

SP Holding CORP
Form 8-K
February 13, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): **February 12, 2007**

SP HOLDING CORPORATION

(Exact name of registrant as specified in Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

0-21061
(Commission File No.)

58-2044990
(IRS Employee Identification
No.)

601 Union Street, Suite 3700

Seattle, Washington 98101

(Address of Principal Executive Offices)

(206) 838-4670

(Issuer Telephone number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

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- o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Forward Looking Statements

This Form 8-K and other reports filed by Registrant from time to time with the Securities and Exchange Commission (collectively the Filings) contain or may contain forward looking statements and information that are based upon beliefs of, and information currently available to, Registrant's management as well as estimates and assumptions made by Registrant's management. When used in the filings the words "anticipate", "believe", "estimate", "expect", "future", "intend", "plan" or the negative of these terms and similar expressions as they relate to Registrant or Registrant's management identify forward looking statements. Such statements reflect the current view of Registrant with respect to future events and are subject to risks, uncertainties, assumptions and other factors (including the risks contained in the section of this report entitled Risk Factors) relating to Registrant's industry, Registrant's operations and results of operations and any businesses that may be acquired by Registrant. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned.

Although Registrant believes that the expectations reflected in the forward looking statements are reasonable, Registrant cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, Registrant does not intend to update any of the forward-looking statements to conform these statements to actual results. The following discussion should be read in conjunction with Registrant's pro forma financial statements and the related notes that will be filed herein.

Item 1.01 Entry into a Material Definitive Agreement.

On February 1, 2007, SP Holding Corporation, a Delaware corporation, entered into a First Amendment to Agreement and Plan of Merger and Reorganization and to Company Disclosure Schedule (the First Amendment), with Organic Holding Company, Inc., a Delaware corporation (Organic), and Organic Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of SP Holding Corporation (Organic Acquisition), pursuant to which SP Holding Corporation, Organic and Organic Acquisition amended the terms of that certain Agreement and Plan of Merger and Reorganization, dated as of January 11, 2007 (as amended by the First Amendment, the Merger Agreement), previously entered into by and among SP Holding Corporation, Organic and Organic Acquisition. For purposes of this Current Report on Form 8-K, references herein to Old SP Holding shall refer to SP Holding Corporation prior to the closing of the Merger (as defined below) and references herein to SP d/b/a Organic shall refer to SP Holding Corporation commencing on and continuing after the closing of the Merger.

The First Amendment amended the Merger Agreement by amending the Exchange Ratio (as defined in the Merger Agreement), clarifying the capital structure of Old SP Holding and Organic and adding a schedule to the Company Disclosure Schedule (as defined in the Merger Agreement), which identifies those persons proposed to serve as the directors and officers of SP d/b/a Organic upon the closing of the transactions contemplated by the Merger Agreement (the Merger).

The foregoing description does not purport to be a complete statement of the parties' rights and obligations under the First Amendment. The above description is qualified in its entirety by reference to the First Amendment. A copy of the First Amendment is included as

Exhibit 2.2 to this Current Report on Form 8-K and is incorporated herein by reference. A copy of the Merger Agreement was included as Exhibit 2.1 to the Current Report on Form 8-K filed by Old SP Holding on January 11, 2007 and is incorporated herein by reference.

Item 2.01 Completion of Acquisition or Disposition of Assets.

CLOSING OF MERGER AGREEMENT

On January 11, 2007, Old SP Holding, Organic and Organic Acquisition entered into the Merger Agreement. On February 12, 2007, Old SP Holding, Organic and Organic Acquisition entered into the First Amendment to the Merger Agreement.

On February 12, 2007, pursuant to the Merger Agreement, Organic Acquisition was merged with and into Organic. As a result of the Merger, Organic became a wholly owned operating subsidiary of SP d/b/a Organic. Those persons holding shares of Organic capital stock, warrants and options to purchase shares of Organic capital stock, and certain promissory notes convertible into shares of Organic capital stock, received shares of SP d/b/a Organic common stock, \$.001 par value per share (SP d/b/a Organic Common Stock or the Company's Common Stock) and warrants and options to purchase shares of SP d/b/a Organic Common Stock.

Under the terms of the Merger, each share of Organic common stock and Organic preferred stock (respectively, Organic Common Stock and Organic Preferred Stock) (which included certain issued and outstanding convertible promissory notes on an as converted basis) outstanding immediately prior to the closing of the Merger was converted into the right to receive 0.69781 (the Exchange Ratio) shares of SP Common Stock. Under the terms of the Merger, each then convertible promissory note whose holder had not previously elected to convert to Organic Common Stock, became convertible for shares of SP Common Stock, provided that (i) the face value of each such convertible note remained unchanged, (ii) each such convertible note became convertible for such number of shares of SP Common Stock as was determined by multiplying the number of shares of Organic Preferred Stock underlying said convertible note by the Exchange Ratio, with the resulting product rounded down to the nearest whole number of shares, and (iii) the per share conversion price for each convertible note determined by dividing the conversion price per share for said convertible note by the Exchange Ratio, with the resulting quotient rounded down to the nearest whole cent.

Under the terms of the Merger, each then outstanding option and warrant to purchase shares of Organic Common Stock, whether or not exercisable, was converted into an option or warrant to purchase shares of SP d/b/a Organic Common Stock upon the same terms and conditions as the corresponding Organic options and warrants, provided that (i) each such Organic option and warrant related to such number of shares of SP d/b/a Organic Common Stock as was determined by multiplying the number of shares of Organic Common Stock underlying such Organic option or warrant by the Exchange Ratio, with the resulting product rounded down to the nearest whole number of shares, and (ii) the per share exercise price for the newly-issued SP d/b/a Organic options or warrants was determined by dividing the exercise price per share of such Organic options or warrants by the Exchange Ratio, with the resulting quotient rounded down to the nearest whole cent.

The resulting merged company will operate under the name Organic To Go, Inc. This current report contains summaries of the material terms of various agreements executed in

connection with the transactions described herein. The summaries of these agreements are subject to, and qualified in their entirety by, reference to these agreements, all of which are incorporated herein by reference.

PRIVATE PLACEMENT

The consummation of the Merger occurred concurrently with the completion of a private placement (the Private Placement) of One Hundred and Thirty (130) units (the Units), for an aggregate of \$6.5 million, issued by SP d/b/a Organic, with \$4,737,750 million of Units issued concurrently with the closing of the Merger and the remaining \$1,762,250 of Units to be issued on or about February 19, 2007.

Each Unit is comprised of (i) forty thousand (40,000) shares of SP d//b/a Organic Common Stock, and (ii) a detachable five-year warrant to purchase 8,000 shares of SP d/b/a Organic Common Stock, at an exercise price of \$2.50per share (the SP d/b/a Organic Warrants). The purchase price per Unit was \$50,000.

The Units were offered on a best efforts, all or none basis with respect to the initial \$4.0 million of Units, and on a best efforts basis thereafter. The Units were subscribed for pursuant to a Subscription Agreement (collectively, the Subscription Agreements), entered into by and between SP d/b/a/ Organic and each subscriber in the Private Placement (each, an Investor and collectively, the Investors).

An aggregate of \$6.5 of Units was subscribed for in the Private Placement. Pursuant thereto, immediately following the closing of the Private Placement, SP d/b/a Organic received gross proceeds of approximately \$4,737,750 million from the Private Placement and SP d/b/a Organic issued to the Investors an aggregate of 3,790,200 shares of SP d//b/a Organic Common Stock and SP d/b/a Organic Warrants to purchase 758,040 shares of SP d/b/a Organic Common Stock. An additional \$1,762,250 million in gross proceeds is to be received by SP d/b/a Organic on or on or before February 19, 2007 and, upon the receipt of such amount, SP d/b/a Organic will issue to the applicable Investors an additional 1,409,800 shares of SP d//b/a Organic Common Stock and SP d/b/a Organic Warrants to purchase 281,960 shares of SP d/b/a Organic Common Stock.

Organic engaged Burnham Hill Partners, a division of Pali Capital, Inc., as the Placement Agent (the Placement Agent) in connection with the Private Placement. Pursuant to the terms of the engagement with the Placement Agent, the Placement Agent, or its registered assignees or designees, received a cash commission of 10.0% of the gross proceeds from the Units sold in the Private Placement and \$10,000 for the reimbursement of certain out-of-pocket expenses. In addition, SP d/b/a Organic issued to the Placement Agent or its registered assignees or designees, SP d/b/a Organic Warrants (the Placement Agent Warrants) to purchase up to 520,000 shares of SP d/b/a Organic Common Stock (equal to 10.0% of the shares of SP d/b/a Organic Common Stock issued pursuant to the Private Placement).

The Placement Agent Warrants are exercisable at any time at a price equal to 110% of the price paid by the Investors in the Private Placement, on a net-issuance or cashless basis. The Placement Agent Warrants will have registration rights similar to the registration rights afforded to the holders of SP d/b/a Organic Warrants. The Placement Agent Warrants are fully vested and have a term of five years.

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Copies of the form of Placement Agent Agreement, Subscription Agreement and Form of SP d/b/a Organic Warrant are included as Exhibits 10.1, 10.2 and 4.2, respectively, to this Current Report on Form 8-K and are incorporated herein by reference.

Upon completion of the Merger and after giving effect to the Private Placement, the ownership of SP d/b/a Organic Common Stock will be approximately as follows, on a fully-diluted basis (excluding the Placement Agent Warrants to be issued to the Placement Agent, shares underlying outstanding promissory notes which will continue to be outstanding after the closing of the Merger and up to 2,500,000 options to purchase SP d/b/a Organic Common Stock which may be issued to officers, directors and consultants of SP d/b/a Organic):

	Percentage of SP d/b/a Organic Common Stock	
Old SP Holding Stockholders (1)	4.52	%
Organic Stockholders (2)	70.45	%
Investors (3)	25.03	%

(1) Those persons who held shares of Old SP Holding Common Stock (Old SP Holding Common Stock) or Old SP Holding Preferred Stock (Old SP Holding Preferred Stock) prior to the Merger.

(2) Those persons who held shares of Organic Common Stock and Organic Preferred Stock prior to the Merger, including the holders of Organic options and warrants, and certain issued and outstanding convertible promissory notes.

(3) Those persons who acquired shares of SP d/b/a Organic Common Stock and SP d/b/a Warrants in the Private Placement.

The issuance of SP d/b/a Organic Common Stock to the Organic stockholders and the Investors is intended to be exempt from registration under the Securities Act of 1933, as amended (the Securities Act), pursuant to Section 4(2) thereof. As such, the SP d/b/a Organic Common Stock received by the Organic stockholders pursuant to the Merger and issued to the Investors pursuant to the Private Placement may not be offered or sold in the United States unless they are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available. No registration statement covering these securities has been filed with the Securities and Exchange Commission (the SEC) or with any state securities commission in respect of the Merger or the Private Placement.

Pursuant to the Subscription Agreements, SP d/b/a Organic agreed to register for public re-sale the shares of SP d/b/a Organic Common Stock underlying the Units and the shares of SP d/b/a Organic Common Stock issuable to each Investor and the Placement Agent pursuant to the exercise of the SP d/b/a Organic Warrants and the Placement Agent Warrants. SP d/b/a Organic may be required to pay a penalty to the Investors, with the maximum amount of the penalty capped at 24.0% of the amount raised pursuant to the Private Placement, if SP d/b/a Organic fails to have a registration statement with respect to the shares of SP d/b/a Organic Common Stock issued to the Investors (including the shares underlying the SP d/b/a Organic Warrants) pursuant to the Private Placement filed with the SEC within 90 days after the closing of the Private Placement or if SP d/b/a Organic fails to have such registration statement declared effective with

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respect to the shares of SP d/b/a Organic Common Stock issued to the Investors (excluding, however, the shares underlying the SP d/b/a Organic Warrants) within 150 days after the filing of such registration statement with the SEC.

In connection with the closing of the Merger, SP d/b/a Organic filed a press release announcing the closing and the completion of the Merger and the completion of the Private Placement, a copy of which is included as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Except for the Merger Agreement, the Private Placement and the transactions contemplated thereby, neither Old SP Holding, nor any of the directors or officers of Old SP Holding serving prior to the consummation of the Merger, had any material relationship with Organic or any of the Organic stockholders.

SP d/b/a Organic is currently authorized under its Amended and Restated Certificate of Incorporation to issue 500,000,000 shares of SP d/b/a Organic Common Stock and 10,000,000 shares of SP d/b/a Organic Preferred Stock. Of the 10,000,000 shares of SP d/b/a Organic Preferred Stock authorized, 60 shares had been designated as Series A Convertible Preferred Stock, par value \$.001 per share, pursuant to a Certificate of Designation that was approved by Old SP Holding's board of directors and filed with and accepted by the Secretary of State of the State of Delaware.

Prior to the closing of the Merger and the Private Placement, there were 439,403 shares of Old SP Holding Common Stock issued and outstanding and 60 shares of Old SP Holding Preferred Stock issued and outstanding. At the closing of the Merger and the Private Placement and after giving effect thereto, there were 19,595,671 shares of SP d/b/a Organic Common Stock issued and outstanding and no shares of SP d/b/a Organic Preferred Stock issued and outstanding (the 60 shares of Old SP Holding Preferred Stock issued and outstanding prior to the Merger having automatically converted into 687,271 shares of SP d/b/a Organic Common Stock upon the closing of the Merger).

BUSINESS

BUSINESS OF SP d/b/a ORGANIC

Prior to the closing of the Merger, Old SP Holding was a non-operating public shell company with nominal assets whose sole business has been to identify, evaluate and investigate various companies with the intent that, if such investigation warrants, a reverse merger transaction be negotiated and completed pursuant to which Old SP Holding would acquire a target company with an operating business with the intent of continuing the acquired company's business as a publicly held entity.

BUSINESS OF ORGANIC

In this discussion of the Business of Organic, unless otherwise noted or required by the context, references to us, we, our, and similar terms refers to Organic, the operating business of SP d/b/a Organic after the consummation of the Merger.

Overview

Organic prepares and serves delicious *American Fare* which is organic and natural to a target market comprised of the white-collar workplace and colleges and universities. Organic was formed in February, 2004 and is currently headquartered in Seattle, Washington. We opened our first test café and kitchen location in Issaquah, Washington in November, 2004 and our first café in Seattle, Washington in January, 2005.

We currently maintain three retail cafés in downtown Seattle, Washington, one in Bellevue, Washington, four in Los Angeles, California and three retail cafés in Orange County, California. We have an agreement with Compass Group, Inc., pursuant to which Compass Group maintains 17 of our *grab and go* locations on the Microsoft Corporate Campus near Seattle, Washington. We also provide sandwiches and other *grab-and-go food* to independent coffee vendors such as Java Java and Euro Coffee at the Los Angeles International Airport. We operate *grab and go* locations at 7 universities in the Seattle, Washington and Los Angeles, California areas, including the University of Washington Medical Center, the University of Southern California and UCLA.

Our Product

After experiencing typical fast food options, lunch box deliveries and casual catering, and originating from different backgrounds, our founders had a vision of delicious, healthy and casual meals, including everything from ham and cheese sandwiches (the Wisconsin area) to deli-style roast beef sandwiches (the Pennsylvania area) and veggie packed salads (the California area). Our products are based on that vision.

While the growth of natural and organic foods is evident with the rise of grocery stores like Whole Foods Market, Wild Oats, Trader Joe's and others, the food service side of prepared foods is not as advanced.

Our food is prepared or assembled at one of two assembly kitchens (Issaquah, Washington and Los Angeles, California) and delivered directly to our retail cafés and delivery/casual catering customers. Our products include packaged and private label products prepared using specifications from key vendors and distributors. Orders taken via the Internet or by telephone are routed to a dedicated central customer service center in Seattle, Washington and are processed in real time. Less than 15% of orders placed are for *same day* delivery. Our retail cafés operate Monday through Friday from 7:00 a.m. to 4:30 p.m. Delivery and catering services are available after-hours and on weekends.

Greater than 70% of our products currently offered are organic. Our goal is that by the end of 2007, all foods offered by us will be 100% organic if *Organic Certification* is available for a product that we offer (for example, at this time it is not possible to obtain an *Organic Certification* for water). In February 2006, we became the first fast-casual restaurant and retailer to be certified as *Organic* by Quality Assurance International (*QAI*), the leading third-party certification agency in the organic foods industry.

Industry Overview and Market Opportunity

According to the Organic Trade Association's 2006 Manufacturer Survey (the *OTA 2006 Survey*), the market for organic foods grew by 16.2% in 2005. The survey also found that sales of organic foods during 2005 totaled \$13.8 billion which constituted 2.5% of total U.S. food

sales. This strong growth is consistent with annual growth rates since 1997, all of which have been between 15%-21% per year.

The OTA 2006 Survey also estimated that the use of organic products in the U.S. food service industry is increasing annually by a rate of 20% per year. According to the survey, as recently as 2004, \$330 million in natural/organic food sales, or only 5% of all natural/organic sales, were sold into the food service channel. Traditionally, retail food sales constitute roughly 70% of total food sales and food service sales constitute roughly 30%.

Business Channels

We operate through three primary business channels or units: Retail Cafés; Delivery/Casual Catering Services; and Wholesale, which account for approximately 54%, 34% and 12%, of our total sales, respectively, in 2006.

Retail Cafés

Our core customer base consists of white collar workers that either have families or are considering starting families or students attending, and employees of, universities and colleges. We currently operate 12 Retail Cafés in Seattle, Washington, Los Angeles, California and Orange County, California. We operate Retail Cafés in large multi-tenant buildings and in large campuses. We believe these retail locations serve as a billboard for our Delivery/Casual Catering Services and branded Wholesale units.

Delivery/Casual Catering Services

As part of our business, we provide delivery and catering services to our customers. Customers of our Delivery/Casual Catering Services unit currently include, among others, Starbucks Corporate Headquarters, Westin Hotels, Washington Mutual Bank, T-Mobile, NBC and several movie studios. Approximately 80% of our delivery orders are repeat orders from customers who have ordered five or more times.

Wholesale

Our Wholesale business is growing and we believe that it presents a tremendous opportunity to build our brand. Wholesale sales currently represent approximately 10% of our revenue. In the fourth quarter of 2006, we launched a new product called Fresh Soup Grab-and-Go. Current wholesale customers include UCLA, University of Southern California, Cal State Pomona, Cal State Long Beach, University of Washington, Children's Hospital of Seattle, Washington, NBC and Euro Coffee at the Los Angeles International Airport.

Expansion Plans

We are currently in the process of identifying, and intend to open, additional café locations in the future. In addition, we currently contemplate acquiring catering companies which operate in Southern California and Washington in 2007 and thereafter, in other regions of the United States. There can be no assurance that we will acquire or open any of such additional café locations or catering companies.

As we grow organically and through acquisitions we intend to grow in regions where we operate by identifying catering companies and café locations that are consistent with our core business focus. In each such market, we plan to take advantage of our scalability and acquire a local catering company with strong ties to the region's corporate community. Whenever possible, we will also work closely with landlords and property managers to assist them in upgrading the amenities offered in their buildings by offering our Delivery/Casual Catering Services and food products to their tenants.

Recent Acquisitions

Acquisition of Vinaigrettes LLC

On October 27, 2006, we acquired all of the operating assets of Vinaigrettes LLC, a California limited liability company doing business as Vinaigrettes Catering Company (Vinaigrettes), in consideration for \$1.0 million. Vinaigrettes was a 10-year-old catering services company with approximately 40 employees and sales of approximately \$2.5 million per year. Vinaigrettes provided business casual catering services, ranging from corporate box lunches to lavish Hollywood events.

Acquisition of Certain Operating Assets of Briazz Inc.

In April 2005, we acquired certain operating locations and related assets of Briazz, Inc. (Briazz) in consideration for \$1.35 million, comprised of \$750,000 in cash and \$600,000 in convertible promissory notes (convertible into shares of Organic Common Stock). Briazz was a Seattle, Washington based sandwich cafe chain that filed for bankruptcy under Chapter 11 in June of 2004. As part of the acquisition, we acquired 6 Retail Cafés in the Seattle, Washington market and 6 Retail Cafés in the Los Angeles, California and Orange County, California markets, as well as certain catering contracts.

Competition

We are in competition with other food service operations within the same geographical area. The fast-casual restaurant, delivery/catering and wholesale business channels are highly competitive. We compete with other organizations primarily through the quality, variety and value perception of food products offered. The number and location of units, quality and speed of service, attractiveness of facilities, effectiveness of marketing and new product development are also important factors. The price charged for each menu item we sell or service we provide may vary from market to market depending on competitive pricing and the local cost structure.

Suppliers

We have not experienced any material shortages of food, equipment, fixtures or other products which are necessary to our operations and we anticipate no such shortages of products. Generally, alternate suppliers are available for all of our raw materials and supplies.

Dependence on Major Customers

We are not dependent on any major customers. No single customer of ours accounts for more than 10% of our total sales.

Environment and Energy

Various federal, state and local regulations have been adopted which affect the discharge of materials into the environment or which otherwise relate to the protection of the environment. We do not believe that such regulations will have a material effect on our operations, our capital expenditures, earnings or our competitive position. However, we cannot predict the effect of future environmental legislation or regulations.

Companies involved in the food industry use significant amounts of energy in their operations. Our principal sources of energy for our operations are electricity and natural gas. To date, the supply of energy available to us has been sufficient to maintain normal operations.

Government Regulation

We operate in the perishable food industry. The development, manufacture and marketing of products sold by us may be subject to extensive regulation by various government agencies, including the U.S. Food and Drug Administration and the U.S. Federal Trade Commission, as well as various state and local agencies. These and other agencies regulate production processes, product attributes, packaging, labeling, advertising, storage and distribution and establish and enforce standards for safety, purity and labeling. In addition, other governmental agencies (including the U.S. Occupational Safety and Health Administration), establish and enforce health and safety standards and regulations in the workplace, including those in our retail locations. Our retail locations will be subject to inspection by federal, state, and local authorities.

Information Technology

We have integrated information technology systems that facilitate efficient and scaleable operations throughout our operations.

Employees

As of December 31, 2006, we had a workforce of approximately 205 full-time and part-time employees. None of our employees are represented by a collective bargaining agreement, nor have we experienced any work stoppages.

Properties

We lease office space for our corporate operations and retail properties as are needed for our business operations from time to time. We believe that we will continue to be able to find and lease the properties we need on reasonable terms. However, there can be no assurance that we will be able to find suitable locations for our planned expansion or for continued operations.

Trademark and Website

We have registered our stylized logo, and we have also registered the Internet domain name www.organictogo.com.

Legal Proceedings

On October 18, 2006, Susana Chi, a former employee of ours, brought suit against us in the Superior Court of the State of California for the County of Los Angeles claiming discrimination, wrongful termination and infliction of emotional distress in connection with the termination of Ms. Chi's employment with us. We have filed an answer to Ms. Chi's complaint and, subsequently, we caused the suit to be transferred to U.S. Federal District Court. The matter is currently in the discovery phase of the litigation. Ms. Chi's claims appear to be unfounded and we intend to vigorously defend such action. We do not believe that Ms. Chi's suit is material to our company or our business or that the failure to prevail in the suit would have a material adverse effect on our business or our consolidated financial position or results of operation.

We are not a party to any other material legal proceedings nor are we aware of any circumstance that may reasonably lead a third party to initiate legal proceedings against us.

Filing Status

SP d/b/a Organic files reports with the SEC. You can read and copy any materials we file with the SEC at its Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission, including us.

RISK FACTORS

You should carefully consider the risks described below together with all of the other information included in this report before making an investment decision with regard to our securities. The statements contained in or incorporated into this report that are not historic facts are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements. If any of the following risks actually occurs, our business, financial condition or results of operations could be harmed. In that case, the trading price of SP d/b/a Organic Common Stock could decline, and you may lose all or part of your investment.

Risks Relating to the Organic Business

In this discussion of the Risks Relating to the Organic Business, unless otherwise noted or required by the context, references to us, we, our, and similar terms refers to Organic, the operating business of SP d/b/a Organic after the consummation of the Merger.

Our limited operating history makes evaluation of our business difficult.

We were incorporated in Delaware in February, 2004 and have had a limited operating history. This limited operating history and the unpredictability of our industry make it difficult for investors to evaluate our business and future operating results. An investor in our securities must consider the risks, uncertainties and difficulties frequently encountered by companies in new and rapidly evolving markets. The risks and difficulties we face include challenges in accurate financial planning as a result of limited historical data and the uncertainties resulting

from having had a relatively limited time period in which to implement and evaluate our business strategies as compared to older companies with longer operating histories.

Our future operating results may fluctuate and cause the price of SP d/b/a Organic Common Stock to decline.

We expect that our sales and operating results will continue to fluctuate significantly from quarter to quarter due to various factors, many of which are beyond our control. The factors that could cause our operating results to fluctuate include, but are not limited to:

- Our ability to open new Retail Cafés and to expand our Delivery/Catering and Wholesale operations;
- Our ability to locate suitable properties for our operations;
- Our ability to obtain additional financing on satisfactory terms;
- Our dependence on our suppliers and distributors;
- Our ability to attract and retain qualified employees;
- Our ability to successfully expand into new markets;
- Our ability to manage the strain on our infrastructure caused by the growth of our Retail Cafés, Delivery/Catering and Wholesale operations;
- Changes in the costs we pay;
- Changes in consumer preferences or discretionary consumer spending;
- Litigation and publicity concerning food quality, health and other issues affecting consumer tastes;
- Governmental regulation associated with the food service industry; and
- Geographic concentration of our business in Washington and California.

If our sales or operating results fall below the expectations of investors or securities analysts, the price of SP d/b/a Organic Common Stock could significantly decline.

Our growth strategy requires us to open new Retail Cafés and expand our Delivery/Catering and Wholesale operations.

We cannot guarantee that we will be able to achieve our expansion goals or that our new Retail Cafés, Delivery/Catering and Wholesale operations will be operated profitably. Further, we cannot assure you that any new Retail Café, Delivery/Catering or Wholesale operation we open will obtain similar operating results to those of our existing Retail Cafés, Delivery/Catering and Wholesale operations. The success of our planned expansion will be dependent upon numerous factors, many of which are beyond our control, including the following:

- Hiring, training and retention of qualified operating personnel;
- Identification and availability of suitable properties;
- Negotiation of favorable lease terms;

- Timely development of new Retail Café, Delivery/Catering and Wholesale operations;
- Management of construction and development costs of Retail Café, Delivery/Catering and Wholesale operations;
- Competition in our markets; and;
- General economic conditions.

Our success depends on our ability to locate suitable sites for our Retail Café, Delivery/Catering and Wholesale operations.

One of our biggest challenges in meeting our growth objectives will be to secure suitable sites for our Retail Café, Delivery/Catering and Wholesale operations. There can be no assurance that we will be able to find suitable locations for our planned expansion in any future period. Delays or failures in opening new Retail Cafés or in expanding our Delivery/Catering and Wholesale operations could materially adversely affect our business, financial condition, operating results or cash flows.

We may need additional financing, which may not be available on satisfactory terms or at all.

We will need to raise additional funds to support our future expansion and growth plans. Our funding requirements may change as a result of many factors, including underestimates of budget items, unanticipated cash requirements, future product and service opportunities, and future business combinations. Consequently, we may need to seek additional sources of financing, which may not be available on favorable terms, if at all, and which may be dilutive to existing stockholders.

We may seek to raise additional financing through equity offerings, debt financings or additional corporate collaboration and licensing arrangements. To the extent we raise additional capital by issuing equity securities, our stockholders will experience dilution. To the extent that we raise additional capital by issuing debt securities, we could incur substantial interest obligations, may be required to pledge assets as collateral for the debt and may be constrained by restrictive financial and/or operational covenants. Debt financing would also be superior to the stockholders' interests in bankruptcy or liquidation. To the extent we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to our products, or grant licenses on unfavorable terms.

We depend on our suppliers and distributors.

Our reliance on our suppliers subjects us to a number of risks, including possible delays or interruptions in supplies, diminished direct control over quality and a potential lack of adequate raw material capacity. Any disruption in the supply of or degradation in the quality of the raw materials provided by our suppliers could have a material adverse effect on our business, operating results and financial condition. In addition, such disruptions in supply or degradations in quality could have a long term detrimental impact on our efforts to develop a strong brand identity and a loyal consumer base. Although we maintain relationships with a number of suppliers and always attempt to have more than one potential supplier for any required item, there can be no assurance that we will be able to continue to maintain multiple supply sources. If any

supplier or distributor fails to perform as anticipated, or if there is a termination or any disruption in any of these relationships for any reason, it could have a material adverse effect on results of operations.

We depend on our key personnel, and the loss of their services may adversely affect our business.

We are highly dependent upon the efforts of our senior management team. The death or departure of any of our key personnel could have a material adverse effect on our business. In particular, the loss of Jason Brown, our Chief Executive Officer, could significantly impact our ability to operate and grow the business and could cause performance to differ materially from projected results. We have a \$2 million key man insurance policy covering Mr. Brown.

We could face labor shortages which could slow our growth.

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including managers, chefs and other kitchen staff, necessary to keep pace with our expansion schedule. Qualified individuals of the requisite caliber and number needed to fill these positions are in short supply in some areas. Although we have not experienced any significant challenges in recruiting or retaining employees, any future inability to recruit and retain sufficient individuals may delay the planned openings and development of new Retail Cafés, Delivery/Catering and Wholesale operations. Any such delays or any material increases in employee turnover rates in existing Retail Cafés and in our Delivery/Catering and Wholesale operations could have a material adverse effect on our business, financial condition, operating results or cash flows. Additionally, competition for qualified employees could require us to pay higher wages to attract sufficient employees, which could result in higher labor costs.

Our expansion into new markets may present increased risks due to our unfamiliarity with the area.

We anticipate that our new Retail Cafés, Delivery/Catering and Wholesale operations will typically take several months to reach budgeted operating levels due to challenges commonly associated with new businesses, including lack of market awareness, inability to hire sufficient staff and other factors. Although we will attempt to mitigate these factors by careful attention to training and staffing needs, there can be no assurance that we will be successful in operating our new Retail Cafés, Delivery/Catering and Wholesale operations on a profitable basis. New markets that we enter may have different competitive conditions, consumer tastes and discretionary spending patterns than our existing markets, which may cause our new Retail Cafés, Delivery/Catering and Wholesale operations in those new markets to be less successful than those in our existing markets.

Our expansion may strain our infrastructure which could slow our development.

We also face the risk that our existing systems and procedures, financial controls, and information systems will be inadequate to support our planned expansion. We cannot predict whether we will be able to respond on a timely basis to all of the changing demands that our planned expansion will impose on management and these systems and controls. If we fail to continue to improve our information systems and financial controls or to manage other factors necessary for us to achieve our expansion objectives, our business, financial condition, operating results or cash flows could be materially adversely affected.

Our operations are susceptible to changes in food and supply costs which could adversely affect our margins.

Our profitability depends, in part, on our ability to anticipate and react to changes in food and supply costs. Our centralized purchasing staff negotiates prices for all of our ingredients and supplies. Any increase in distribution costs could cause our food and supply costs to increase. Further, various factors beyond our control, including adverse weather conditions and governmental regulations, could cause our food and supply costs to increase. We cannot predict whether we will be able to anticipate and react to changing food and supply costs by adjusting our purchasing practices. A failure to do so could adversely affect our operating results and cash flows.

Changes in consumer preferences or discretionary consumer spending could negatively impact our results.

Our Retail Cafés, Delivery/Catering and Wholesale services feature various types of organic foods and beverages. Our continued success depends, in part, upon the popularity of these foods in the future. Shifts in consumer preferences away from this cuisine could materially adversely affect our future profitability. Also, our success depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce customer traffic or impose practical limits on pricing, either of which could materially adversely affect our business, financial condition, operating results or cash flows. We can also be materially adversely affected by negative publicity concerning food quality, illness, injury, publication of government or industry findings concerning food products served by us, or other health concerns or operating issues stemming from our operations.

Our industry is affected by litigation and publicity concerning food quality, health and other issues which can cause customers to avoid our cafés and result in liabilities.

We could become the subject of complaints or litigation from customers or employees alleging illness, injury or other food quality, health or operational concerns. Adverse publicity resulting from these allegations may materially adversely affect us and our Retail Cafés, Delivery/Catering and Wholesale operations, regardless of whether the allegations are valid or whether we are liable.

Our operations are subject to governmental regulation associated with the food service industry, the operation and enforcement of which may restrict our ability to carry on our business.

We are in the perishable food industry. The development, manufacture and marketing of products sold by us will be subject to extensive regulation by various government agencies, including the U.S. Food and Drug Administration and the U.S. Federal Trade Commission, as well as various state and local agencies. These agencies regulate production processes, product attributes, packaging, labeling, advertising, storage and distribution. These agencies establish and enforce standards for safety, purity and labeling. In addition, other governmental agencies (including the U.S. Occupational Safety and Health Administration), establish and enforce health and safety standards and regulations in the workplace, including those in our retail locations. Our retail locations will be subject to inspection by federal, state, and local authorities. We will seek to comply at all times with all such laws and regulations. We will obtain and maintain all

necessary permits and licenses relating to our operations, and will ensure that our facilities and practices comply with applicable governmental laws and regulations. Nevertheless, there is no guarantee that we will be able to comply with any future laws and regulations. Our failure to comply with applicable laws and regulations could subject us to civil remedies including fines, injunctions, recalls or seizures as well as potential criminal sanctions. As a result of such regulations we may encounter a variety of difficulties or extensive costs, which could delay or preclude us from marketing our products or continuing or expanding our operations. We cannot predict if all necessary approvals will be granted or that if granted, any approval will be received on a timely basis. If approvals are not obtained or are delayed, this may also preclude us from marketing our products or continuing or expanding our operations.

All of our operations are currently located in Washington and California. As a result, we are highly sensitive to negative occurrences in those two states.

We are particularly susceptible to adverse trends and economic conditions in the States of Washington and California, including in their labor markets. In addition, given our geographic concentration, negative publicity regarding any of our operations in the States of Washington or California could have a material adverse effect on our business and operations, as could other regional occurrences such as local strikes, earthquakes or other natural disasters.

Past activities of Old SP Holding and its affiliates may lead to future liability for the combined companies.

Prior to the Merger, Old SP Holding engaged in businesses unrelated to that of our new operations. Any liabilities relating to such prior business may have a material adverse effect on us.

Our inability to register the shares of SP d/b/a Organic Common Stock issued in the Private Placement could significantly adversely affect our liquidity and our operations

Pursuant to the Subscription Agreements, SP d/b/a Organic agreed to register for public re-sale the shares of SP d/b/a Organic Common Stock underlying the Units and the shares of SP d/b/a Organic Common Stock issuable to each Investor and the Placement Agent pursuant to the exercise of the SP d/b/a Organic Warrants and the Placement Agent Warrants. SP d/b/a Organic may be required to pay a penalty to the Investors, with the maximum amount of the penalty capped at 24.0% of the amount raised pursuant to the Private Placement, if SP d/b/a Organic fails to have a registration statement with respect to the shares of SP d/b/a Organic Common Stock issued to the Investors (including the shares underlying the SP d/b/a Organic Warrants) pursuant to the Private Placement filed with the SEC within 90 days after the closing of the Private Placement or if SP d/b/a Organic fails to have such registration statement declared effective with respect to the shares of SP d/b/a Organic Common Stock issued to the Investors (excluding, however, the shares underlying the SP d/b/a Organic Warrants) within 150 days after the filing of such registration statement with the SEC.

Risks Relating to Ownership of SP d/b/a Organic Common Stock and Warrants

Our operation as a public company subjects us to evolving corporate governance and public disclosure regulations that will result in additional expenses and continuing uncertainty regarding the application of such regulations.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company prior to the Merger. We will incur costs associated with our public company reporting requirements. We also anticipate that we will incur costs associated with recently adopted corporate governance requirements, including certain requirements under the Sarbanes-Oxley Act of 2002, as well as new rules implemented by the SEC and the National Association of Securities Dealers (NASD). We expect these rules and regulations, in particular Section 404 of the Sarbanes-Oxley Act of 2002, to significantly increase our legal and financial compliance costs and to make some activities more time-consuming and costly. Like many smaller public companies, we face a significant impact from required compliance with Section 404 of the Sarbanes-Oxley Act of 2002. Section 404 requires management of public companies to evaluate the effectiveness of internal control over financial reporting and the independent auditors to attest to the effectiveness of such internal controls and the evaluation performed by management. The SEC has adopted rules implementing Section 404 for public companies as well as disclosure requirements. The Public Company Accounting Oversight Board, or PCAOB, has adopted documentation and attestation standards that the independent auditors must follow in conducting its attestation under Section 404. We are currently preparing for compliance with Section 404; however, there can be no assurance that we will be able to effectively meet all of the requirements of Section 404 as currently known to us in the currently mandated timeframe. Any failure to implement effectively new or improved internal controls, or to resolve difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet reporting obligations or result in management being required to give a qualified assessment of our internal controls over financial reporting or our independent auditors providing an adverse opinion regarding management's assessment. Any such result could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

We also expect these new rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our Board of Directors or as executive officers. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

If we fail to maintain the adequacy of our internal controls, our ability to provide accurate financial statements and comply with the requirements of the Sarbanes-Oxley Act of 2002 could be impaired, which could cause our stock price to decrease substantially.

Prior to the Merger, because we operated as a private company without public reporting obligations, we had committed limited personnel and resources to the development of the external reporting and compliance obligations that would be required of a public company. We have taken and will continue to take measures to address and improve our financial reporting and compliance capabilities and we are in the process of instituting changes to satisfy our obligations in connection with joining a public company, when and as such requirements become applicable

to us. Prior to taking these measures, we did not believe we had the resources and capabilities to do so. We plan to obtain additional financial and accounting resources to support and enhance our ability to meet the requirements of being a public company. We will need to continue to improve our financial and managerial controls, reporting systems and procedures, and documentation thereof. If our financial and managerial controls, reporting systems or procedures fail, we may not be able to provide accurate financial statements on a timely basis or comply with the Sarbanes-Oxley Act of 2002 as it applies to us. Any failure of our internal controls or our ability to provide accurate financial statements could cause the trading price of SP d/b/a Organic Common Stock to decrease substantially.

The market price of SP d/b/a Organic Common Stock may be highly volatile.

The market price of the SP d/b/a Organic Common Stock may fluctuate significantly in response to factors, some of which are beyond our control, such as the announcement of new products or services by us or our competitors, quarterly variations in our and our competitors' results of operations, changes in earnings estimates or recommendations by securities analysts, developments in our industry, and general market conditions and other factors, including factors unrelated to our own operating performance or the condition or prospects of our industry.

Further, the stock market in general, and securities of small-cap companies in particular, have recently experienced extreme price and volume fluctuations. Continued market fluctuations could result in extreme volatility in the price of the SP d/b/a Organic Common Stock, which could cause a decline in the value of the SP d/b/a Organic Common Stock. You should also be aware that price volatility might be worse if the trading volume of the SP d/b/a Organic Common Stock is low.

Although SP d/b/a Organic Common Stock is currently quoted on the Over-The-Counter Bulletin Board (OTCBB), trading may be extremely sporadic. There can be no assurance that a more active market for SP d/b/a Organic Common Stock will develop. Accordingly, Investors must assume they may have to bear the economic risk of an investment in the Units for an indefinite period of time.

Management may apply the proceeds of the Private Placement to uses for which Investors may disagree.

Our management will have considerable discretion in using the proceeds of the Private Placement, and Investors will not have an opportunity, as part of their investment decision, to assess whether the proceeds are being used appropriately. The proceeds may be used for corporate purposes with which investors may disagree.

There are restrictions on the transferability of the SP d/b/a Organic Common Stock and the SP d/b/a Organic Common Stock underlying the Warrants.

The Units issued pursuant to the Private Placement were not registered pursuant to the Securities Act. We have agreed to undertake to register the shares of SP d/b/a Organic Common Stock and the shares of SP d/b/a Organic Common Stock underlying the Warrants contained in the Units. If we desire, we may permit the transfer of the securities out of a purchaser's name only when its request for transfer is accompanied by an opinion of counsel reasonably satisfactory to us that the sale or proposed transfer will not result in a violation of the Securities Act or any applicable state securities or Blue Sky laws.

We cannot assure you that the SP d/b/a Organic Common Stock will become liquid or that it will be listed on a securities exchange.

We intend to seek to have SP d/b/a Organic Common Stock listed on the American Stock Exchange or the NASDAQ Capital Market as soon as practicable. However, we cannot assure you that we will be able to meet the initial listing standards of either of those or of any other stock exchange, or that it will be able to maintain any such listing. Until such time, if ever, that SP d/b/a Organic Common Stock is listed on an exchange, we expect that it would be eligible to be quoted on the OTC Bulletin Board. In addition, if we failed to meet the criteria set forth in the SEC regulations, various requirements would be imposed by law on broker-dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling the SP d/b/a Organic Common Stock, which may further affect its liquidity and make it more difficult for us to raise additional capital.

We have not and do not intend to pay any dividends.

No assurance can be given that our proposed operations will be profitable. No dividends have been paid by Organic since inception and the payment of dividends is not contemplated in the foreseeable future. The payment of future dividends will be directly dependent upon our earnings, its financial needs and other similarly unpredictable factors. Earnings are expected to be retained to finance and develop our business.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion and analysis of the results of operations and financial condition of Organic for the nine months ended September 30, 2006 and 2005 and the fiscal years ended December 31, 2005 should be read in conjunction with our financial statements and the notes to those financial statements that are included elsewhere in this Form 8-K. References in this Management's Discussion and Analysis or Plan of Operations to us, we, our, and similar terms refers to Organic, the operating business of SP d/b/a Organic after the consummation of the Merger. This discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Words such as anticipate, estimate, plan, continuing, ongoing, expect, believe, intend, may, will, should, could, and similar expressions are used to identify forward-looking statements.

Overview

We were incorporated in the state of Delaware on February 12, 2004. We provide convenient retail and delivery store locations, which prepare and serve grab and go lunch, dinner, and breakfast foods and beverages prepared using organic ingredients, whenever possible. We also distribute our products through select wholesale accounts. At September 30, 2006, we operated five Retail Cafés in Washington and seven Retail Cafés in California. In October 2006, we expanded our catering operations in the California area by acquiring the assets of a catering operation headquartered in Los Angeles, California.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported net sales and expenses during the reporting periods. On an ongoing basis, estimates and assumptions are evaluated. Estimates are based on historical experience and on various other factors believed reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. A summary of significant accounting policies is presented in Note 1 to our financial statements elsewhere in this Current Report on Form 8-K. The following accounting policies are considered the more critical to aid in understanding and evaluating our results of operations and financial condition.

Basis of presentation and Going Concern

Our financial statements have been prepared in conformity with generally accepted accounting principles, which contemplates our continuation as a going concern. We have reported recurring losses and cash used by operating activities, and have a net working capital deficiency that raises substantial doubt about our ability to continue as a going concern. The Report of Independent Registered Public Accounting Firm included in our December 31, 2005 financial statements stated that these conditions, among others, raise substantial doubt about our ability to continue as a going concern. During the year ended December 31, 2005, we reported a net loss of approximately \$5.7 million and used cash in operating activities of approximately \$3.4 million. During the nine months ended September 30, 2006, we reported a net loss of approximately \$4.6 million and used cash in operating activities of approximately \$3.6 million. As of September 30, 2006, we had a working capital deficiency of approximately \$3.4 million and total stockholders' deficit of \$1.7 million, which includes accumulated losses from inception of \$11.1 million.

Our management intends to raise additional debt and equity financing to fund future capital expenditures, operations and to provide additional working capital. In this regard during 2006 through September 30, 2006, we raised approximately \$5.0 million pursuant to sales of debt and equity securities in connection with private placements and subordinated debt offerings. Further, subsequent to September 30, 2006, we have raised in excess of \$4.0 million in connection with these and other offerings, and we continue to be engaged in additional fund-raising activities. There is no assurance that such financing will be obtained in sufficient amounts necessary to meet our needs. In view of these matters, continuation as a going concern is dependent upon our ability to meet our financing requirements, raise additional capital, and the success of our future operations or completion of a successful business combination.

Our financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from our possible inability to continue as a going concern.

Use of estimates

In preparing of the financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of sales and expenses during the reporting years. The more significant accounting estimates inherent in the preparation of our financial statements include estimates as to the depreciable lives of property and equipment, valuation of inventories, valuation of equity related instruments issued, and valuation allowance for deferred income tax assets. Actual results could differ from those estimates.

Inventory

Inventory, which consists primarily of food, beverages and packaging products, is stated at the lower of cost or market. Cost is determined on a first-in, first out basis. In assessing the ultimate realization of inventories, our management makes judgments as to future demand requirements compared to current inventory levels.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Impairment of long-lived assets would be recognized in the event that the net book values of such assets exceed the future undiscounted cashflows attributable to such assets. No impairment of long-lived assets was recognized for any of the periods presented.

Fair value of financial instruments

We measure our financial assets and liabilities in accordance with generally accepted accounting principles. For certain of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate fair value due to their short maturities. Amounts recorded for notes payable also approximate fair value because current interest rates offered to us for debt of similar maturities are substantially the same.

Intangible assets

In conjunction with the acquisition of certain store assets acquired in April 2005, we acquired certain leasehold interests and other intangible assets. The leasehold interests are being amortized over the lives of the leases and the other intangible assets were fully amortized during the year ended December 31, 2005.

Revenue recognition

Revenues are recognized at the point of sale at retail locations or upon delivery of the product for delivery and wholesale transactions.

Income taxes

We account for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes, which requires recognition of deferred tax assets and liabilities for expected future tax consequences of events that have been included in financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts expected to be realized. We continue to provide a full valuation allowance to reduce its net deferred tax asset to zero, inasmuch as our management has not determined that realization of deferred tax assets is more likely than not. The provision for income taxes represents the tax payable for the period and change during the period in net deferred tax assets and liabilities.

Stock-based compensation

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We have adopted the fair value based method of accounting under SFAS No. 123 for stock-based compensation for stock issued to employees and consultants for compensation. Prior to 2006, no stock options were granted.

We account for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Task Force Issue No. 96-18, Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services. Compensation expense related to equity instruments issued to non-employees is recognized as the equity instruments vest.

In December 2004, the FASB released a revision to Statement of Financial Accounting Standard (SFAS) No. 123, Accounting for Stock-Based Compensation (FAS 123R). FAS 123R sets forth the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The statement eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, Accounting for Stock Issued to Employees, and generally requires instead that such transactions be accounted for using a fair-value-based method, which requires recording an expense over the requisite service period for the fair value of all options or warrants granted to employees and consultants. We adopted FAS 123R effective beginning January 1, 2006.

Results of Operations

Comparison of Years Ended December 31, 2005 and December 31, 2004.

We commenced operations in 2004, having incorporated in February 2004, and at December 31, 2004 operated one Retail Café. In April 2005, we acquired certain assets and operations of 12 Retail Cafés. At December 31, 2005, we operated 12 Retail Cafés and had significantly expanded our catering and wholesale businesses. As a result, comparisons of operating results for the years ended December 31, 2005 and 2004 are not considered to be significantly meaningful and relevant. Accordingly, the discussion of operating results has been revised accordingly.

Sales Sales for the year ended December 31, 2005 were \$6,121,000, comprised of retail sales of \$4,513,000, catering sales of \$1,081,000 and wholesale sales of \$527,000, representing 74%, 18% and 8%, respectively of total sales. Substantially all of 2005 sales occurred subsequent to the April acquisition of 12 Retail Cafés. Catering sales as a percent of total sales increased quarter over quarter during 2005.

Cost of sales -Cost of