

## Vaughan Foods Reports Second Quarter and Six Month 2007 Operating Results

Thursday August 9, 4:05 pm ET

### **Pro-forma quarterly revenues up more than 15%, pro-forma net income increases to \$265,000 and pro-forma EPS rises to \$0.06 from a loss in 2006**

MOORE, Okla.--(BUSINESS WIRE)--Vaughan Foods, Inc. (Nasdaq: [FOOD - News](#)), a regional leader in fresh-cut vegetables and fruit products, and a broad line of refrigerated prepared salads, sauces, soups, stews and side-dishes, announced its operating results for the second quarter and six-month period ending June 30, 2007.

Revenues, before giving effect to the acquisition of our Allison's Gourmet Kitchen ("Allison's") prepared food division, increased slightly to \$13.9 million and \$26.5 million for the three and six month periods ended June 30, 2007 from \$13.8 million and \$26.3 million in the same periods in the prior year. Giving pro-forma effect to the acquisition of Allison's, pro-forma revenues increased more significantly to \$20.9 million and \$38.7 million for the three and six month periods ended June 30, 2007 from \$18.1 million and \$33.5 million in the same periods in the prior year, an increase of 15.2% for the quarter and 15.5% for the six months.

On an actual basis, net loss for the three and six month periods in 2007 were \$446,000, \$0.19 per share, and \$558,000, \$0.24 per share, compared with \$701,000, \$0.30 per share, and \$448,000, \$0.19 per share, in the same periods in 2006. Giving pro-forma effect to the acquisition of Allison's, we generated net income of \$265,000, \$0.06 per share, and \$808,000, \$0.18 per share, in the three and six month periods ended June 30, 2007 compared to losses of \$529,000, \$0.17 per share, and \$105,000, \$0.04 per share, in the comparable period of the prior year. The pro-forma consolidated results assume the acquisition of Allison's at January 1, 2006 and eliminate interest expense on indebtedness that would have been reduced or eliminated with the proceeds of the public offering if it had occurred on January 1, 2006.

Herb Grimes, Chairman and CEO of Vaughan Foods, commented, "We are pleased to announce strong pro forma sales and earnings for the second quarter and six month period as compared to 2006. Our improved performance reflects various cost-saving initiatives at our Fresh Cut Produce division and better coordinated operations between our Fresh Cut and Allison's divisions. With the completion of our acquisition of Allison's on June 30, 2007 and its move into its new 48,000 sq. ft. manufacturing facility adjacent to the existing Vaughan facility during the second quarter, we expect coordination to improve even further as we move forward. We also believe the Vaughan/Allison's combination will provide opportunities for more efficient buying, marketing and sales efforts. Our acquisition of Allison's on June 30, 2007 marked the first step in our expansion program.

Additionally, the completion of our public offering in July, 2007 and resultant reduction of our debt levels and increase in our cash on hand to \$4.7 million provides us with new financial flexibility to support our long-term growth objectives. With our newly completed processing facility, we have significantly added to our sales capacity within our current geographic region. The operating efficiencies created by our new facility, including lower labor costs, shortened timelines for production procedures and reduced outsourcing, should contribute to improved profitability," he concluded.

About Vaughan Foods, Inc.

Vaughan Foods and its subsidiaries prepares refrigerated chicken, tuna, bean, and pasta salads, as well as fresh-cut produce (salad and salad mixes), which it distributes to its clients across 12 states in

the Midwest, Southeast, and Southwest. Among its customers are restaurants, grocery store delis and food service businesses. The Company makes some 70 different salad products and processes 1-2 million pounds of salad each week.

Statements in this news release concerning the Company's business outlook or future economic performance, anticipated profitability, revenues, expenses or other financial items; and statements concerning assumptions made or expectations as to any future events, conditions, performance or other matters, are "forward-looking statements" as that term is defined under the Federal Securities Laws. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those stated in such statements. Such risks, uncertainties and factors include, but are not limited to, changes and delays in product development plans and schedules, changes and delays in product approval and introduction, customer acceptance of new products, development, introduction, or consumer acceptance of competing products, changes in pricing or other actions by competitors, risk of product or other litigation liability, governmental regulation, dependence on third parties to manufacture products and commercialize products, and general economic conditions, as well as other risks detailed in the Company's filings with the Securities and Exchange Commission.

Vaughan Foods, Inc. Consolidated Statement of Operations

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
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	(dollars in thousands, except share data)			
Revenues	\$ 13,946	\$ 13,820	\$ 26,479	\$ 26,318
Gross profit	1,088	159	2,475	1,864
Operating income	119	(1,018)	672	(343)
Income (loss) before income taxes	(544)	(1,187)	(504)	(697)
Net income (loss)	(446)	(701)	(558)	(448)
Net income (loss) per common share				
Basic and diluted	\$ (0.19)	\$ (0.30)	\$ (0.24)	\$ (0.19)
Weighted Average Shares Outstanding				
Basic and diluted	2,300,000	2,300,000	2,300,000	2,300,000

Second quarter 2007 and year-to-date operating results were materially affected by the following factors:

- A provision of \$200,000 in connection with a settlement with a supplier. During the second quarter of 2007, one of our suppliers alleged that we did not purchase the required quantity of lettuce from that supplier and the supplier sought to recover its costs associated with producing or acquiring the product that it alleges we did not purchase. Subsequent to June 30, 2007, we reached a settlement with the supplier and made a provision of \$200,000 in recognition of this settlement.
- Interest expense of \$778,000 and \$1.4 million in the second quarter and year-to date period, respectively; As a result of the liquidity created from the proceeds the Company's initial public offering ("IPO") on July 3, 2007, the Company's indebtedness has been substantially reduced. The pro-forma interest expense - taking into account the repayment of indebtedness from a portion of the IPO proceeds - would have been \$258,000 and \$503,000 for the second quarter and year-to-date periods of 2007.

Vaughan Foods, Inc. and Allison's Gourmet Kitchens, L.P.  
Pro-Forma Consolidated Statement of Operations

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
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	(dollars in thousands, except share data)			

Revenues	\$	20,913	\$	18,144	\$	38,727	\$	33,521
Gross profit		2,466		1,084		5,084		3,337
Operating income		694		(1,018)		1,802		182
Income (loss) before income taxes		427		(853)		1,303		(277)
Net income (loss)		265		(529)		808		(105)
Net income (loss) per common share								
Basic and diluted	\$	0.06	\$	(0.12)	\$	0.18	\$	(0.04)
Weighted Average Shares Outstanding								
Basic and diluted		4,450,000		4,450,000		4,450,000		4,450,000