement transaction	4,757,500	4,758	1,701,130	—	1,705,888
Net (loss)	—	—	—	(361,885)	) (361,885)
Balance at December 31, 2010	9,380,577	\$9,381	\$14,525,179	\$(6,226,046)	) \$8,308,514
Stock-based compensation expense (unaudited)	—	—	44,966	—	44,966
Net (loss) (unaudited)	—	—	—	(596,116)	) (596,116)
Balance at June 30, 2011 (unaudited)	9,380,577	\$9,381	\$14,570,145	\$(6,822,162)	) \$7,757,364

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

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Vaughan Foods, Inc.

Unaudited Consolidated Statements of Cash Flows

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

	Six Months Ended June 30,	
	2011	2010
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income (loss)	\$(596,116	) \$376,765
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,065,021	1,339,256
Provision for credit losses	(24,328	) (50,000
(Gain) on sale of assets	(1,947	) (20,689
Stock option expense	44,966	44,967
Deferred income taxes	(481,956	) 281,025
Changes in operating assets and liabilities:		
Accounts receivable	(2,309,240	) (1,333,681
Inventories	(966,565	) 238,213
Prepaid expenses and other assets	(367,365	) (38,990
Accounts payable	2,307,884	(34,216
Disbursements in transit	1,229,201	(520,612
Accrued liabilities	207,610	269,498
Net cash provided by operating activities	107,165	551,536
Cash flows from investing activities:		
Purchases of property and equipment	(407,764	) (712,526
Proceeds from sales of assets	—	19,750
Distribution of insurance proceeds from restricted assets	408,936	—
Investments in restricted assets	(212,831	) (216,166
Net cash (used by) investing activities	(211,659	) (908,942
Cash flows from financing activities:		
Proceeds from stock issue	—	1,705,888
Payment of loan origination fees	(40,000	) (58,333
Net borrowings (repayments) on line of credit	718,154	(450,456
Net proceeds from funds subject to account control agreement	(178,676	) (447,598
Repayment of long-term debt and capital leases	(394,984	) (397,387
Other, net	—	5,292
Net cash provided by financing activities	104,494	357,406
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 during the period for:		
Interest paid, net of capitalized interest	\$409,953	\$328,194
Issuance of warrants to placement agent in connection with private placement transaction	—	219,661

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

Vaughan Foods, Inc.
Notes to Unaudited Consolidated Financial Statements
June 30, 2011 and 2010

(1) Nature of Operations