

SP Holding CORP
Form 10KSB
April 02, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-KSB

(Mark one)

Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2006

or

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 0-21061

SP HOLDING CORPORATION
(Name of small business issuer in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

58-2044990
(I.R.S. Employer
Identification No.)

**3317 Third Avenue South, Seattle,
Washington**
(Address of principal executive offices)

98134
(Zip Code)

Issuer's telephone number: (206) 838-4670

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$0.001 par value

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Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

State issuer's revenues for its most recent fiscal year: \$9,663,000.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing sale price of the common stock on March 28, 2007, was \$52,181,411.60. Shares of common stock held by officers, directors and by each person that owns more than 5% of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes.

The number of shares outstanding of registrant's common stock, \$0.001 par value at March 28, 2007, was 19,912,664 shares.

Transitional Small Business Disclosure Format (check one): Yes No

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PART I

FORWARD LOOKING STATEMENTS

You should read the following discussion in conjunction with our audited financial statements and the notes thereto that appear elsewhere in this Annual Report on Form 10-KSB. The following discussion contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") which involve risks and uncertainties. Forward-looking statements generally include words such as "anticipate," "estimate," "plan," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," and "should," import as well as the negative of those terms. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. All forward-looking statements included in this Annual Report on Form 10-KSB are based on current expectations and are subject to important factors that could cause actual results to differ materially from those projected in the forward-looking statements. Such important factors include, but are not limited to, those discussed below under "Risk Factors" and elsewhere in this Annual Report and in other documents we file with the Securities and Exchange Commission (the "SEC").

Item 1. Description of Business

Our Company

We were incorporated in Florida on March 16, 1994 and reincorporated in Delaware on September 26, 2000. For the years ended December 31, 2006, 2005 and 2004, we were a non-operating shell company and our business operations were limited to sustaining a public shell vehicle.

On February 12, 2007, we acquired Organic Holding Company, Inc., an organic food services company, through a reverse merger with our wholly owned subsidiary. As a result of the merger, Organic Holding Company, Inc. became our wholly owned subsidiary and was renamed "Organic To Go, Inc." In connection with the merger, we issued the following securities to the security holders of Organic Holding Company, Inc.:

- 8,633,765 shares of our common stock in exchange for 12,372,712 shares of Organic Holding Company, Inc. common stock and preferred stock;
- options to purchase an aggregate of 718,337 shares of our common stock in exchange for options to purchase an aggregate of 1,029,432 shares of Organic Holding Company, Inc. common stock;
- warrants to purchase an aggregate of 2,215,746 shares of our common stock in exchange for warrants to purchase an aggregate of 3,175,356 shares of Organic Holding Company, Inc. capital stock; and
- 115,731 units, comprised of an aggregate of 4,629,240 shares of our common stock and warrants to purchase 925,848 shares of our common stock in exchange for certain Organic Holding Company, Inc. bridge notes.

Concurrently with the closing of the merger, we completed a private placement of 138 units at \$50,000 per unit and received aggregate gross proceeds of approximately \$6.9 million. In total, we issued an aggregate of 5,523,000 shares of our common stock and warrants to purchase an aggregate of 1,104,600 shares of our common stock pursuant to the offering. We also issued warrants to purchase 888,899 shares of common stock to the placement agents in the offering.

Additionally, in connection with the merger and private placement:

- Mr. Mark Schaftlein resigned as our sole officer and director;
- Mr. Jason Brown was appointed as our Chairman and Chief Executive Officer;
- Mr. Jonathan Wernick was appointed as our Chief Financial Officer; and
- Messrs. Jason Brown, Dave Smith, Peter Meehan, Roy Bingham, Douglass Lioon and S.M. “Haas” Hassan were appointed as members of our Board of Directors.

Additional information regarding our officers and directors is set forth in Part III of this Annual Report.

Our principal executive offices are located at 3317 Third Avenue South, Seattle, Washington 98134 and our telephone number is (206) 838-4670.

In the following discussion of this Item 1 entitled “Description of Business,” unless otherwise noted or required by the context, references to “us,” “we,” “our,” and similar terms refer to Organic Holding Company, Inc. prior to the merger, and to SP Holding Corporation and Organic To Go, Inc. subsequent to the merger.

Overview

We prepare and serve classic American cuisine with a unique difference—we use organic ingredients when possible and always natural ingredients without pesticides and other harmful additives. Customers can get our food at our convenient Retail Cafés, through our Delivery/Casual Catering Services and at specific locations where our “grab-and-go” meals are sold via a wholesale relationship. Our target customers are white collar office workers as well as students and employees of colleges and universities. We currently maintain four Retail Cafés in downtown Seattle, Washington, one in Bellevue, Washington, four in Los Angeles, California and three 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 seven universities in the Seattle, Washington and Los Angeles, California areas, including the University of Washington Medical Center, the University of Southern California and the University of California, Los Angeles.

Our Product

We provide a delicious and healthy alternative to typical fast food options, lunch box deliveries and casual catering. We serve a wide range of organic, natural and wholesome meals, which include everything from ham and cheese sandwiches to deli-style roast beef sandwiches and veggie packed salads. We proactively source producers and manufacturers who use sustainable farming and/or production practices as an integral part of our overall mission to provide wholesome “clean” food from farm to table. We also use alternative packaging such as biodegradable and recycled plastics, and sugar cane based disposable tableware to minimize the environmental impact of convenience packaging for “grab-and-go” meals.

We offer packaged and private label food products prepared using specifications from key vendors and deliver them directly to our Retail Café and Delivery/Casual Catering Services customers. We prepare or assemble our products at one of two assembly kitchens, Seattle, Washington and Los Angeles, California. Orders that we take via the Internet or by telephone are routed to dedicated customer service centers in Seattle and Los Angeles and are processed in real time. While less than 15% of the orders placed are for “same day” delivery, there is a growing need for this service, thus

we are increasing our ability to provide increased "same day" delivery, particularly to businesses in proximity to our Retail Cafés. Our Retail Cafés operate Monday through Friday from 7:00 a.m. to 4:30 p.m. We provide delivery and catering services after-hours and on weekends.

More than 70% of our products currently offered are organic. Our goal by the end of 2007 is to be 100% organic with respect to all of our products that “Organic Certification” is available (Organic Certification is not available for all foods, such as water). In February 2006, we became the first fast-casual restaurant and retailer to be USDA certified as “Organic” by Quality Assurance International, the leading third-party certification agency in the organic foods industry.

Business Channels

We offer our food products through three primary business channels or units: Retail Cafés; Delivery/Casual Catering Services; and Wholesale, which accounted for approximately 55%, 35% and 10%, of our total sales, respectively, in 2006. Our core customer base consists of “white collar” workers and college students and employees.

Retail Cafés

We currently operate 12 cafés in Seattle and Bellevue, 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

We also distribute our products through delivery and catering services. 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. Current Wholesale customers include the University of California, Los Angeles, 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.

Industry Overview and Market Opportunity

While the growth and popularity of natural and organic foods has been evident with the rise of grocery stores that sell organic products, such as Whole Foods Market, Wild Oats and Trader Joe’s, the food service side of the industry has not been as developed. We believe that we are one of the first companies to provide services in this area of growing consumer demand.

According to the Organic Trade Association’s 2006 Manufacturer 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% to 21% per year.

The OTA 2006 Survey also estimated that the use of organic products in the United States 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%.

Competition

We are in competition with other food service operations within the same geographical areas in which we operate. The Retail Cafés, Delivery/Casual Catering Services and Wholesale business channels are highly competitive. Some of our competitors are significantly larger than us and have greater access to resources. We compete with other organizations primarily through the quality, variety and value perception of the 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.

Expansion Plans

We intend to grow internally and through acquisitions by adding catering companies and café locations that are consistent with our core business focus. In each of the markets where we operate, we plan to take advantage of our scalability and acquire local catering companies with strong ties to the region's corporate community. We also intend to work closely with landlords and property managers to upgrade the amenities they offer in their buildings by making our Delivery/Casual Catering Services and food products available to their tenants. There can be no assurance, however, that we will acquire or open only at such additional café locations or catering companies.

Recent Acquisitions

Acquisition of Jackrabbit

On March 9, 2007, we acquired Jackrabbit, a Seattle-based catering company that generated approximately \$1.85 million in revenue in 2006. Jackrabbit has been serving downtown Seattle businesses since 1996 with premium box lunches and casual catering.

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," for a purchase price of \$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. for \$1.35 million, comprised of \$750,000 in cash and \$600,000 in notes convertible into Organic Holding Company, Inc. 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 market and 6 Retail Cafés in the Los Angeles and Orange County markets, as well as certain catering contracts.

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. Sysco Food Service and United Natural Foods West, Inc. are our two principal suppliers 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 agencies have adopted regulations that 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 March 27, 2007, we had a workforce of approximately 238 employees, consisting of 220 full-time and 18 part-time employees. None of our employees are represented by a collective bargaining agreement, nor have we experienced any work stoppages.

Trademark and Website

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

RISK FACTORS

You should consider carefully the risks described below, together with all of the other information in this Annual Report, in evaluating our company, our business and our common stock. If any of the following risks actually occur, our business, financial condition, and results of operations could suffer. In this case, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Company

Our limited operating history makes evaluation of our company difficult.

Our current business operations began in February 2004 and as a result, we have 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 our common stock to decline.

We believe that our sales and operating results may 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/Casual Catering Services 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/Casual Catering Services 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 our common stock could significantly decline.

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

We may not be able to achieve our expansion goals or operate our new Retail Cafés, Delivery/Casual Catering Services and Wholesale operations profitably. Further, any new Retail Café, Delivery/Casual Catering Services or Wholesale operation we open may not be able obtain similar operating results to those of our existing 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/Casual Catering Services and Wholesale operations;
- management of construction and development costs of Retail Café, Delivery/Casual Catering Services 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/Casual Catering Services and Wholesale operations.

One of our biggest challenges in meeting our growth objectives will be to secure suitable sites for our Retail Café, Delivery/Casual Catering Services and Wholesale operations. We may not be able to procure suitable locations for our planned expansion in any future period. Delays or failures in opening new Retail Cafés or in expanding our Delivery/Casual Catering Services 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 may 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 could face labor shortages that 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/Casual Catering Services and Wholesale operations. Any such delays or any material increases in employee turnover rates in existing Retail Cafés and in our Delivery/Casual Catering Services 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/Casual Catering Services 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 is a risk that we will not be successful in operating our new Retail Cafés, Delivery/Casual Catering Services 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/Casual Catering Services 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 face the risk that our existing systems and procedures, financial controls and information systems will be inadequate to support our planned expansion. We may not be able to accurately 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.

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, supply shortages, local economic conditions, consumer preferences, earthquakes or other natural disasters.

Our operation as a public company subjects us to evolving corporate governance and public disclosure regulations that will result in additional expenses and liability exposures.

As a public company, we will incur significant legal, accounting and other expenses that non-public companies may not incur. 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. We expect these rules and regulations, in particular Section 404 of the Sarbanes-Oxley Act of 2002, to increase significantly 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 meet effectively all of the requirements of Section 404 as 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 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 rules, and it is difficult to 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.

Our current management was previously the management of our operating subsidiary, Organic To Go, Inc., which we acquired in a reverse merger on February 12, 2007. Prior to that time, our subsidiary was a private company without public reporting obligations. As a result, prior to the merger, our management 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 being 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 our common stock to decrease substantially.

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 and Chairman, could significantly impact our ability to operate and grow and could cause performance to differ materially from projected results. We have a \$2 million “key man” insurance policy covering Mr. Brown.

Our past activities prior to our merger with Organic Holding Company, Inc., may lead to future liability for the combined companies.

Prior to February 12, 2007, we were engaged in businesses and were managed by parties unrelated to that of our new operations. Any liabilities relating to such prior business may have a material adverse effect on us.

Risks Related to Our Industry

We operate in a highly competitive industry where many of our competitors are larger and have more resources than us.

We operate in a highly competitive environment. Many of our competitors are substantially larger than us in terms of resources and market share. As a result, many of our competitors offer products and services at a lower cost to consumers. Our success will depend to a significant extent on our ability to continue to develop and introduce differentiated products and services and deliver them to consumers in a widespread, convenient and cost-effective manner. The success of our products and services is dependent on several factors including understanding consumer needs, differentiation from competitive offerings, market acceptance and lower costs. Although we believe that we can take the necessary steps to meet the competitive challenges of the marketplaces in which we operate, we may not be successful in differentiating our products and services from those of our competitors or meeting consumer demand.

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 may not be able to anticipate and react to changing food and supply costs by adjusting our purchasing practices in a timely fashion. 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/Casual Catering Services and Wholesale operations 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/Casual Catering Services 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. Although we intend to comply at all times with all such laws and regulations, including obtaining and maintaining all necessary permits and licenses relating to our operations, there is a risk that we may not be able to comply with such laws and regulations on a timely basis, or at all. 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. In addition, compliance or attempted compliance with governmental laws and regulations may result in significant time or cost expenditures, which could delay or preclude us from marketing our products or continuing or expanding our operations.

Risks Relating to Ownership of Our Common Stock

The market price of our common stock may be highly volatile.

The market price of our common stock may fluctuate significantly in response to factors, most 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 our common stock, which could cause a decline in its value. You should also be aware that price volatility might be worse if the trading volume of our common stock is low.

Although our common stock is currently quoted on the Over-The-Counter Bulletin Board, trading may be extremely sporadic. A more active market for our common stock may not develop. Accordingly, you may have to bear the economic risk of an investment in our common stock indefinitely.

We may not be able to list our common stock on a securities exchange.

We intend to seek to have our common stock listed on the American Stock Exchange or the NASDAQ Stock Market as soon as practicable. However, we may not be able to initially meet or maintain the listing standards of either of those or any other stock exchange. In addition, if we fail to meet the listing standards set forth by SEC regulations, various requirements may be imposed on broker-dealers who sell our securities to persons other than established customers and accredited investors. These requirements may deter broker-dealers from recommending or selling our common stock, which may further affect its liquidity and make it more difficult for us to raise additional capital.

We have a substantial number of convertible securities outstanding, which, if fully exercised, could require us to issue a significant number of shares of our common stock and result in substantial dilution to existing stockholders.

As of March 28, 2007, we had outstanding options and warrants to purchase up to 1,965,179 and 5,135,093 shares of common stock, respectively. In the event these securities are exercised, you could suffer substantial dilution in terms of your percentage ownership in us as well as the book value of your common stock.

A large number of additional shares may be sold into the public market in the near future, which may cause the market price of our common stock to decline significantly, even if our business is doing well.

Sales of a substantial amount of common stock in the public market, or the perception that these sales may occur, could adversely affect the market price of our common stock. On a fully diluted basis, we had 27,012,936 shares of common stock outstanding as of March 28, 2007. If these shares of common stock are registered or otherwise become eligible for public sale, the market price of our common stock could decline significantly.

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

Our current management has not paid dividends in the past and does not plan to pay dividends in the near future. We expect to retain earnings to finance and develop our business. In addition, the payment of future dividends will be directly dependent upon our earnings, our financial needs and other similarly unpredictable factors.

Item 2. Description of Property

Our principal executive offices are located at 3317 Third Avenue South, Seattle, Washington 98134. This facility consists of approximately 13,500 square feet of office space pursuant to a lease that expires on December 31, 2011.

We lease space for our retail properties as 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. We believe that the condition of all of the properties we lease are generally adequate for their respective purposes.

Item 3. Legal Proceedings

On October 18, 2006, Susana Chi, a former employee of Organic Holding Company, Inc., 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 defend vigorously 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.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote by security holders during the fourth quarter ended December 31, 2006.

PART II**Item 5. Market for Common Equity and Related Stockholder Matters****Market for Common Equity**

Our common stock is traded on the Over-The-Counter Bulletin Board under the symbol "SPHG.OB." We intend to apply for a new trading symbol in the near future, however we can provide no assurance that we will be successful in obtaining a new trading symbol.

The following table sets forth, for the periods indicated, the reported high and low closing bid quotations for our common stock as reported on the Over-The-Counter Bulletin Board. The bid prices reflect inter-dealer quotations, do not include retail markups, markdowns or commissions and do not necessarily reflect actual transactions.

Quarter Ended	High Bid (\$)	Low Bid (\$)
March 31, 2005	9.30	4.50
June 30, 2005	6.90	3.30
September 30, 2005	6.00	3.00
December 31, 2005	7.50	2.00
March 31, 2006	6.00	3.50
June 30, 2006	5.03	3.00
September 30, 2006	3.25	3.25
December 31, 2006	3.25	2.00

Holders

As of March 28, 2007, there were approximately 202 holders of record of our common stock.

Dividend Policy

We did not pay any dividends in the periods indicated in the above table. We do not intend to pay cash dividends in the foreseeable future. We intend to retain earnings, if any, for future operation and expansion. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our Board of Directors may deem relevant.

Recent Sales of Unregistered Securities

In December 2006, we issued .8444 shares of Series A Preferred Stock to a consultant in consideration for the settlement of \$7,600 of debt. This issuance of the securities was exempt from registration pursuant to Section 4(2) of the Securities Act.

Additional information regarding our recent sales of unregistered securities has been included in our filings made with the SEC.

Item 6. Management's Discussion and Analysis or Plan of Operation

The following discussion and analysis of the results of operations and financial condition of Organic Holding Company, Inc. for the years ended December 31, 2006 and 2005 should be read in conjunction with our financial statements and the notes to those financial statements that are included elsewhere in this Form 10-KSB. 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" expressions are used to identify forward-looking statements.

Overview

Organization and Business

Organic Holding Company, Inc., d/b/a Organic To Go, whose name was changed to Organic To Go, Inc. effective February 27, 2007, was incorporated in the state of Delaware in February 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 December 31, 2006, we operated five stores in Washington and seven stores 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.

Reverse Merger with Public Shell Company in February 2007

Pursuant to terms of an Agreement and Plan of Merger and Reorganization by and among the SP Holding Corporation, Organic Acquisition Corporation and Organic Holding Company, Inc. on February 12, 2007, all of the outstanding shares of common and preferred stock of Organic Holding Company, Inc. were exchanged for shares of SP Holding Corporation common stock as determined by multiplying each such outstanding share of Organic Holding Company, Inc. stock by an exchange ratio of 0.69781 (the "Exchange Ratio"). In addition, convertible promissory bridge notes of Organic Holding Company, Inc. approximating \$5.8 million automatically converted into SP Holding Corporation common stock. As a result, among other things, Organic Holding Company, Inc. became a wholly-owned subsidiary of SP Holding Corporation. Outstanding options, warrants and purchase rights of Organic Holding Company, Inc. were converted into options, warrants and purchase rights to purchase shares of SP Holding Corporation common stock in accordance with the Exchange Ratio. The closing of the merger was conditioned upon the closing a private placement offering of a minimum of eighty units (the "Units") at a purchase price of \$50,000 per Unit for \$4 million, with the option to offer additional Units. Each Unit consists of (i) 40,000 shares of SP Holding Corporation common stock, and (ii) a warrant to purchase 8,000 shares of SP Holding Corporation common stock. Each warrant entitles the holder thereof to purchase shares of SP Holding Corporation common stock at an exercise price of \$2.50 per share and is exercisable for a period of five years from the date of issuance. The consummation of the merger occurred concurrently with the completion of a private placement of 138 Units, for an aggregate of approximately \$6.9 million. Prior to the merger, SP Holding Corporation was a non-operating "public shell" company.

From an accounting perspective, the merger transaction is considered a recapitalization of Organic Holding Company, Inc. accompanied by the issuance of securities by Organic Holding Company, Inc. for the net liabilities of SP Holding Corporation, as a result of SP Holding Corporation not having operations immediately prior to the merger. After the merger and the private placement, former SP Holding Corporation stockholders own approximately 5% of our common stock, and former Organic Holding Company, Inc. stockholders and convertible bridge note holders own approximately 70% of our common stock. Our Board of Directors and executive officers are comprised of former directors and executive officers of Organic Holding Company, Inc.

The merger transaction is accounted for as a capital transaction rather than as a business combination, because the transaction is equivalent to the issuance of securities by Organic Holding Company, Inc. for the net liabilities of SP Holding Corporation, accompanied by a recapitalization. The accounting is identical to that resulting from a reverse acquisition, except that no goodwill or other intangibles are recorded. Unless otherwise indicated, all share and per share information presented and disclosed has been adjusted in accordance with the Exchange Ratio.

Basis of Presentation and Liquidity

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate our continuation as a going concern. We have reported recurring losses and cash used by operating activities, and at December 31, 2006 have a net working capital deficiency and stockholders' deficit that could raise doubt about our ability to continue as a going concern. Since our inception, we have funded operations and business development and growth through debt and equity financings. In this regard, during 2006 we raised approximately \$8.1 million pursuant to sales of debt and equity securities in connection with our private placement and subordinated debt offerings. Further, subsequent to December 31, 2006, proceeds of approximately \$6.9 million were received from the sale of equity securities in connection with the merger and private placement, and approximately \$5.8 million of notes payable has been converted into shares of common stock. While we plan to become profitable during the second half of 2007, our management intends to continue to be engaged in additional fund-raising activities to fund future capital expenditures, potential acquisitions of businesses and provide additional working capital. We anticipate having sufficient working capital in place for the next 12 months to continue operations. The accompanying 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 could result should we not continue as a going concern.

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 Form 10-KSB. The following accounting policies are considered the more critical to aid in understanding and evaluating our results of operations and financial condition.

Use of Estimates

In preparing 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 revenues and expenses during the reporting years. Actual results could differ from those estimates. 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.

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 connection with the acquisition of certain store assets in April 2005, we acquired certain leasehold interests and other intangible assets. Leasehold interests are being amortized over the 1 to 4 year lives of the leases and the other intangible assets were fully amortized during the year ended December 31, 2005. In connection with the acquisition in October 2006 of certain assets of a catering business, we acquired certain identifiable intangible assets including customer-based intangibles and a covenant not to compete received from the sellers. Amounts allocated to intangible assets were identified by management and have been valued on a number of factors based upon preliminary estimates. The estimate of useful lives of each intangible asset was based on an analysis by management of all pertinent factors, and selected an estimated useful life of two years for each identifiable intangible asset.

Revenue Recognition

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

Cost of Sales

Cost of sales includes the cost of food and paper products.

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 in order to reduce our 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 to 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.

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 SFAS No. 123 (revised 2004), "Share Based Payment" ("SFAS 123R"). SFAS 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 SFAS 123R effective beginning January 1, 2006.

Results of Operations

Sales

Sales for 2006 increased approximately 58%, to \$9.7 million, as compared to \$6.1 million for 2005. Retail sales were \$5.2 million during 2006, an increase of 16% over \$4.5 million during 2005. Retail sales comprised 54% of total sales in the 2006 period as compared to 74% in 2005. Delivery/Catering sales were \$3.3 million during 2006, an increase of 207% over \$1.1 million during 2005. Delivery/Catering sales comprised 34% of total sales in the 2006 period as compared to 18% in 2005. Wholesale sales were \$1.1 million during 2006, an increase of 108% over \$527,000 during 2005. Wholesale sales comprised 11% of total sales in 2006 as compared to 9% in 2005. The increases in sales were due in part to having only one store open during the first quarter of 2005, and also to increased business volume. With respect to Delivery/Catering, the increase in 2006 was attributable to increased sales resulting from the acquisition of the Vinaigrette's business.

Cost of Sales

Cost of sales includes the cost of food and paper products. Cost of sales for 2006 increased approximately 25%, to \$4.9 million, as compared to \$3.9 million for 2005. Cost of sales for 2006 approximated 50% as a percent of sales as compared to 64% during 2005. The decrease in cost of sales as a percent of sales was due primarily to decreases in costs in each of Retail, Delivery/Catering and Wholesale sales.

Gross Profit

Gross profit increased approximately 115%, to \$4.8 million for 2006, as compared to \$2.2 million for 2005. Gross profit for 2006 approximated 50% as a percent of sales as compared to 36% during 2005. The increase in gross profit was due primarily to retail and catering sales due to increased sales volumes and increased gross margins during 2006 as compared to 2005.

Operating Expenses

Operating expenses for 2006 increased approximately 46%, to \$10.3 million, as compared to \$7.2 million for 2005. Operating expenses are comprised primarily of labor, and, to a lesser extent, occupancy and utilities, and selling, general and administrative expenses. Operating expenses increased in 2006, as compared to 2005, primarily due to increased labor and related costs as a result of continued growth during the year and preparing for future growth.

Depreciation and Amortization

Depreciation and amortization expense for 2006 increased approximately 91%, to approximately \$1.2 million, as compared to \$630,000 for 2005, due to having more assets in service. Depreciation and amortization for 2006 approximated 12% as a percent of sales as compared to 10% during 2005. Amortization expense includes amortization of leasehold improvements and intangible assets.

Loss from Operations

Loss from operations for 2006, increased to approximately \$6.9 million as compared to \$5.6 million for 2005. The increase in loss from operations is the result of the increase in gross profit of \$2.6 million being offset by the \$3.3 million increase in operating expenses and a \$576,000 increase in depreciation and amortization. Loss from operations for 2006 approximated 71% as a percent of sales as compared to 91% during 2005.

Interest Expense, Net

Interest expense, net for 2006, increased to approximately \$1.1 million from \$78,000 for 2005. The increase was primarily due to increased borrowings in 2006 and related amortization of debt discount and debt issue costs, which resulted in non-cash interest expense of approximately \$687,000.

Net loss

Net loss for 2006 increased approximately \$2.3 million, or approximately 41%, to \$8.0 million as compared to \$5.7 million for 2005. The increase in net loss was due primarily to the increase in gross profit being offset by increases in operating expenses, depreciation and amortization and interest expense. Approximately \$1.6 million of the increase in net loss was attributable to increases in depreciation and amortization and interest expense.

Liquidity and Capital Resources

Since our inception, we have funded operations through financing activities consisting primarily of private placements of debt and equity securities. Our management intends to raise additional debt and equity financing to fund future capital expenditures, operations and to provide additional working capital, and in this regard, during 2006, we have raised approximately \$8.1 million pursuant to sales of debt and equity securities in connection with our 2006 private placement and subordinated debt offerings. Further, subsequent to December 31, 2006, we received aggregate proceeds of approximately \$6.9 million from the sale of equity securities in connection with the merger and private placement, and \$5.8 million of notes payable have been converted into shares of our common stock. 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 light 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.

Net cash used by operating activities was approximately \$6.0 million in 2006 and \$3.4 million in 2005. The \$2.6 million increase in cash used by operating activities was due primarily to the \$962,000 increase in net loss as adjusted for depreciation and amortization expense, along with the decrease in accounts payable of approximately \$1.8 million (an increase of \$1.6 million in 2005 as compared to a decrease of \$245,000 in 2006).

Net cash used in investing activities was approximately \$1.2 million and \$2.3 million for 2006 and 2005, respectively. Uses of cash flow for investing activities in 2006 primarily relate to the acquisition of identifiable intangible assets in connection with the acquisition of Vinaigrette's, and in 2005, relate primarily to capital expenditures associated with business expansion for the acquisition of store and kitchen fixtures, equipment and leasehold improvements, including payments for the acquisition of certain store operations and assets of a former retailer.

Net cash provided by financing activities was \$7.8 million and \$5.8 million for 2006 and 2005, respectively. The increase of net cash provided in 2006 was primarily due to an increase in proceeds, net of issuance costs, from the issuance of notes payable and preferred stock.

Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs," which is an amendment of Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing." SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage), should be recognized as current-period costs incurred during fiscal years beginning after June 15, 2005. It is expected that the adoption of provisions of SFAS No. 151 will not have a material effect on our results of operations or financial condition.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections." SFAS 154 replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. We were required to adopt SFAS 154 in 2006. Our results of operations and financial condition will only be impacted by SFAS 154 if we implement changes in accounting principles that are addressed by the standard or corrects accounting errors in future periods.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"), which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on the recognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The accounting provisions of FIN No. 48 became effective for us beginning January 1, 2007. We are in the process of determining the effect, if any, that the adoption of FIN No. 48 will have on our results of operations or financial position.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC believes that registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for fiscal years ending on or after November 15, 2006, with early application encouraged. We believe that SAB 108 will not have a significant impact on our results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of its financial instruments according to a fair value hierarchy (i.e., levels 1, 2, and 3, as defined). Additionally, companies are required to provide enhanced disclosure regarding instruments in the level 3 category, including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently evaluating the impact, if any, adoption may have on our results of operation or financial position.

In October 2006, the FASB issued FASB Staff Position No. 123(R)-5, "Amendment of FASB Staff Position FAS 123(R)-1" ("FSP 123(R)-5"). FSP 123(R)-5 amends FSP 123(R)-1 for equity instruments that were originally issued as employee compensation and then modified, with such modification made to the terms of the instrument solely to reflect an equity restructuring that occurs when the holders are no longer employees. In such circumstances, no change in the recognition or the measurement date of those instruments will result if both of the following conditions are met: (a) there is no increase in fair value of the award (or the ratio of intrinsic value to the exercise price of the award is preserved, that is, the holder is made whole), or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring; and (b) all holders of the same class of equity instruments (for example, stock options) are treated in the same manner. We believe that FSP 123(R)-5 will not have a significant impact on our

results of operations or financial position.

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In December 2006, the FASB issued FASB Staff Position No. EITF 00-19-2 “Accounting for Registration Payment Arrangements” (“FSP EITF 00-19-2”), which addresses an issuer’s accounting and disclosures relating to registration payment arrangements. In connection with issuance of the Units in the private placement in February 2007, we have agreed to register the shares underlying the Units. In accordance with FSP EITF 00-19-2, the registration payment arrangements are accounted for as an instrument separate and apart from the related securities and will be accounted for in accordance with SFAS No. 5 “Accounting for Contingencies,” accruing a liability if payment is probable and the amount can be reasonably estimated.

Contractual Obligations and Off-Balance Sheet Arrangements

We have certain fixed contractual obligations and commitments that include future estimated payments. Changes in our business needs, cancellation provisions, changing interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. The following table summarizes our contractual obligations as of December 31, 2006, and the effect these obligations are expected to have on liquidity and cash flows in future periods (in thousands).

	Total	Less than 1 year	1-3 Years	3-5 Years
Contractual Obligations:				
Notes payable	\$ 7,575	\$ 6,983	\$ 592	\$ -
Capital Lease Obligations	214	63	151	-
Operating Leases	1,059	493		