

Organic Sales & Marketing Inc
Form 10-Q
February 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2010

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 0-3338

ORGANIC SALES AND MARKETING, INC.
(Exact Name of small business issuer as specified in its Charter)

Delaware
(State or other Jurisdiction of Incorporation or Organization)

33-1069593
(IRS Employer Identification No.)

114 Broadway, Raynham, MA 02767
(Address of Principal Executive Office)

(508) 823-1117
(Registrant's telephone number including area code)

Check whether the issuer (1) 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 public company.

Smaller Reporting Company

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

The number of shares of outstanding of each of the issuer's classes of common equity, as of the latest practicable date was 13,860,722 shares of common stock, par value \$.0001, issued and outstanding as of February 8, 2011.

Organic Sales and Marketing, Inc.
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Part 1. Financial Information

Item 1. Financial Statements.

The accompanying financial statements are unaudited for the interim periods, but include all adjustments (consisting only of normal recurring adjustments), which we consider necessary for the fair presentation of results for the three months ended December 31, 2010 and December 31, 2009.

Moreover, these financial statements do not purport to contain complete disclosure in conformity with the U.S. generally accepted accounting principles and should be read in conjunction with our audited financial statements at, and for the fiscal year ended September 30, 2010 as contained in Registrant's Form 10-K filing.

Organic Sales and Marketing, Inc.

Financial Statements for the Three Months Ended
December 31, 2010 (unaudited) and 2009 (unaudited)

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ORGANIC SALES AND MARKETING, INC.
Balance Sheets

ASSETS

	December 31, 2010 (Unaudited)	September 30, 2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 24,881	\$ 46,237
Accounts receivable, net	23,341	22,939
Inventories	80,691	90,797
Prepaid expense	4,235	16,160
Total Current Assets	133,148	176,133
PROPERTY AND EQUIPMENT, NET	3,690	4,481
OTHER ASSETS		
Deposits	200	200
Total Other Assets	200	200
TOTAL ASSETS	\$ 137,038	\$ 180,814

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

ORGANIC SALES AND MARKETING, INC.
Balance Sheets (Continued)

LIABILITIES AND STOCKHOLDERS' (DEFICIT)

	December 31, 2010 (Unaudited)	September 30, 2010
CURRENT LIABILITIES		
Accounts payable-trade	\$ 538,848	\$ 523,598
Accounts payable-related party	22,943	19,098
Accrued expenses	5,004	5,444
Accrued interest payable	97,844	85,347
Line of credit	62,632	67,387
Notes payable - related parties	454,394	439,334
Total Current Liabilities	1,181,665	1,140,208
Total Liabilities	1,181,665	1,140,208
COMMITMENTS		
	-	-
STOCKHOLDERS' (DEFICIT)		
Common stock, \$0.0001 par value; 100,000,000 shares authorized, 13,839,494 and 13,709,494 shares issued and outstanding, respectively	1,384	1,371
Additional paid-in capital	6,587,953	6,493,112
Accumulated (Deficit)	(7,633,964)	(7,453,877)
Total Stockholders' (Deficit)	(1,044,627)	(959,394)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	\$ 137,038	\$ 180,814

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

ORGANIC SALES AND MARKETING, INC.
Statements of Operations

	For the Three Months Ended December 31,	
	2010	2009
REVENUES		
Product sales, net	\$ 26,931	\$ 42,974
Radio advertising	4,500	4,845
Total Revenues	31,431	47,819
COST OF SALES	26,125	39,257
GROSS PROFIT	5,306	8,562
OPERATING EXPENSES		
Advertising expense	30,760	19,190
Payroll and compensation expense	73,133	59,589
Selling expense	12,048	21,161
General and administrative	34,353	43,390
Legal and accounting	36,226	53,962
Total Operating Expenses	186,520	197,292
LOSS FROM OPERATIONS	(181,214)	(188,730)
OTHER INCOME (EXPENSE)		
Interest income	-	277
Interest expense	(13,873)	(17,033)
Other income	15,000	-
Total Other Income (Expense)	1,127	(16,756)
NET LOSS BEFORE INCOME TAXES	(180,087)	(205,486)
INCOME TAX EXPENSE	-	-
NET LOSS	\$ (180,087)	\$ (205,486)
LOSS PER SHARE-		
Basic and Diluted	\$ (0.01)	\$ (0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING-		
Basic and Diluted	13,802,646	10,117,055

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

ORGANIC SALES AND MARKETING, INC.
Statements of Cash Flows

For the Three Months Ended
December 31,
2010 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss	\$ (180,087)	\$ (205,486)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	791	1,225
Shares issued for services rendered	-	-
Valuation of options and warrants granted	81,854	55,883
Change in operating assets and liabilities:		
Accounts receivable-trade	(402)	(9,555)
Inventories	10,106	19,092
Prepaid expense	11,925	(13,467)
Accounts payable-trade	15,250	(36,252)
Accounts payable-related party	3,845	9,872
Cash overdraft	-	31,929
Accrued expenses	(440)	318
Accrued interest payable	12,497	12,892
Net Cash Used in Operating Activities	(44,661)	(133,549)

CASH FLOWS FROM INVESTING ACTIVITIES

- -

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from issuance of common stock	13,000	30,000
Payments on line of credit	(4,755)	(3,680)
Proceeds from notes payable - related party	16,000	110,000
Payments on notes payable - related party	(940)	-
Net Cash Provided by Financing Activities	23,305	136,320

NET INCREASE (DECREASE) IN CASH (21,356) 2,771

CASH, BEGINNING OF PERIOD 46,237 24,547

CASH, END OF PERIOD \$ 24,881 \$ 27,318

SUPPLEMENTAL DISCLOSURES:

Cash paid for interest	\$ 7,776	\$ 4,142
Cash paid for taxes	\$ -	\$ -

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Valuation of options and warrants granted	\$	81,854	\$	55,883
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The accompanying notes are an integral part of these financial statements.

ORGANIC SALES AND MARKETING, INC.

Notes to the Financial Statements

December 31, 2010 (Unaudited)

Note 1 – Basis of Financial Statement Presentation

The accompanying unaudited financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim financial statements include normal recurring adjustments and reflects all adjustments, which in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim financial statements be read in conjunction with the Company's audited financial statements and notes thereto included in its September 30, 2010 Form 10K filing. Operating results for the three months ended December 31, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011.

Note 2 – Significant Transactions

Notes Payable – Related Party

Advances by the CEO to the Company of \$16,000 during quarter ending December 31, 2010 have been added to an outstanding promissory note. As of December 31, 2010 total principal owed on the note was \$254,642 and accrued interest owed was \$11,108.

Equity Transactions

On May 1, 2010 the Company commenced a private stock offering, whereby it authorized the issuance of 5,000,000 shares of its common stock for a total raise of \$500,000. As of December 31, 2010 \$105,005 of the \$500,000 was raised and 1,050,050 shares of common stock were issued.

Stock Options

During the period 4,000 options granted. Total outstanding common stock options as of December 31, 2010 were 2,333,145. Total exercisable were 1,890,641 at a weighted average exercise price of \$0.53.

Note 3 – Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company is poorly capitalized and has had recurring operating losses, negative cash flows from operations and recurring negative working capital for the past several years and is dependent upon financing to continue operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. It is management's plan to continue to implement their strategy of acquiring new customers and accepting reorders from existing customers. As the Company's revenues become more established, management expects to report net income. With the expansion of sales, management believes that the Company will eventually generate positive cash flow from operations. In the interim, management believes that shortfalls in cash flow will be satisfied with funds raised from bridge loans, convertible debt and additional private stock offerings that are in compliance with Securities and Exchange Commission rules and regulations governing the same.

Note 4 – Subsequent Events

Subsequent to December 31, 2010 and through the date that the financial statements were issued the Company issued an additional 20,000 shares of common stock as part of the ongoing private stock offering, for an additional \$2,000 of the \$500,000.

Organic Sales and Marketing, Inc. has evaluated subsequent events for the period December 31, 2010 through the date that the financial statements were issued and concluded there were no other events or transactions occurring during this period that required recognition of disclosure in its financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

Cash was \$24,881 at December 31, 2010 compared to \$46,237 as of FYE September 30, 2010 or a decrease of \$21,356. Net Cash Used in Operating Activities decreased by 67% or \$88,888 from the prior fiscal year end. The net loss of the Company of \$180,087 during the first quarter of the current fiscal year is offset, in part, by stock issuances for cash and options granted during the period in the amount of \$94,841. Net Cash Provided by Financing Activities was \$23,305 during the current quarter compared to \$136,320 during the same period in the prior year or a decrease of \$113,015 or 83%. This was partially due to decreased proceeds from issuance of common stock, but mainly due to a significant decrease in borrowings from related parties.

Results of Operations

Three Months Ended December 31, 2010 Compared to the Three Months Ended December 31, 2009

Revenues for the quarter totaled \$31,431 compared to \$47,819 for the same period in the prior year. The decrease in sales is mainly due to the company's efforts to discontinue unprofitable product lines and a decrease in the threat of H1N1 and Flu virus which in the previous year to date contributed to significant percentage of sales in the Company's hand sanitizer products. Gross profit was stable around 20% in both periods.

Operating expenses decreased by 5.5% during the quarter compared to the same period in the prior year, primarily due ongoing cost cutting measures in both selling expenses and general and administrative costs.

Stock Options Expense, a non-cash operating expense, for options vested during the periods presented are included in the Operating Expenses in the following line items:

	2010	2009
Payroll and Compensation Expense	\$ 48,358	\$ 23,465
Legal and Accounting	33,496	32,418
	\$ 81,854	\$ 55,883

Other Income has increased by \$15,000 due to a sales and marketing agreement with a major vendor as discussed in the Company's 8-K filing dated February 8th 2011.

Interest expense decreased 18.6% in primarily due to the Notes Payable - Related Party decreases as discussed in the footnotes to the Financial Statements included in this filing.

Forward Looking Statements

Please refer to Part II, Item 7 of Form 10K for the year ended September 30, 2010, which is incorporated by reference herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We believe that there have been no significant changes in our market risk exposures for the three months ended December 31, 2010.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required financial disclosures. Because of inherent limitations, our disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of such disclosure controls and procedures are met.

As of the end of the period covered by this Report we conducted an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were ineffective as of December 31, 2010.

There was no change in our internal control over financial reporting during the three months ended December 31, 2010, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

Registrant is the defendant in a lawsuit commenced by Entercom Boston LLC in Superior Court, Suffolk, MA. (CA 10-1652E) on May 17, 2010. Plaintiff alleges that Registrant owes approximately \$64,000 for advertising and air time. OSM has asserted a counterclaim, asserting breach of contract and other defenses.

Registrant has also been sued in New Bedford, MA. Civil Court, Docket no. 201033CV001618, by Saga Communications of New England, LLC. d/b/a WZAN-AM Radio for \$4,233 in alleged unpaid advertising and air time. The suit was commenced on October 20, 2010 and Registrant has counterclaimed for breach of contract.

Item 1A. Risk Factors.

Risks Related To Our Business And Operations

- Economic or industry-wide factors relevant to the Company:
Should consumer interest in "organic" or "natural" products diminish or discontinue; should there be a natural disaster that adversely impacts garden center product sales such as extreme weather conditions throughout the United States; should there be a shortage of suppliers in the enzyme technology that is used in some of our products or should there be a slower than anticipated roll-out of products to customers due to such external factors, the Company's ability to realize a profit and yield a positive cash flow from operations as quickly as we anticipate could be adversely impacted.
- Material opportunities, challenges:
Should our suppliers not be able to deliver in the quantities the Company needs at any given time in order to fulfill orders; should our contract manufacturer not be able to deliver finished goods in a timely manner or suffer any type of physical plant disaster, labor strike or shortage, it would adversely impact the Company's business. Difficult challenges may be incurred as more competitors, who are more heavily financed than we are, enter into the market and create pricing issues which could adversely impact the Company's operations.

Risks in short and long term and the actions we are taking to address them:

Undercapitalization could impose growth restraints on the Company preventing us from entering other markets and regions, as planned. The Company will continue to actively pursue private placement investor funding as allowed by SEC regulations and to satisfy debt and payables with stock, stock options and/or warrants as a means of capitalizing the Company until operations are sufficient enough to be self-sustaining. There can be no assurance, however, that these activities will be successful.

If Sam Jeffries were unable to host and produce the weekly talk show, this could have an adverse impact on the show's educational and promotional programming, which is considered an essential part of our advertising and marketing plan. The present co-hosts, Jim Zoppo and Layanee DeMerchant, could produce and conduct the show in Sam Jeffries absence. In addition, Jim Zoppo is a well respected, well known horticulturist and radio talk show host in his own right.

Although unlikely, interest in organics could diminish which would have an adverse effect on the popularity of the radio show. To mitigate this possibility, "home remedy", "how to" and "natural and organic health-care alternative segments are being added to the shows programming to expand listener interest and extend the seasonality of the show. The Company also has plans to ultimately reach a national audience by franchising the Garden Guys concept throughout the country by having local talk shows discuss organics and lawn and gardening techniques and problems indigenous to each of those regions.

- **Reliance on Investment Funds**

We just recently started to receive meaningful cash flow from customer sales. We expect that for the short term future, we will still rely on external funding sources, primarily equity capital, to finance our operations. While we believe that increasing cash flow from customer sales will ultimately provide adequate funds to permit us to become self-sufficient, possibly, by the end of 2010; until then, we will continue to require additional capital from investors. If we were unable to obtain such funding from outside sources, we would likely be forced to reduce the level of our operations and business failure could become a real possibility.

- **Reliance on Management Team**

As stated above, the Company relies heavily upon a small team of full-time officers and consultants. It has "key man" life insurance on the CEO, Samuel Jeffries that would compensate us in the event of his demise. Sam Jeffries continued involvement is deemed especially critical to our marketing efforts. The loss of Sam Jeffries or one of several key officers or consultants could have an adverse impact on the Company's chances for success. At present, "key man" insurance coverage is not being pursued on the other full-time officers due to cost.

Risks Related to Ownership of Our Stock

- **Trading Market**

Our stock officially began trading on Monday, May 5, 2008 on the Over The Counter Electronic Bulletin Board under the trading symbol; OGS. Even with our shares being traded publicly, there is a substantial "overhang" of outstanding shares that would be eligible for sale under Rule 144. Such sales, if they were to occur, could tend to suppress the market value of our shares for some time.

- No Dividends in Foreseeable Future

Our Board of Directors determines whether to pay cash dividends on our issued and outstanding shares. Such determination will depend upon our future earnings, our capital requirements, our financial condition and other relevant factors. At present, our board is not intending to declare any dividends in the foreseeable future. Earnings, once achieved, are expected to be retained to help finance the growth of our business and for general corporate purposes.

- Provisions of our Certificate of Incorporation, By-laws and Delaware Law

Provisions of our Certificate of Incorporation, By-laws and Delaware law may make it more difficult for someone to acquire control of us or for our stockholders to remove existing management, and might discourage a third party from offering to acquire us, even if a change in control or in management would be beneficial to our stockholders. For example, our Certificate of Incorporation allows us to issue different series of shares of common stock without any vote or further action by our stockholders and our Board of Directors has the authority to fix and determine the relative rights and preferences of such series of common stock. As a result, our Board of Directors could authorize the issuance of a series of common stock that would grant to holders the preferred right to our assets upon liquidation, the right to receive dividend payments before dividends are distributed to the holders of other common stock and the right to the redemption of the shares, together with a premium, prior to the redemption of other series of our common stock.

Item 6. Exhibits

- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer.
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.
- 32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer.
- 32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORGANIC SALES AND MARKETING, INC.

(Registrant)

February 14, 2011
Date

/s/ Samuel F.H. Jeffries
SAMUEL F.H. JEFFRIES
CEO AND CHAIRMAN

February 14, 2011
Date

/s/ Keith D. Lowey
KEITH D. LOWEY
CHIEF FINANCIAL OFFICER