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Organic To Go Food CORP  
Form 10-Q  
December 15, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-21061

ORGANIC TO GO FOOD CORPORATION  
(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

3317 Third Avenue South  
Seattle, Washington 98134  
(206) 838-4670  
(Address principal executive offices)  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

<input checked="" type="checkbox"/> Large accelerated filer	<input checked="" type="checkbox"/> Accelerated filer
<input type="checkbox"/> Non-accelerated filer	<input type="checkbox"/> Smaller reporting company

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

As of December 10, 2008, 36,903,543 shares of the Company's Common Stock, par value \$0.001 per share, were outstanding.

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Organic To Go Food Corporation

Table of Contents

	Page No.
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Unaudited Condensed Consolidated Financial Statements:	
Balance Sheets as of December 31, 2007 and September 30, 2008	1
Statements of Operations for the Three and Nine Months Ended September 30, 2007 and 2008	2
Statement of Stockholders' Equity for the Nine Months Ended September 30, 2008	3
Statements of Cash Flows for the Nine Months Ended September 30, 2007 and 2008	4
Notes to Condensed Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	19
Item 4. Controls and Procedures	19
<b>PART II OTHER INFORMATION</b>	
Item 6. Exhibits	20
<b>SIGNATURES</b>	21

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## PART I. FINANCIAL INFORMATION

## Item 1. Unaudited Condensed Consolidated Financial Statements

Organic To Go Food Corporation and its wholly-owned subsidiary, Organic To Go, Inc.  
Condensed Consolidated Balance Sheets  
(In thousands, except per share amounts)

	(audited) December 31, 2007	(unaudited) September 30, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 668	\$ 1,437
Accounts receivable, net	1,099	1,215
Inventory	845	2,554
Prepaid expenses and other current assets	489	1,200
Total current assets	3,101	6,406
Property and equipment, net	5,465	10,886
Identifiable intangible assets, net	3,853	4,512
Deposits and other assets	521	333
TOTAL ASSETS	\$ 12,940	\$ 22,137
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,040	\$ 4,331
Accrued liabilities	780	1,142
Current portion of notes payable,	1,474	1,403
Current portion of capital lease obligations	463	796
Total current liabilities	4,757	7,803
Deferred rent	52	210
Notes payable, net of current portion	1,044	1,347
Capital lease obligations, net of current portion	440	1,254
TOTAL LIABILITIES	6,293	10,483
Commitments and Contingencies (see Note 8)		
Stock subscription	-	7,000
Shareholders' equity:		
Preferred Stock - \$0.001 par value per share, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock and additional paid-in capital - \$0.001 par value per share, 500,000,000 shares authorized, 27,758,326 and 36,903,543 shares issued and outstanding	33,215	44,776
Accumulated deficit	(26,568)	(40,122)
TOTAL SHAREHOLDERS' EQUITY	6,647	4,654

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	12,940	\$	22,137
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See accompanying notes to condensed consolidated financial statements.

Organic To Go Food Corporation and its wholly-owned subsidiary, Organic To Go, Inc.  
 Condensed Consolidated Statements of Operations  
 (Unaudited and in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2008	2007	2008
Sales	\$ 3,716	\$ 6,319	\$ 11,188	\$ 17,514
Cost of sales	1,750	2,953	5,391	7,312
Gross profit	1,966	3,366	5,797	10,202
Operating expenses	4,797	7,660	12,196	16,998
Depreciation and amortization	871	2,740	2,009	6,576
Total operating expenses	5,668	10,400	14,205	23,574
Loss from operations	(3,702)	(7,034)	(8,408)	(13,372)
Interest income (expense), net	(45)	(75)	(460)	(182)
Loss before income taxes	(3,747)	(7,109)	(8,868)	(13,554)
Income taxes	-	-	-	-
Net loss	\$ (3,747)	\$ (7,109)	\$ (8,868)	\$ (13,554)
Basic and diluted net loss per share	\$ (0.15)	\$ (0.19)	\$ (0.47)	\$ (0.39)
Weighted average shares outstanding	24,280	36,904	19,058	35,001

See accompanying notes to condensed consolidated financial statements.

Organic To Go Food Corporation and its wholly-owned subsidiary, Organic To Go, Inc.  
 Condensed Consolidated Statement of Stockholders' Equity  
 (Unaudited and in thousands, except share amounts)

	Common Stock and Additional Paid In Capital Shares	Amount	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2007	27,758,326	\$ 33,215	\$ (26,568)	\$ 6,647
Issuance of common shares and warrants for cash	8,571,429	12,000	-	12,000
Stock issued in connection with acquisition of assets	573,788	750	-	750
Stock issuance costs	-	(1,386)	-	(1,386)
Stock subscription issuance costs	-	(338)	-	(338)
Fair value of options issued in connection with prior acquisition		35		35
Share based compensation	-	500	-	500
Net loss	-	-	(13,554)	(13,554)
Balance at September 30, 2008	36,903,543	\$ 44,776	\$ (40,122)	\$ 4,654

See accompanying notes to condensed consolidated financial statements.

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Organic To Go Food Corporation and its wholly-owned subsidiary, Organic To Go, Inc.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited and in thousands)

	Nine Months Ended September 30,	
	2007	2008
Cash flows from operating activities:		
Net loss	\$ (8,868)	\$ (13,554)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	2,009	6,576
Share-based compensation cost	248	500
Amortization of debt issue costs and debt discount included in interest expense	386	-
Changes in operating assets and liabilities:		
Accounts receivable	(613)	(116)
Inventory	(213)	(1,709)
Prepaid expenses and other current assets	(512)	(711)
Accounts payable	392	2,038
Accrued liabilities	328	362
Other	(466)	50
Net cash used by operating activities	(7,308)	(6,564)
Cash flows from investing activities:		
Purchases of property, equipment and other assets	(2,451)	(4,585)
Purchase of intangible assets	(1,923)	(4,179)
Net cash used in investing activities	(4,374)	(8,764)
Cash flows from financing activities:		
Principal payments on notes payables	(469)	(734)
Principal payments on capital lease obligations	(88)	(775)
Proceeds from issuance of notes payable, net	500	50
Proceeds from sale of common stock, net	-	10,894
Proceeds from stock subscription, net	-	6,662
Redemption of common stock	11,766	-
Net cash provided by financing activities	11,709	16,097
Net increase in cash and cash equivalents	27	769
Cash and cash equivalents:		
Beginning of period	865	668
End of period	\$ 892	\$ 1,437
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 112	\$ 273
Cash paid for income taxes	-	-
Non-cash investing and financing activities:		
Assets acquired through issuance of notes payable	\$ 225	\$ 1,130



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Assets purchased through issuance of common stock	\$	782	\$	785
Fixed assets acquired through capital lease	\$	572	\$	1,671
Assets purchased through accounts payable		-		150
Conversion of debt into common stock	\$	4,225	\$	-
Conversion of preferred stock into common stock	\$	5,700	\$	-

See accompanying notes to condensed consolidated financial statements.

Organic To Go Food Corporation and its wholly-owned subsidiary, Organic To Go, Inc.  
Notes to Condensed Consolidated Financial Statements  
September 30, 2008

Note 1. Description of Business, Basis of Presentation and Summary of Significant Accounting Policies

Organization and Business

Organic To Go Food Corporation, formerly SP Holding Corporation (“SP”) prior to May 2007, and its wholly owned subsidiary Organic To Go, Inc. (“Organic” and together with Organic To Go Food Corporation, collectively, the “Company”), which was acquired in a reverse merger on February 12, 2007, provides convenient retail cafes and delivery and catering services, preparing and serving “grab and go” breakfast, lunch and dinner foods and beverages prepared using organic ingredients, whenever possible. The Company also distributes its products through select wholesale accounts. In October 2006, Organic expanded its catering operations in the California area by acquiring the assets of a catering operation headquartered in Los Angeles, California, and in March 2007, it expanded its catering operations by acquiring the assets of a catering operation located in Seattle, Washington. During 2007, the Company further expanded its operations by acquiring the assets of three separate businesses, for a total of six additional locations in San Diego, California. During the second quarter of 2008, the Company acquired the assets of a retail and catering operation in Seattle, Washington, adding three additional retail locations in downtown Seattle. Also during the second quarter of 2008, the Company gained its first foothold on the East coast of the United States with the acquisition of the assets of a business with catering operations and four retail locations in Washington, D.C. As of September 30, 2008, the Company operates nine stores in Washington, eighteen stores in California, and six stores in the Washington, D.C. metropolitan area, for a total of 33 retail locations nationwide.

Basis of Presentation

In the opinion of management, the accompanying Condensed Consolidated Balance Sheets and related Condensed Consolidated Statements of Operations, Condensed Consolidated Statement of Stockholders’ Equity and Statements of Cash Flows have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Management believes that all adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation have been included. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

The presentation of financial statements prepared in conformity with GAAP contemplates continuation of the Company as a going concern. The Company has reported recurring losses and cash used by operating activities, and at September 30, 2008 has an accumulated deficit that could raise doubt about its ability to continue as a going concern.

Since inception, the Company has funded its operations, business development and growth through debt and equity financings. During the three months ended March 31, 2007, proceeds of approximately \$6.9 million were received from the sale of equity securities in connection with its reverse merger and private placement, and during that same time period, approximately \$5.3 million of notes payable were converted into common shares. In October 2007, the Company closed its private placement offering and issued approximately 3.2 million shares of Company common stock and warrants to purchase approximately 1.5 million shares of Company common stock. The aggregate gross proceeds raised by the Company were approximately \$5.7 million. In January 2008, the Company closed a private placement offering and issued approximately 1.4 million shares of Company common stock and warrants to purchase

approximately 0.6 million shares of Company common stock. The aggregate gross proceeds raised by the Company were approximately \$2.0 million. In February 2008, the Company closed another private placement offering and issued approximately 7.1 million shares of Company common stock and a warrant to purchase approximately 4.3 million shares of Company common stock and a conditional warrant to purchase shares of Company common stock, which may only be exercised under certain circumstances. The aggregate gross proceeds raised by the Company were approximately \$10.0 million. In June 2008, the Company raised an additional \$5.0 million through the issuance of a subscription agreement convertible into shares of the Company's common stock at a future specified date. The Company raised an additional \$2.0 million under the same agreement in September 2008, and completed its available draws under the subscription agreement with the receipt of the final \$3.0 million in October 2008. Company management intends to continue to be engaged in additional fund-raising activities to fund future capital expenditures, potential acquisitions of businesses, and to provide additional working capital. 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 the Company not continue as a going concern.

## Use of Estimates

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The more significant accounting estimates inherent in the preparation of the Company's financial statements include estimates as to the depreciable lives of property and equipment, recoverability of receivables, valuation and recoverability of inventories, recoverability of long-lived assets, valuation of intangible assets and allocation of purchase price, valuation of equity-related instruments issued, and valuation allowance for deferred income tax assets.

## Summary of Significant Accounting Policies

**Cash and cash equivalents** - The Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. The Company places its cash balances on deposit with high credit, highly-rated financial institutions. At times, such balances may be in excess of the FDIC insurance limit. At September 30, 2008, approximately \$232,000 was in excess of the FDIC limit.

**Contingencies** - Certain conditions may exist as of the date financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. Company management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. If the assessment of a contingency indicates that it is probable that a liability has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable would be disclosed.

**Concentrations** - All of the Company's operations are currently located in Washington, California and Washington, D.C. As a result, the Company is sensitive to negative occurrences in markets where the Company is located, and particularly susceptible to adverse trends and economic conditions including labor markets. In addition, given geographic concentration, negative publicity regarding any of our operations in Washington, California or Washington D.C. could have a material adverse effect on the Company's business and operations, as could other regional occurrences such as local strikes, earthquakes or other natural disasters.

**Fair value of financial instruments** - The Company measures its financial assets and liabilities in accordance with GAAP. For certain of the Company's 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 the Company for debt of similar maturities are substantially the same.

**Accounts receivable** - The Company extends credit to certain of its customers. Accounts receivable are customer obligations due under normal trade terms. The Company performs credit evaluations of its customers' financial condition. Management reviews accounts receivable on a regular basis on contracted terms and how recent payments have been received in order to determine estimates of amounts that could potentially be uncollectible. The Company includes an estimate of the amount that is more likely than not to be uncollectible in its allowance for doubtful accounts. Accounts uncollected are ultimately written off after all reasonable collection efforts have been exhausted.

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

**Property and equipment** - Property and equipment is stated at cost. Additions and improvements that significantly add to the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over five to seven years for furniture, fixtures, equipment and vehicles, and over three years for computer software and hardware. Leasehold improvements are amortized over the shorter of the lease term or ten years.

**Identifiable intangible assets** - Through its acquisitions of other businesses, the Company has acquired certain identifiable intangible assets including customer-based intangibles and a covenant not to compete. All such intangible assets have been accounted for in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"). The estimate of useful lives of each intangible asset was based on an analysis by management of all pertinent factors, and selection of an estimated useful life of up to two years has been identified for each intangible asset. Customer based intangible assets are amortized utilizing an accelerated method and non-compete intangible assets are amortized on a straight-line basis.

**Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142")** requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net discounted cash flows expected to be generated by the asset or other valuation methods. If such assets are considered to be impaired, impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the asset's fair value.

**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 cash flows attributable to such assets.

**Debt discount** - The Company records the fair value of warrants issued with debt securities as a debt discount, which is amortized as an adjustment to interest expense over the life of the borrowing.

**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.

**Pre-operating costs** - Costs incurred in connection with start-up and promotion of new store openings are expensed as incurred.

Income taxes - The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), 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. The Company continues to provide a full valuation allowance to reduce its net deferred tax asset to zero, inasmuch as Company management has not determined that realization of deferred tax assets is more likely than not.

Stock-based compensation - The Company accounts for its share-based compensation under the provisions of Financial Accounting Standards Board ("FASB") Statement No. 123(R), Share-Based Payment, ("FAS 123R"). The Company adopted FAS 123R effective beginning January 1, 2006 using the modified prospective method.

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of FAS 123R 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.

Basic and diluted net loss per share - Basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is determined using the weighted-average number of common shares outstanding during the period. In periods where losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive. Computations of net loss per share for the periods ending September 30, 2007 and 2008 exclude approximately 5.8 million and 13.3 million common shares, respectively, issuable upon exercise of outstanding and issuable warrants, 3.0 million and 5.6 million shares, respectively, of common stock issuable upon exercise of outstanding stock options, and 312,500 and 3.2 million shares, respectively, of common stock issuable upon conversion of convertible notes payable. These common stock equivalents could have the effect of decreasing diluted net income per share in future periods when the Company generates net income.

Recent accounting pronouncements – In May 2008, the FASB issued Statement of Financial Accounting Standards ("SFAS") SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements for nongovernmental entities that are presented in conformity with GAAP. SFAS 162 will be effective 60 days following the SEC's approval. The Company does not expect that this statement will result in a change in current practice.

In April 2008, the FASB issued Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing assumptions about renewal or extension used in estimating the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). This standard is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007), Business Combinations ("SFAS 141(R)") and other GAAP. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The measurement provisions of this standard will apply only to intangible assets acquired after the effective date.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 requires enhanced disclosures about a company's derivative and hedging activities. These enhanced disclosures will discuss (a) how and why a company uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations and (c) how derivative instruments and related hedged items affect a company's financial position, results of operations and cash flows. SFAS 161 is effective for fiscal years beginning on or after November 15, 2008, with earlier adoption allowed. The Company does not anticipate that the adoption of this accounting pronouncement will have a material effect on its consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. Therefore, the Company will delay application of SFAS 157 to its

nonfinancial assets and nonfinancial liabilities. The Company does not anticipate that the delayed adoption of this accounting pronouncement will have a material effect on its consolidated financial statements.



In December 2007, the FASB issued SFAS No. 141(revised 2007), Business Combinations (“SFAS 141R”), which revises current purchase accounting guidance in SFAS 141, Business Combinations. SFAS 141R requires most assets acquired and liabilities assumed in a business combination to be measured at their fair values as of the date of acquisition. SFAS 141R also modifies the initial measurement and subsequent remeasurement of contingent consideration and acquired contingencies, and requires that acquisition related costs be recognized as expense as incurred rather than capitalized as part of the cost of the acquisition. The Company will adopt SFAS 141R beginning in the first quarter of fiscal 2009. This standard will change the Company’s accounting treatment for business combinations on a prospective basis. The impact of SFAS 141R on the Company’s consolidated financial statements will depend on the nature and extent of the Company’s future acquisition activities.

In December 2007, the FASB issued SFAS 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51 (“SFAS 160”). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests, of which the Company currently has none. All other requirements of SFAS 160 shall be applied prospectively. SFAS 160 is effective for fiscal years beginning after December 15, 2008.

#### Note 2. Inventories

	December 31, 2007	September 30, 2008
Inventories consist of the following (in thousands):		
Food and beverages	\$ 820	\$ 2,252
Paper products	25	302
Total inventories	\$ 845	\$ 2,554

#### Note 3. Property and Equipment

	December 31, 2007	September 30, 2008
Property and equipment consists of the following (in thousands):		
Leasehold improvements	\$ 2,389	\$ 4,687
Furniture, fixtures and equipment	3,878	6,575
Vehicles	1,156	1,644
Leased equipment	686	1,976
	8,109	14,882
Less accumulated depreciation and amortization	(2,644)	(3,996)
Total property and equipment, net	\$ 5,465	\$ 10,886

Amortization of leased equipment is included in depreciation and amortization expense.

#### Note 4. Identifiable Intangible Assets

	December 31, 2007	September 30, 2008
Identifiable intangible assets consist of the following (in thousands):		
Customer based intangible assets	\$ 6,303	\$ 11,864
Non-compete intangible assets	589	589
Other identifiable intangible assets	-	53
Total identifiable intangible assets, gross	6,892	12,506

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Less accumulated amortization		(3,039)		(7,994)
Total identifiable intangible assets, net	\$	3,853	\$	4,512

The Company recorded amortization expense on intangible assets of \$553,000 and \$2.1 million, respectively, for the quarterly periods ended September 30, 2007 and 2008, and \$1.3 million and \$5.0 million, respectively, for the nine month periods ended September 30, 2007 and 2008.

#### Note 5. Notes Payable

	December 31, September 30,	
	2007	2008
Notes payable consist of the following (in thousands):		
Notes payable, 6% to 25% interest collateralized by vehicles and equipment	\$ 141	\$ -
Convertible note payable, 8.25% and 6%, respectively, interest, collateralized by substantially all assets	759	506
Notes payable, 7.75% interest, collateralized by certain assets, due April 2010	418	418
Note payable, 9.25% interest, due March 2009	97	40
Note payable, 8.0% interest, due October 2009	54	32
Notes payable, 12% interest, due May 2009	500	400
Notes payable, 10.5% interest, due December 2009	549	550
Notes payable, no interest, monthly straight-line payment	-	79
Note payable, 5% (prime rate) interest, due November 2009	-	