Organic Alliance, Inc.
Form 10-Q
August 25, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

Commission File Number
000-51119

ORGANIC ALLIANCE, INC.
(Exact name of registrant as specified in its charter)

Nevada	20-0853334
State of incorporation	I.R.S. Employer Identification No.

401 Monterey Street, Suite 202
Salinas, CA 93901
(Address of principal executive offices)

(831) 240-0295
(Issuer's telephone number)

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” as defined in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding at August 24, 2010
Common stock, $0.0001 par value	34,816,610

ORGANIC ALLIANCE, INC.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions for Form 10-Q and article 10 of Regulation S-X of the U.S. Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial condition, results of operations, and cash flows of the Company for the interim periods presented.

The results for the three and six months ended June 30, 2010 are not necessarily indicative of the results of operations for the full year. These financial statements and related footnotes should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission on May 18, 2010.

Organic Alliance Inc. and Subsidiary
Consolidated Balance Sheet

		June 30, 2010 (Unaudited)		December 31, 2009
Assets				
Current assets:				
Cash	$	111	$	231
Accounts Receivable (Note 2)		138,225		104,518
Due from factor (Note 5)		-		18,908
Prepaid expenses and other current assets		40,710		7,632
Total current assets		179,046		131,289
Non-current assets				
Property and equipment, net (Note 2)		5,902		7,319
Total Assets	$	184,948	$	138,608
Liabilities and Stockholders' Deficiency				
Current liabilities:				
Accounts payable	$	1,452,383	$	735,828
Accrued expenses and other current liabilities (Note 12)		475,045		411,236
Notes and loans, net of discount (Note 8)		817,295		594,356
Total current liabilities		2,744,723		1,741,420
Stockholders' Deficiency:				
Preferred stock, no stated value authorized;				
10,000,000 shares; -0- shares issued				
and outstanding as of June 30, 2010 and December 31, 2009		-		-
Common stock, $.0001 par value, 60,000,000 shares				
authorized, 32,316,610 and 27,299,943 shares outstanding as of				
June 30, 2010 and December 31, 2009, respectively		3,232		2,730
Additional paid-in capital		6,812,946		6,657,648
Accumulated deficit		(9,375,953)		(8,263,190)
Total stockholders' deficiency		(2,559,775)		(1,602,812)
Total Liabilities and Stockholders' Deficiency	$	184,948	$	138,608

The accompanying notes are an integral part of these financial statements

Organic Alliance Inc. and Subsidiary
Consolidated Statements of Operations (unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenue	$73,042	$1,174,661	$1,229,800	$1,177,542
Cost of Sales	69,647	1,144,705	1,289,846	1,146,829
Gross margin (loss)	3,395	29,956	(60,046)	30,713
General and administrative expenses	635,970	951,588	907,480	2,228,597
Operating Loss	(632,575)	(921,632)	(967,526)	(2,197,884)
Other expenses:				
Interest expense	50,340	9,684	145,237	11,724
Loss from impairment of intangible asset (Note 4)	-	-	-	30,000
Total other expenses	50,340	9,684	145,237	41,724
Net loss	$(682,915)	$(931,316)	$(1,112,763)	$(2,239,608)
Basic and diluted loss per share	$(0.02)	$(0.04)	$(0.03)	$(0.10)
Weighted average number of common shares outstanding - basic and diluted	32,844,786	24,385,190	32,340,849	22,738,409

The accompanying notes are an integral part of these financial statements

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Organic Alliance Inc. and Subsidiary
Consolidated Statements of Cash Flows (unaudited)

	For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
Cash flows from operating activities:		
Net loss	$ (1,112,763)	$ (2,239,608)
Adjustments to reconcile net loss to net cash used in operating activities:		
Common stock issued for services	113,167	1,618,018
Depreciation Expense	1,417	-
Share-based compensation	17,432	17,432
Bad debt expense	8,007	-
Loss from impairment of intangible assets	-	30,000
Amortization on discount of note payable	108,604	710
Changes in assets and liabilities:		
Accounts receivable	(41,714)	(531,994)
Due from factor	18,908	(44,756)
Prepaid expenses and other current assets	(17,078)	(30,132)
Accounts payable	716,555	769,448
Accrued expenses and other current liabilities	84,065	298,745
Net cash used in operating activities	(103,399)	(112,137)
Cash flows from financing activities		
Proceeds from notes and loans payable	162,279	170,230
Proceeds from issuance of common stock	-	25,000
Principal payments on note and loans payable	(59,000)	-
Net cash provided by financing activities	103,279	195,230
Net increase (decrease) in cash	(120)	83,093
Cash - beginning of the period	231	250
Cash - end of period	$ 111	$ 83,343
Supplemental disclosures for non-cash financing activities:		
Discount on notes payable	$ 9,200	$ 4,206
Issuance of common stock to consultants for services to be provided over a one year term	$ 20,000	$ -
Supplemental disclosures:		
Interest paid	$ 16,380	$ 3,567

The accompanying notes are an integral part of these financial statements

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Organic Alliance, Inc. and Subsidiary
Notes to Consolidated Financial Statements (unaudited)

1. NATURE OF BUSINESS AND OTHER MATTERS

NB Design & Licensing, Inc., ("NB Design") was organized in September 2001. The former parent, New Bridge Products, Inc., was originally incorporated in August 1995 as a manufacturer of minivans and filed a petition in bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. Its Plan of Reorganization was approved by the U.S. Bankruptcy Court for the District of Arizona in September 2002 and NB Design was discharged from bankruptcy in October 2002. NB Design was inactive from October 2002 to April 29, 2008.

Organic Alliance Inc., a Texas corporation, ("Organic Texas") was organized on February 19, 2008 to sell organically grown fruits and vegetables.

On April 29, 2008, NB Design, a Nevada corporation, acquired all 10,916,917 issued and outstanding shares of common stock and assumed all liabilities Organic Texas for 9,299,972 shares of NB Design's common stock. Organic Texas thereupon became a wholly owned subsidiary of NB Design. All Organic Texas common shares issued prior to April 29, 2008 for services provided are retroactively presented based on the ratio of 0.8435 NB Design common share issued for one Organic Texas common share. All Organic Texas common shares issued prior to April 29, 2008 for cash are presented based on one NB Design common share issued for one Organic Texas common share. The business of Organic Texas is the only business of NB Design.

The acquisition of Organic Texas by NB Design on April 29, 2008 was accounted for as a reverse capitalization in accordance with the Securities and Exchange Commission's ("SEC") Division of Corporate Financial Reporting manual Topic 12 "Reverse Acquisition and Reverse Capitalization". The reverse capitalization was the acquisition of a private operating company (Organic Texas) into a non-operating public shell corporation (NB Design) with nominal net assets and as such is treated as a capital transaction, rather than a business combination. As a result no goodwill is recorded. In this situation, NB Design is the legal acquirer because it issued its equity interests, and Organic Texas is the legal acquiree because its equity interests were acquired. However, NB Design is the acquiree and Organic Texas as the acquirer for accounting purposes. Organic Texas is treated as the continuing reporting entity that acquired the registrant, NB Design. The pre-acquisition financial statements of Organic Texas are treated as the historical financial statements of the consolidated companies.

Prior to April 29, 2008, NB Design had outstanding 1,000,028 each of Class A, Class B, Class C, Class D, Class E and Class F warrants. The warrants were exercisable at $2.00, $2.00, $4.00, $4.00, $6.00 and $6.00, respectively, at any time until December 31, 2008. As a condition to closing the Exchange Agreement, the exercise prices of the warrants were subsequently reduced to $1.00 per share for all classes of Warrants and the expiration date was extended to December 31, 2011. In exchange for the exercise price reduction, the holders of at least 80% of the Warrants agreed to a call provision by NB Design on 10 days notice to them if (i) the bid price of our common stock is quoted at $1.25 per share or higher and the average share volume exceeds 300,000 shares for at least one day, and (ii) the shares underlying the warrants are subject to a current registration statement on file with the SEC. Both the share price and volume must be met on the same day for the call provision to be effective. A registration statement has not been filed with the SEC for the warrants as of the date of this Form 10-Q.

On June 2, 2008, the name NB Design was changed to Organic Alliance, Inc. On August 29, 2008, the name of Organic Texas was changed to Organic Texas, Inc. All references throughout this report to "Organic Alliance, Inc.," or the "Company" refer to the combined operations of Organic Alliance, Inc., a Nevada corporation, and our wholly-owned subsidiary, Organic Texas.

On December 31, 2008, we filed a Form S-1 with the SEC covering 2,638,250 shares of our .0001 par value Common Stock.

The Company was formed on February 19, 2008 and was in development stage through the first quarter of 2009. 2009 was the first year during which it is considered an operating company. During the second quarter of 2009, the Company commenced its operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The Company's consolidated financial statements have been prepared on an accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America applicable for a going concern which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of the business. These principles contemplate the realization of assets and liquidation of liabilities in the normal course of business.

Principles of Consolidation - The consolidated financial statements include the accounts of the Organic Alliance, Inc. and its wholly owned subsidiary, Organic Texas. Inc. (collectively, the "Company”). All significant inter-company transactions and balances have been eliminated in consolidation.

Revenue Recognition - Revenue is recorded when (1) the customer accepts delivery of the product and title has been transferred and the Company has no significant obligations remaining to be performed; (2) a final understanding as to specific nature and terms of the agreed upon transaction has occurred; (3) price is fixed and (4) collection is reasonably assured. Sales are presented net of discounts and allowances.

Impairment of Long-Lived and Intangible Assets - Long-lived assets consist of property and equipment and intangible assets. Intangible assets were comprised of AvocadoMan brand and an order processing web software system. The Company evaluates long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

When the Company determines that the carrying value of long-lived assets may not be recoverable based upon the existence of the above indicators of impairment and the carrying value of the asset cannot be recovered from projected undiscounted cash flows, the Company records an impairment charge. Significant management judgment is required in determining whether an indicator of impairment exists and in projecting cash flows. The Company believes the carrying value of its AvocadoMan brand name will not be recoverable in the future and so recorded impairment loss of $30,000 during the three months ended March 31, 2009.

Debt Discount - Costs incurred with parties who are providing the actual financing, which generally include the value of shares of the Company’s common stock and warrants are reflected as a debt discount. These discounts are amortized over the life of the related debt. Amortization expense related to these costs and discounts is $108,604 and $38,368 for the six months and three months ended June 30, 2010, respectively, and is included in interest expense. Amortization expense related to the cost and discount was $710 for the six and three months ended June 30, 2009 and is included in interest expense.

Estimated Fair Value of Financial Instruments - The Company's financial instruments include cash, accounts receivable, accounts payable, accrued expenses and notes and loan payable. Management believes the estimated fair value of these financial instruments at June 30, 2010 approximate their carrying value as reflected in the balance sheets due to the short-term nature of these instruments.

Concentrations

- Credit risk - The Company maintains cash balances at various financial institutions. Accounts at each financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to $250,000, at June 30, 2010, the Company's cash did not exceed the FDIC insurance limit.
- Major customers - The Company has four major customers, which accounted for approximately 65% of sales during six months ended June 30, 2010. The Company has three major customers, which accounted for approximately 65% of sales during the three months ended June 30, 2010. The Company has four major customers, which accounted for approximately 88% of sales during the three months ended June 30, 2009. The loss of any of these customers could adversely affect the Company's operations.
- Major suppliers - The Company has three major suppliers, which accounted for approximately 51% of purchases during the six months ended June 30, 2010. The Company has three major suppliers, which accounted for approximately 90% of purchases during the three months ended June 30, 2010. The Company has three major suppliers which accounted for approximately 91% of purchases during the three months ended June 30, 2009. The loss of any of these suppliers could adversely affect the Company's operations.

Allowance for Doubtful Accounts - An allowance for uncollectible accounts receivable is recorded based on a combination of aging analysis and any specific troubled accounts. Starting in 2009, our produce are sold to our customers for cash or on credit terms which are established in accordance with local and industry practices and typically require payment within 10 to 30 days of delivery. Accounts are written off when uncollectibility is confirmed. Subsequent recoveries, if any, are credited to the allowance account.

Income Taxes - Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. At June 30, 2010 and December 31, 2009, the Company had a full valuation allowance against its deferred tax assets.

The Company files an income tax return in the U.S. federal jurisdiction, California and Texas. Tax returns for 2008 remain open for examination. The Company's estimate of the potential outcome of any uncertain tax issues is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. The Company uses a more likely than not threshold for financial statement recognition and measurement of tax position taken or expected to be taken in a tax return. To the extent that our assessment of such tax position changes, the change in estimate is recorded in the period in which the determination is made. As a result of the implementation of accounting for any uncertain tax positions, the Company recognized no material adjustment in the liability for unrecognized income tax benefits at February 19, 2008. At June 30, 2010 and December 31, 2009, there were no unrecognized tax benefits. Interest and penalties related to uncertain tax positions will be recognized in income tax expense. As of June 30, 2010 and December 31, 2009, no interest and penalties related to uncertain tax positions had been accrued.

Property and Equipment - Property and equipment is stated at cost, less accumulated depreciation, which is calculated using the straight-line method over the estimated useful life of three years. At June 30, 2010, property and equipment was $5,902, included cost of $8,500, net of accumulated depreciation of $2,598. The depreciation expense was $1,417 and $709 for the six and three months ended June 30, 2010, respectively, and included in general and administrative expense on the consolidated statement of operations.

Share Based Compensation - The Company measures its share-based employee compensation arrangements at the estimated fair value on the date of grant and are recognized as an expense over the requisite service period (generally the vesting period).

The Company measures compensation associated with equity grants to non-employees based on the fair value of the equity instruments issued. The measurement date to calculate the fair value of the equity instruments granted is based upon the date that the performance commitment has occurred.

Net Loss Per Share - Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period.

Diluted net loss per share is computed by dividing the net loss by the weighted average number of common and common equivalent shares outstanding during the period. Basic and diluted net loss per share are the same.

	Three Months ended June 30,		Six Months ended June 30,	
	2010 (Unaudited)	2009 (Unaudited)	2010 (Unaudited)	2009 (Unaudited)
Numerator:				
Net loss - basic and diluted	$ (682,915)	$ (931,316)	$ (1,112,763)	$ (2,239,608)
Denominator:				
Weighted average shares - basic	32,844,786	24,385,190	32,340,849	22,738,409
Effect of dilutive stock options and warrants	-	-	-	-
Denominator for diluted earnings per share	32,844,786	23.385,190	32,340,849	22,738,409
Loss per share:				
Basic	$ (0.02)	$ (0.04)	$ (0.03)	$ (0.10)
Diluted	$ (0.02)	$ (0.04)	$ (0.03)	$ (0.10)

At June 30, 2010 the Company stock options outstanding totaled 675,000. In addition, at June 30, 2010 and 2009, the Company’s warrants outstanding represented 6,400,168 and 6,000,168, respectively. Inclusion of the Company’s options and warrants in diluted loss per share for the three and six months ended June 30, 2010 and for the three and six months ended June 30, 2009, have an anti-dilutive effect because the Company incurred a net loss from operations.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Standards

In January 2010, FASB issued ASU 2010-06, “Improving Disclosures about Fair Measurements”, which provides amendments to subtopic 820-10 that require separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and the presentation of separate information regarding purchases, sales, issuances and settlements for Level 3 fair value measurements. Additionally, ASU 2010-06 provides amendments to subtopic 820-10 that clarify existing disclosures about the level of disaggregation and inputs and valuation techniques. ASU 2010-06 is effective for financial statements issued for interim and annual periods ending after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements, which are effective for interim and annual periods ending after December 15, 2010. The Company is currently evaluating the impact of the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. The Company adopted provisions of ASU 2009-06 that were affective after December 15, 2009 and the application of those provisions had no impact on the Company’s consolidated financial statements.

3. GOING CONCERN

The consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. As of June 30, 2010, the Company has a working capital deficit of approximately $2,566,000 and has accumulated losses of approximately $9,376,000 since its inception. Its ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due and upon profitable operations. The outcome of these matters cannot be predicted with any certainty at this time and raises substantial doubt that the Company will be able to continue as a going concern. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

The Company intends to overcome the circumstances that impact its ability to remain a going concern through a combination of the growing high margin revenues, with interim cash flow deficiencies being addressed through additional equity and debt financing. The Company anticipates raising additional funds through public or private financing, strategic relationships or other arrangements in the near future to support its business operations; however the Company may not have commitments from third parties for a sufficient amount of additional capital. The Company cannot be certain that any such financing will be available on acceptable terms, or at all, and its failure to raise capital when needed could limit its ability to continue its operations. The Company’s ability to obtain additional funding will determine its ability to continue as a going concern. Furthermore, additional equity financing may be dilutive to the holders of the Company’s common stock, and debt financing, if available, may involve restrictive covenants, and strategic relationships, if necessary to raise additional funds, and may require that the Company relinquish valuable rights.

4. ASSET PURCHASE AGREEMENT

On January 7, 2009, the Company entered into an Asset Purchase Agreement with American Eagle Transport LLC to purchase The AvocadoMan brand and an order processing web software system for $30,000. The purchase price was paid in November 2008.

During March 2009, the Company determined that The AvocadoMan brand had a zero fair value and so recorded impairment loss of $30,000. The Company's methodology to determine this impairment was based upon its assessment of future undiscounted cash flows and certain market-based assumptions.

5. DUE FROM FACTOR

During April 2009, the Company entered into an account receivable factoring facility with a financial service company specializing in short term financing facilities for produce companies with maximum borrowing of $1,500,000.

The financial service company advances 85% of qualified customer invoices to the Company and holds the remaining 15% as a reserve until the customer pays the financial services company. The Company is charged .083% interest per day for all advances made to the Company. Uncollectable customer invoices will be charged back to the Company.

During April 2010, the Company terminated the account receivable factoring facility with a financial services company.

6. INCOME TAXES

The components of deferred tax assets as of June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010	December 31, 2009
Share based compensation	$ 2,232,000	$ 2,173,000
Start up costs	312,000	276,000
Net operating losses	683,000	501,000
Less: valuation allowance	(3,227,000)	(2,950,000)
Net deferred tax asset	$ -	$ -

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. As a result of uncertainty of achieving sufficient taxable income in the future, the Company has recorded a full valuation allowance against its deferred tax asset of $3,227,000 and $2,950,000 as of June 30, 2010 and December 31, 2009, respectively.

At June 30, 2010, the Company had net operating losses of approximately $1,700,000 that may be used to reduce future tax liabilities, including net operating losses of approximately $68,000 of NB Design at December 31, 2008 acquired per the Exchange Agreement. Such net operating losses expire through 2029 and may be limited as the annual amount available for use under Internal Revenue Code Section 382.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible.

7. PREFERRED STOCK

The Company has not assigned any preference rights to the preferred stock, nor has any preferred stock been issued as of June 30, 2010.

8. EQUITY TRANSACTIONS

Unregistered Sales of Equity Securities:

During January 2009 and March 2009, the Company exchanged 1,747,071 shares of its registered common stock from a group of investors and related parties for two shares of the Company's unregistered common stock (3,493,476 shares). The registered shares were transferred to Edge Trading, LLC and Partners in an unsuccessful attempt to obtain financing. As part of the transaction an additional 2,000,000 unregistered shares of the Company's common stock were transferred to this group in January 2009. These shares were valued at $535,488, or $0.10 and $0.07 per share based on the closing price of the Company's common stock in January and March 2009, the dates of the shares were exchanged. The Company received proceeds of $25,000 from this transaction, the remaining $510,488 included in the general and administrative expense on the consolidated statement of operations for the three months ended March 31, 2009.

During February 2009, the Company compensated Thomas Morrison, former chief executive officer, with 2,500,000 unregistered shares of the Company's common stock, Parker Booth, president, with 645,000 unregistered shares of the Company's common stock and a financial consultant, with 2,000,000 unregistered shares of the Company's common stock for service to the Company. The Company also compensated three investor relations consultants with a total of 270,000 unregistered shares of the Company's common stock. The total compensation was valued at $487,350 or $0.09 per share based on the closing price of the Company's common stock on the date of the shares issued.

During June 2009, the Company compensated Dr. Corey Ruth, director, with 843,000 unregistered shares of the Company's common stock, Parker Booth, CEO, with 1,500,000 unregistered shares of the Company's common stock and a financial consultant, with 476,000 unregistered shares of the Company's common stock for services to the Company. The total compensation was valued at $620,180 or $0.22 per share based on the closing price of the Company's common stock on the date of the shares issued.

During March 2010, the Company issued Michael Rosenthal and Mark Klein, directors, each 350,000 unregistered shares of the Company's common stock they earned in August 2009 for their appointment to the board of directors.

During March 2010, the Company issued Michael Rosenthal 50,000 unregistered shares of the Company's common stock for service to the Company. The compensation expense of $2,500 was recorded during the three months ended March 31, 2010.

During April 2010, a consultant was issued 500,000 fully vested unregistered shares of the Company's common stock for investor relations consulting services to be provided over a one year term beginning April 18, 2010. The Company valued the transaction based on the fair value of its common stock on the date of issuance and will amortize the expense ratably over a one year term. The compensation expense of $4,000 and a prepaid expense of $16,000 was recorded during the three months ended June 30, 2010.

During June 2010, a consultant was issued 2,666,667 unregistered shares of the Company's common stock for investor relations services. The compensation expense of $106,667 was recorded during the three months ended June 30, 2010.

During July 2010, a consultant was issued 2,500,000 unregistered shares of the Company's common stock for investor relations. The compensation expense of $30,500 was recorded at the date of grant.

Notes and loans payable

In September 2008, Earnest Mathis, a related party, advanced the Company $15,000. The advance is evidenced by a promissory note bearing interest at 10% per annum. The unpaid balance including accrued interest was $17,686 and $16,942 at June 30, 2010 and December 31, 2009, respectively. The note has not been paid off as of August 24, 2010.

During the fourth quarter of 2008 through June 30, 2010, Parker Booth, Chief Executive Officer, advanced the Company $605,185. The advances are evidenced by a promissory note that bears interest at 5% per annum. The unpaid balance including accrued interest was $633,401 and $508,293 at June 30, 2010 and December 31, 2009, respectively. The promissory notes with accrued interest are due on December 31, 2010. The December 10, 2009 promissory note also included the issuance of 2,668,747 shares of the Company's common stock to Mr. Booth as a financing incentive. These shares have not been issued to Mr. Booth as of August 24, 2010. During August 2010, the Company announced receiving a new loan from Mr. Parker Booth, CEO, for $25,125 and consolidated his previous note dated April 21, 2010 into a single promissory note totaling $630,310 that pays interest at 5% and matures on December 31, 2010.

In July 2009, an individual advanced the Company $50,000. The advances are evidenced by promissory notes bearing interest at 5% per annum. The promissory note includes the issuance of 166,000 shares of the Company's common stock upon the maturity of the note as financing incentive. The promissory note matured on November 1, 2009. The Company issued 166,000 shares of the Company's common stock during September 2009. The unpaid balance including accrued interest was $52,411 and $51,171at June 30, 2010 and December 31, 2009, respectively. The note has not been paid off as of August 24, 2010.

In October and December 2009, Mike Rosenthal, Director, advanced the Company $100,000 and $30,000, respectively, totaling $130,000. The advances are evidenced by promissory notes bearing interest at 5% per annum. The promissory notes also include the issuance of 900,000 shares of the Company's common stock to Mr. Rosenthal as a financing incentive. These shares were issued to Mr. Rosenthal in March 2010. The October and December 2009 notes matured on March 31, 2010 and June 30, 2010, respectively. The unpaid balance including accrued interest was $134,347 and $131,123 at June 30, 2010 and December 31, 2009, respectively. Both notes have not been paid off as of August 24, 2010.

In November 2009 and February 2010, Morrison Partners, LLC (Thomas Morrison, former CEO and Chairman of the Board is the President), advanced the Company $10,000 and $15,000, respectively, totaling $25,000. The advances are evidenced by promissory notes bearing interest at 5% per annum. The November promissory note also included the issuance of 55,400 shares of the Company's common stock to Mr. Morrison as a financing incentive. The December 2009 and February 2010 notes are due on June 30, 2010 and September 30, 2010, respectively. The unpaid balance including accrued interest was $25,592 and $10,042 at June 30, 2010 and December 31, 2009, respectively. These shares have not been issued to Mr. Morrison as of August 24, 2010. The December note has not been paid back as of August 24, 2010

In December 2009, Dr. Corey Ruth, a former Director, advanced the Company $50,000. The advance is evidenced by a promissory note bearing interest at 5% per annum. The promissory note matured on February 4, 2010, included the issuance of 200,000 shares of the Company's common stock as financing incentive. The loan was paid back in February 2010. The 200,000 shares of the Company's common stock were issued to Dr. Ruth during March 2010. The unpaid balance including accrued interest was $508 and $50,137 at June 30, 2010 and December 31, 2009, respectively.

During March, 2010, an employee of the Company loaned the Company $16,000 payable with interest at 5% which is due on demand. The Company repaid $1,000 of the loan during March 2010 and $8,000 during April 2010. The unpaid balance including accrued interest was $7,153 at June 30, 2010.

In May 2010, an individual advanced the Company $20,000 bearing interest at 6% per annum. As a financing incentive, the promissory note includes warrants to purchase 400,000 shares of the Company's common stock at $0.05 per share. The warrants expire in November 2011. The Company allocated the $20,000 proceeds based on the fair value proportion of the debt and warrants at issuance and recorded a $9,200 discount. The value of the warrants was calculated using the Black-Scholes method. The promissory note matures on November 17, 2010. The unpaid balance including accrued interest was $20,146 at June 30, 2010.

At June 30, 2010, notes payable was $817,295, net of $73,949 discount and includes the accrued interest of $39,059. At December 31, 2009, notes and loan payable was $594,356, net of $173,352 discount and include interest of $18,803. The Company amortized the discount using the effective interest rate method over the term of the promissory notes. The amortization of discount for the three months ended June 30, 2010 and 2009 was approximately $38,368 and $710, respectively. The amortization of discount for the six months ended June 30, 2010 and 2009 was approximately $108,604 and $710, respectively, is included in interest expense on the consolidated statement of operations.

9. STOCK OPTIONS AND WARRANTS

Stock Options – Employment Contract:

On October 1, 2008 we executed an employment contract with Mr. Booth as the Company's President. Mr. Booth's employment contract was effective on November 15, 2008 provides for options to purchase 675,000 shares of the Company stock at $0.51 per share. The options vest annually for three years beginning September 30, 2009. The options expire five years from the date of the original grant.

The Company uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The fair value was determined to be $100,230 utilizing the Black-Scholes option pricing model with the following assumptions: stock price $0.15, expected term of 5 years, expected dividends of 0, 246.3% volatility, and a risk-free interest rate of 2.31 %. The Company recognized compensation expense included in general and administrative expense on the consolidated statement of operations for the three and six months ended June 30, 2010 and 2009 for $8,716 and $17,432, respectively.

Options Summary:

A summary of option activity as of June 30, 2010 is presented below:

	Shares	Weighted Average Exercise Price	Weighted - Average Remaining Contractual Term	Aggregate Intrinsic Value
Options				
Outstanding, January 1, 2010	675,000	$ 0.51	3.88	-
Outstanding, June 30, 2010	675,000	$ 0.51	3.38	-
Exercisable, June 30, 2010	225,000	$ 0.51	3.38	-

A summary of the status of the Company's non-vested shares as of June 30, 2010, and changes during the six months ended June 30, 2010, is presented below:

	Shares	Weighted - Average Grant-Date Fair Value
Non-vested Shares		
Non-vested, January 1, 2010 and June 30, 2010	450,000	0.15

The Company expects to issues shares upon exercise of the options from its authorized shares of common stock.

Common Stock Warrants:

At June 30, 2009 the Company had 6,000,168 warrants outstanding with an exercise price of $1.00 and an expiration date of December 31, 2011 (See Note 1).

At June 30, 2010 had the following warrants outstanding:

# Of Warrants	Exercise Price	Expiration Date
6,000,168	$ 1.00	December 31, 2011
400,000	$ 0.05	November 17, 2011
6,400,168		

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10. RELATED PARTY TRANSACTIONS

Consulting agreement

On July 1, 2008, the Company signed a 16 month consulting agreement with a consultant and a shareholder of the Company. The consulting services include financial advisory, investment relations and certain administrative and other services for $6,250 monthly fees. At June 30, 2010 and December 31, 2009, the Company owed approximately $100,000 and $41,000, respectively related to above consulting services, which is included in accrued expenses and other current liabilities on the consolidated balance sheets. This contract expired on October 31, 2009 and was not renewed.

On April 22, 2010, Tom Morrison, Non-Executive Chairman of the Board of Directors, informed the management of the Company that he was retiring from his position as the Company's Chairman. The retirement was effective immediately. In connection with his retirement, Mr. Morrison gratuitously reconveyed to the Company for cancellation 1,500,000 shares of the Company’s common stock that was previously granted to him as compensation. The Company is in the process of cancelling these shares.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases

From February 2008 through January 2009, the corporate office was in San Antonio, Texas. The terms were $1,500 a month for one year. In December 2008 the Company opened a new office in Salinas, California and moved the Corporate Office and terminated the lease in San Antonio after January 2009. The Salinas lease for $2,230 per month terminated on December 31, 2009. The Company is currently paying rent on a month to month basis. Rent expense for the three months ended June 30, 2010 and 2009, was approximately $7,000. Rent expense for the six months ended June 30, 2010 and 2009, was approximately $14,000 and $15,000, respectively.

Settlement

The Company reached a settlement with an executive search company on June 3, 2010 that fully releases the Company from all claims arising from a lawsuit. The Company engaged the executive search company in 2008 to assist with the hiring of its Chief Executive Officer and as a part of the agreement charged the Company $90,000 for its services. The Company has included the $90,000 in its accounts payable since October 2008, accruing interest based on the original terms of the agreement. Based on terms of the settlement the Company will pay $97,275 which includes $7,275 accrued interest through March 31, 2010 plus a 7% interest charge per annum for the remaining balance. Payments of $15,000 will be made each month beginning June 21, 2010. The Company has not made any payments related to settlement as of August 24, 2010. The Company owes $98,850 at June 30, 2010 related to this settlement which is included in accounts payable.

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	June 30, 2010	December 31, 2009
Due to related party (Note 10)	$ 100,000	$ 100,000

Bank overdraft	45,684	5,535
Payroll and payroll taxes payable	329,361	265,161
Other accrued liabilities	-	40,540
	$ 475,045	$ 411,236

13. SUBSEQUENT EVENTS

On June 18, 2010 the Company signed an 8% $25,000 convertible promissory note with a maturity date of March 21, 2011. The note can be converted into the Company's common stock by the holder based on a variable conversion price. The variable conversion price is defined in the notes as 51% multiplied by the average of the lowest three trading prices for the Company's common stock during the ten trading day period ending one trading day prior to the date of conversion. The Company received the $25,000 proceeds in July 2010.

In August 2010, the Company signed a consulting agreement with a consultant for one year term starting August 2, 2010. The consulting services include financial advisory, strategic business planning and investor and public relations services. The compensation to consultant includes convertible preferred stock which at the final determination date will be converted into shares of the common stock of the Company equivalent to 25% of outstanding common shares, as defined in the agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion should be read in conjunction with the consolidated financial statements and related notes to the consolidated financial statements included elsewhere in this report. This discussion contains forward-looking statements that relate to future events or our future financial performance. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These forward-looking statements are based largely on our current expectations and are subject to a number of uncertainties and risks including the Risk Factors identified in our Annual Report on Form 10-K for the year ended December 31, 2009. Actual results could differ materially from these forward-looking statements. Organic Alliance, Inc. is sometimes referred to herein as “we”, “us”, “our” and the “Company”.

OVERVIEW

Organic Alliance, Inc. brings together a unique alliance of respected growers, packers and shippers from around the world in order to source, market and distribute best-quality certified-organic, conventional, and certified Fair Trade food products. Crops are grown, packed and shipped under Organic Alliance supervision using advanced quality, food safety and sustainable agriculture practices. In the case of our certified Fair Trade program, we work directly with the growers to develop the structure and standards to be certified under the Fair Trade Labeling Organization (FLO) standards. The Company’s Approved Origins™ Program delivers not only on-demand traceability through a partnership with Yottamark’s Harvestmark technology, but transparency in all business-critical practices, including leading-edge food safety practices, continuous improvement and work force fairness.

While we offer conventional fresh food products to our customers, our focus is on growing our certified organic and certified Fair Trade markets as these are areas we believe offer the most opportunity for growth and support.

Our primary go-to-market segments for supplying our products are the grocery channel, food service distribution, fresh processors, CPG, and the overseas markets focusing on those grocery chains and their importer partners. We currently supply product to these market segments with overseas markets in Europe and Asia being served.

Since we began marketing products in June 2009, we have been establishing supplies of organic fresh fruits and vegetables from several regions globally. We have made significant strides as we have established long-term relationships with growers in Mexico, USA, Argentina, Peru, and Costa Rica that will help ensure a continuous year round supply to our customers. We are continuing to expand our sourcing areas from other Latin America countries as well as from the Asia continent in 2010 and beyond.

We have added several sourcing areas that are Fair Trade certified and we have several projects in line for 2010 that will establish new products grown and packed by growers who have not had market access prior to the establishment of their cooperatives. This is the essence of our Company mission of helping improve the lives of growers and those in their community as well as providing our customers with this unique product so they can sell to those consumers who want to make a social and ecological difference.

Based on 2008 data from the Organic Monitor, the global organic food market grew by 13.7% in 2008 to reach a value of $52 billion. In 2013, the market is forecast to have a value of $85.1 billion, an increase of 63.6% since 2008. The sale of fruit and vegetables accounts for 36% of the market's value. Based on 2008 data from FLO (Fair Trade Labeling Organization), Fair Trade certified sales amounted to approximately $4 billion worldwide, a 22% year-to-year increase. This leaves room for other innovative organizations like Organic Alliance to develop new solutions and build a leading position in this young and growing industry.

NB Design & Licensing, Inc., ("NB Design") was organized in September 2001. The former parent, New Bridge Products, Inc., was originally incorporated in August 1995 as a manufacturer of minivans and filed a petition in bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. Its Plan of Reorganization was approved by the U.S. Bankruptcy Court for the District of Arizona in September 2002 NB Design was discharged from bankruptcy in October 2002. NB Design was inactive from October 2002 to April 29, 2008.

Organic Alliance Inc., a Texas corporation, ("Organic Texas") was organized on February 19, 2008 to sell organically grown fruits and vegetables.

On April 29, 2008, NB Design a Nevada corporation, acquired all 10,916,917 issued and outstanding shares of common stock and assumed all liabilities of Organic Texas for 9,299,972 shares of the NB Design's shares of common stock. Organic Texas thereupon became a wholly owned subsidiary of NB Design. The business of Organic Texas is the only business of NB Design.

The acquisition of Organic Texas by NB Design on April 29, 2008 was accounted for as a reverse capitalization in accordance with the SEC's Division of Corporate Financial Reporting manual Topic 12 "Reverse Acquisition and Reverse Capitalization". The reverse capitalization was the acquisition of a private operating company (Organic Texas) into a non-operating public shell corporation with nominal net assets and as such is treated as a capital transaction, rather than a business combination. As a result no goodwill is recorded. In this situation, NB Design is the legal acquirer because it issued its equity interests, and Organic Texas is the legal acquiree because its equity interests were acquired. However, NB Design is the acquiree and Organic Texas as the acquirer for accounting purposes. Organic Texas is treated as the continuing reporting entity that acquired the registrant, NB Design. The pre-acquisition financial statements of Organic Texas are treated as the historical financial statements of the consolidated companies. Pursuant to the Securities Exchange, NB Design issued 9,299,972 shares of our Common Stock for all of the issued and outstanding Common Stock of Organic Texas and assumed all assets and liabilities. NB Design also had outstanding 1,000,028 each of Class A, Class B, Class C, Class D, Class E and Class F warrants prior to April 29, 2008. The warrants were exercisable at $2.00, $2.00, $4.00, $4.00, $6.00 and $6.00, respectively, at any time until December 31, 2008. As a condition to close the Exchange Agreement, the exercise prices of the warrants were subsequently reduced to $1.00 per share for all classes of Warrants and the expiration date was extended to December 31, 2011. In exchange for the exercise price reduction, the holders of at least 80% of the Warrants agreed to a call provision by us on 10 days notice to them if (i) the bid price of our common stock is quoted at $1.25 per share or higher and the average share volume exceeds 300,000 shares for at least one day, and (ii) the shares underlying the warrants are subject to a current registration statement on file with the Securities and Exchange Commission (SEC). Both the share price and volume must be met on the same day for the call provision to be effective. As of the date of this Form 10-Q the common shares are unregistered with the SEC.
On June 2, 2008, the name NB Design was changed to Organic Alliance, Inc. On August 29, 2008, the name of Organic Texas was changed to Organic Texas, Inc.

We recorded our first sale in March 2009 and emerged from a development stage company during the second quarter of calendar year 2009.

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Critical Accounting Estimates and Policies

Revenue Recognition

Starting in March 2009, our produce are sold to distributors and retailers (collectively the "customers") for cash or on credit terms which are established in accordance with local and industry practices and typically require payment within 10 to 30 days of delivery. Revenue is recorded when (1) the customer accepts delivery of the product and title has been transferred and the Company has no significant obligations remaining to be performed; (2) a final understanding as to specific nature and terms of the agreed upon transaction has occurred; (3) price is fixed and (4) collection is reasonably assured. Sales are presented net of discounts and allowances.

Allowance for Doubtful Accounts

An allowance for uncollectible accounts receivable is recorded based on a combination of aging analysis and any specific troubled accounts. Starting in 2009, our produce are sold to our customers for cash or on credit terms which are established in accordance with local and industry practices and typically require payment within 10 to 30 days of delivery. Accounts are written off when uncollectibility is confirmed. Subsequent recoveries, if any, are credited to the allowance account.

Stock-Based Compensation

The Company expenses the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of such instruments. The Company uses the Black-Sholes model to calculate the fair value of the equity instrument on the grant date.

Impairment of Long-Lived and Intangible Assets

Long-lived assets consist of property and equipment and intangible assets. Intangible assets are comprised of The AvocadoMan brand and an order processing web software system. The Company evaluates long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

When the Company determines that the carrying value of long-lived assets may not be recoverable based upon the existence of the above indicators of impairment and the carrying value of the asset cannot be recovered from projected undiscounted cash flows, the Company records an impairment charge. Significant management judgment is required in determining whether an indicator of impairment exists and in projecting cash flows. The Company believes the carrying value of its The AvocadoMan brand name will not be recover in the future and so recorded impairment loss of $30,000 for the three months ended March 31, 2009.

Deferred Tax Assets

In assessing the realization of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. As a result of uncertainty of achieving sufficient taxable income in the future a full valuation allowance against its deferred tax asset has been recorded. If these estimates and assumptions change in the future, the Company may be required to reverse the valuation allowance against deferred tax assets, which could result in additional income tax income.

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Debt Discount

Costs incurred with parties who are providing the actual long-term financing, which generally include the value of shares of the Company's common stock and warrants are reflected as a debt discount. These discounts are amortized over the life of the related debt. Amortization expense related to these costs and discounts is $108,604 and $38,368 for the six and three months ended June 30, 2010 and is included in interest expense.

Results of Operations

Results of operations for the three months ended June 30, 2010 compared to the three months ended June 30, 2009

For the period from inception (February 19, 2008) until March 31, 2009, we were a development stage company with little revenues. We began to earn revenues during March 2009 and recorded substantial revenues during the second quarter of 2009.

For the three months ended June 30, 2010 net sales of $73,042 compared to $1,174,661, for the three months ended June 30, 2009. The $1,101,619 or 94% decrease is primarily attributable to our lack of capital to purchase produce.

For the three months ended June 30, 2010, cost of goods sold was $69,647 compared to $1,144,705 cost of goods sold for the three months ended June 30, 2009.

For the three months ended June 30, 2010, gross margin was $3,395 compared to $29,956 gross margin for the three months ended June 30, 2009. Until such time as we have sufficient capital to efficiently purchase our products we will continue to experience higher costs and such costs will not necessarily correlate directly to revenue.

For the three months ended June 30, 2010, general and administrative (G&A) expenses of $635,970 compared to $951,588 for the three months ended June 30, 2009. The decrease in G&A expenses of $315,618 or 50% are primarily attributable to decreased stock compensation costs of approximately $508,000 for executive, director and financing compensation. An increase of approximately $250,000 of professional fees primarily related to increased accounting fees and other offset by decreased payroll expense of approximately $58,000.

For the three months ended June 30, 2010, operating loss was $632,575 compared to $921,632 for the three months ended June 30, 2009.

For the three months ended June 30, 2010, other expense was $50,340 compared to of $9,684 for three months ended June 30, 2009. The Company accrued interest expense of $10,494 and $3,112 on notes and loans payable for the three months ended June 30, 2010 and 2009, respectively. The interest expense for the three months ended June 30, 2010 and 2009 also includes $38,368 and $710, respectively, amortization of discount on notes payable and $1,478 and $5,861, respectively, related to factor advances.

For the three months ended June 30, 2010, net loss was $682,915 or $0.02 basic and basic and diluted loss per share compared to $931,316 or $0.04 basic and basic and diluted loss per share for the three months ended June 30, 2009. The $252,482 or 27% decrease in net loss was primarily attributable to the factors described above.

Results of operations for the six months ended June 30, 2010 compared to the six months ended June 30, 2009

For the period from inception (February 19, 2008) until March 31, 2009, we were a development stage company with little revenues. We began to earn significant revenues during second quarter of 2009 and therefore we are no longer reporting as a development stage company.

For the six months ended June 30, 2010, net sales of $1,299,800 were recorded compared to revenue of $1,177,542 revenue for the six months ended June 30, 2009. The $122,258 or 10% increase is primarily attributable no sales in the first quarter of 2009 as we emerged from the development stage. Our lack of capital to purchase produce has significantly reduced our sales growth.

For the six months ended June 30, 2010, cost of goods sold was $1,289,846 compared to $1,146,829 cost of goods sold for the for the six months ended June 30, 2009.

For the six months ended June 30, 2010, gross loss was $60,046 compared to $30,713 gross margin for the six months ended June 30, 2009. Until such time as we have sufficient capital to efficiently purchase our products we will continue to experience higher costs and such costs will not necessarily correlate directly to revenue. Due to cash shortage during the six months ended June 30, 2010, we sold produce below cost.

For the six months ended June 30, 2010, general and administrative (G&A) expenses of $907,480 compared to $2,228,597, for the six months ended June 30, 2009. The decrease in G&A expenses of $1,321,117 or 59% are primarily attributable to decreased stock compensation costs of approximately $1,503,000. An increase of approximately $201,000 of professional fees was offset by a decrease in payroll expense of approximately $19,000.

For the six months ended June 30, 2010, operating loss $967,526 was compared to $2,197,884 for the six months ended June 30, 2009.

For the six months ended June 30, 2010, other expense was $145,237 compared to other net expense of $41,724 for the six months ended June 30, 2009. The Company recorded interest expense of $20,253 and $11,724 on notes and loans payable for the six months ended June 30, 2010 and 2009, respectively. The interest expense for the six months ended June 30, 2010 and 2009 also includes $108,604 and $710, respectively, amortization of discount on notes payable and $16,380 and $5,861, respectively, related to factor advances. During the six months ended June 30, 2009 we wrote off a deposit related to an intangible asset that was deemed impaired for $30,000.

For the six months ended June 30, 2010, net loss was $1,112,763 or $0.03 basic and basic and diluted loss per share compared to $2,239,608 or $0.10 basic and basic and diluted loss per share for the six months ended June 30, 2009. The $1,130,925 or 51% decrease in net loss was primarily attributable to the factors described above.

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Liquidity and Capital Resources

Our operations to date have generated substantial losses that have been funded through the issuance of common stock and loans from related parties and other services. We will require additional sources of outside capital to continue our operations. We expect that our primary source of cash in the future will be from the issuance of common stock, loans, accounts receivable factoring and a line of credit. During April 2010, we terminated our account receivable factoring facility with a financial services company.

Our financial statements contained within have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. For the period from inception (February 19, 2008) to June 30, 2010, we reported accumulated losses of approximately $9,376,000 Our ability to continue as a going concern is dependent upon achieving sales, profitability and our ability to obtain the necessary financing to meet our obligations and pay our liabilities arising from normal business operations when they come due. The outcome of these matters cannot be predicted with any certainty at this time and raise substantial doubt that we will be able to continue as a going concern. The financial statements contained in this Form 10-Q do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should we be unable to continue as a going concern. We anticipate that additional funding may be generated from the sale of common shares and/or debt with an equity feature and from asset based financing or factoring.

Generally, we have primarily financed operations to date through the proceeds of the private placement of equity securities and the issuance of promissory notes.

For the period from inception (February 19, 2008) to June 30, 2010, we received approximately $212,000 from the sale of our common stock. For the period from inception (February 19, 2008) to June 30, 2010, we received proceeds from the notes payable of $956,185 of which $104,000 has been paid back as of June 30, 2010.

During May 2008, we also sold 2,483,750 shares of our common stock for $0.40 per share to an investor for a 90 day promissory note that bore interest at 8% per annum on any unpaid balance. The unpaid balance of $750,630 including accrued interest of $22,657 was deemed uncollectable and written off as of December 31, 2008.

We have limited funding available for marketing and will rely solely on our ability to raise debt or equity funds in the immediate future.

Our contractual obligation consists of current notes and loan payable. Our total obligation was $891,244, including accrued interest of $39,059, for the notes at June 30, 2010. As of August 24, 2010, we have not made any principal payments on these notes.

On June 18, 2010 the Company signed an 8% $25,000 convertible promissory note with a maturity date of March 21, 2011. The note can be converted into the Company's common stock by the holder based on a variable conversion price. The variable conversion price is defined in the notes as 51% multiplied by the average of the lowest three trading prices for the Company's common stock during the ten trading day period ending one trading day prior to the date of conversion. The Company received the $25,000 proceeds in July 2010.

Net Cash Flows

For the six months ended June 30, 2010, net cash used in operating activities was $103,399 compared to $112,137 for six months ended June 30, 2009. The decrease of $8,738 or 8% as improvements in account receivable were offset by accounts payable, accrued expense and other.

For the six months ended June 30, 2010, net cash provided by financing activities was $103,279 compared to $195,230 for six months ended June 30, 2009. The decrease of $91,951 was primarily related to the payoff of a loan from a director and no proceeds from the issuance of common stock for the six months ended June 30, 2010.

At June 30, 2010 and 2009, we had 675,000 stock options and 6,400,128 common stock purchase warrants outstanding. The outstanding stock options have a weighted average exercise price of $0.51 per share. The outstanding warrants have a weighted average exercise price of $1 per share. Accordingly, at June 30, 2010, the outstanding options and warrants represented a total of 7,075,128 shares issuable for a maximum of $6,364,378 if these options and warrants were exercised in full. The exercise of these options and warrants is at the discretion of the holder while the holders of at least 80% of the Warrants agreed to a call provision by us on 10 days' notice to them if (i) the bid price of our common stock is quoted at $1.25 per share or higher and the average share volume exceeds 300,000 shares for at least one day, and (ii) the shares underlying the warrants are subject to a current registration statement on file with the SEC. The 6,000,128 warrants have not been registered with the SEC as of the date of this Form 10-Q. There is no assurance that any of these options or any additional warrants will be exercised.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management team, under the supervision and with the participation of our principal executive officer/financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of the last day of the fiscal period covered by this report, June 30, 2010. The term disclosure controls and procedures means our controls and other procedures that are designed to ensure 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's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive/principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Our principal executive officer/principal financial officer is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Management is required to base its assessment of the effectiveness of our internal control over financial reporting on a suitable, recognized control framework, such as the framework developed by the Committee of Sponsoring Organizations (COSO). The COSO framework, published in Internal Control-Integrated Framework, is known as the COSO Report. Our principal executive officer /principal financial officer, has chosen the COSO framework on which to base its assessment. Based on this evaluation, our principal executive officer/principal financial officer concluded that our disclosure controls and procedures were not effective as of June 30, 2010.

The controls designed were adequate for financial disclosures required for the preparation of the 10-Q filing; however due to lack of resources in the company's accounting department the controls were not operating effectively. The remediation plan for improving the effectiveness over financial disclosure controls, which caused the material weakness over financial disclosures required in the 10-Q, include the creation of a financial disclosures roll-forward model in accordance with the disclosures contained in the 10-Q report. This model will be maintained and updated by Company staff and management as new business transactions require additional financial disclosures. As the Company obtains additional resources these financial disclosures will be reviewed by an outside financial disclosure expert for completeness and accuracy earlier in the financial statement closing process cycle in order to help ensure completeness and accuracy for reporting financial disclosures. We intend to hire a full time Chief Financial Officer to augment our internal controls procedures and expand our accounting staff.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable and not absolute assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of certain events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the normal course of business, the Company is, and in the future may be, subject to various disputes, claims, lawsuits, and administrative proceedings arising in the ordinary course of business with respect to commercial, product liability, employment, and other matters, which could involve substantial amounts of damages. In the opinion of management, any liability related to any such known proceedings would not have a material adverse effect on the business or financial condition of the Company. Additionally, from time to time, we may pursue litigation against third parties to enforce or protect our rights under our trademarks, trade secrets and our intellectual property rights generally.

During April 2010, the Company was served with two lawsuits for past due liabilities of the Company. The first lawsuit was Executive Dynamics Search, Inc., plaintiff, vs. Organic Alliance, Inc., defendant, for approximately $97,000 plus attorney fees and interest. The suit was filed in the Superior Count of California, case number 37-2010-00053560-CU-BC-NC. Executive Dynamics Search, Inc. provided executive placement services to the Company. The Company reached a settlement with an executive search company on June 3, 2010 that fully releases the Company from all claims arising from a lawsuit. The Company engaged the executive search company in 2008 to assist with the hiring of its Chief Executive Officer and as a part of the agreement charged the Company $90,000 for its services. The Company has included the $90,000 in its accounts payable since October 2008, accruing interest based on the original terms of the agreement. Based on terms of the settlement the Company will pay $97,275 which includes $7,275 accrued interest through March 31, 2010 plus a 7% interest charge per annum for the remaining balance. Payments of $15,000 will be made each month beginning June 21, 2010. The Company has not made any payments related to settlement as of August 24, 2010. The Company owes $98,850 at June 30, 2010 related to this settlement which is included in accounts payable.The second lawsuit was Full Circle Sales, Inc, plaintiff, vs. Organic Alliance, Inc., defendant, for approximately $257,000 plus attorney fees and interest. The suit was filed in the United States District Count for the Northern District of California, case number CV10-01615. Full Circle Sales, Inc. is a produce supplier of the Company.

ITEM 1A. RISK FACTORS

Not applicable to smaller reporting companies.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

All of the securities set forth below were issued by us pursuant to Section 4(2) of the Securities Act of 1933 as amended. All such shares issued contained a restrictive legend (unregistered) and the holders confirmed that they were acquiring the shares for investment and without intent to distribute the shares. All of the purchasers were friends or business associates of our management, had access to all information related to us, were experienced in making speculative investments, understood the risks associated with investments, and could afford a loss of the entire investment.

(i) During March 2010, directors were issued 1,850,000 unregistered shares of the Company’s common stock for director compensation and financing incentive. These shares were valued from $0.08 to $0.13 per share.
(ii) During April 2010, a consultant was issued 500,000 unregistered shares of the Company’s common stock for Investor relations. These shares were valued at $0.04 per share.
(iii) During June 2010, a consultant was issued 2,666,667 unregistered shares of the Company’s common stock for Investor relations. These shares were valued at $0.04 per share.
(iv) During July 2010, a consultant was issued 2,500,000 unregistered shares of the Company’s common stock for Investor relations. These shares were valued at $0.012 per share.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

We have no senior securities during the period covered by this report.

ITEM 5. OTHER INFORMATION

There is no information with respect to which information is not otherwise called for by this form.

ITEM 6. EXHIBITS

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

ORGANIC ALLIANCE, INC.

By: /s/ Parker Booth
Parker Booth
Chief Executive Officer, Chief Financial Officer
(Principal
Accounting Officer) and Director

Date: August 24, 2010