Organic Alliance, Inc.
Form 10-K
June 19, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K

(Mark One)
X Annual Report under Section 13 or 15 (d) of The Securities Exchange Act of 1934
For the fiscal year ended December 31, 2011
Transition Report under Section 14 or 15 (d) of The Securities Exchange Act of 1934
For the transition period from N/A to N/A
Commission File Number: 000-53545

ORGANIC ALLIANCE, INC.
(Name of small business issuer 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)

Securities registered under Section 12 (b) of the Exchange Act:
None

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

Common Stock, $0.0001 par value per share.
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yeso Nox

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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. Yeso Nox

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes o  No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer o | Small Business Issuer x |

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

As of June 30, 2011, the aggregate market value of the shares of Common Stock held by non-affiliates of the Registrant was approximately $673,740. Such aggregate market value was computed by reference to the closing price of the Common Stock as reported on the Pink Sheets on June 30, 2011. For purposes of making this calculation only, the Registrant has defined affiliates as including all directors and executive officers.

The number of outstanding shares of the Registrant's Common Stock, par value $.0001 per share, on June 18, 2012 was 11,032,593.

DOCUMENTS INCORPORATED BY REFERENCE-None

ORGANIC ALLIANCE, INC.
FORM 10-K ANNUAL REPORT
TABLE OF CONTENTS

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

EXPLANATORY NOTE

Unless otherwise indicated or the context otherwise requires, all references in this Annual Report on Form 10-K to "we," "us," "our," and the "Company" are to Organic Alliance Inc., a Nevada corporation.
In this annual report, unless otherwise specified, all dollar amounts are expressed in United States dollars.

The Company's financial statements are stated in United States Dollars (US$) and are prepared in accordance with United States Generally Accepted Accounting Principles.

CAUTIONARY NOTICE REGARDING FORWARD LOOKING STATEMENTS

The Company's desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. This Annual Report on Form 10-K contains a number of forward-looking statements that reflect management's current views and expectations with respect to the Company's business, strategies, products, future results and events and financial performance. All statements other than statements of historical fact, including future results of operations or financial position, made in this Annual Report on Form 10-K are forward looking. In particular, the words "believe," "expect," "intend," "anticipate," "estimate," "may," "will," variations of such words, and simil expressions identify forward-looking statements, but are not the exclusive means of identifying such statements and their absence does not mean that the statement is not forward-looking. These forward-looking statements are subject to certain risks and uncertainties, including those discussed below. The Company's actual results, performance or achievements could differ materially from historical results as well as those expressed in, anticipated or implied by these forward-looking statements. The Company does not undertake any obligation to revise these forward-looking statements to reflect any future events or circumstances.

PART I

ITEM I: DESCRIPTION OF BUSINESS

Business

Organic Alliance, Inc. ("OAI" or the "Company") is a sales and marketing distribution company that supplies conventional, organic, natural, and Fair Trade food products to the global market. OAI works directly with growers while also contracting farming production domestically and abroad to vertically integrate supply chains, reduce costs and provide a high degree of control over quality, food safety and production sustainability.

History

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. During the second quarter of 2009, it ceased being a development company when it commenced its operations.

On April 29, 2008, NB Design, a Nevada corporation, acquired all 10,916,917 issued and outstanding shares of common stock of Organic Texas for 464,999 shares of the NB Design’s 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 Company operates in California.

The acquisition of Organic Texas by NB Design on April 29, 2008 was accounted for as a reverse capitalization in accordance with the Security 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 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 464,999 shares of The Company’s 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 50,001 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 $40.00, $40.00, $80.00, $80.00, $120.00 and $120.00, 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 $20.00 per share for all classes of Warrants and the expiration date was extended to December 31, 2011. As of December 31, 2011, all these warrants expired unexercised. In exchange for the exercise price reduction, the holders of at least 80% of the Warrants agreed to a call provision by the Company on 10 days’ notice to them if (i) the bid price of the Company’s common stock is quoted at $25.00 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.

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 the annual report to "Organic Alliance, Inc." or the "Company" refers to the combined operations for Organic Alliance, Inc., a Nevada Corporation, and its wholly owned subsidiary, Organic Texas.

During November 2010, the Company increased the number of authorized shares of common stock from three million to 100 million shares.

On February 14, 2011, the Company executed a 20:1 reverse split. All shares of the Company's common stock have been retroactively restated.

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 December 31, 2011, the Company has limited cash, a working capital deficit of approximately $4,389,000, has accumulated losses of approximately $13,455,000 since its inception and has withheld $153,009 of payroll tax liabilities from wages paid which have yet to be remitted to the taxing authorities and are delinquent. The Company is currently delinquent with its payroll tax filings since December 31, 2008. 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 increasing its revenue in order to achieve profitable operations. The Company estimates a $2,000,000 capital infusion from the date of filing will be required to continue operations through the end of 2012. 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 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 does 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.

Intellectual Property

The Company has no intellectual property at December 31, 2011.

Employees

As of December 31, 2011 the Company had five employees, including the Company's two executive officers.

Where You Can Find More Information

You are advised to read this Form 10-K in conjunction with other reports and documents that the Company's file from time to time with the SEC. In particular, please read the Company's Quarterly Reports on Form 10-Q and Current Reports on Form 8-K that the Company files from time to time. You may obtain copies of these reports directly from us or from the SEC at the SEC's Public Reference Room at 100 F. Street, N.E. Washington, D.C. 20549, and you may obtain information about obtaining access to the Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains information for electronic filers at its website http://www.sec.gov.

ITEM IA: RISK FACTORS

Going Concern Risk

We emerged from the development stage during the second quarter of calendar 2009 when we began selling conventional and organically grown fruits and vegetables. We had an account receivable factoring financing facility in place at December 31, 2009 that was eliminated in 2010. During 2010, our business was substantially impacted by our lack of a factoring facility for our receivables, increased leverage from our payables and our inability to remain solvent. Over this time, we had to effectively shut down our business as we restructured our Company. As of late 2011, we had in place a new facility to provide funding for our receivables and handle the related trade payables, but our business requires new capital to meet management's growth plans.

Our ability to continue as a going concern is dependent upon achieving sale of goods, our ability to obtain the necessary financing to meet our obligations and pay our 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 raise substantial doubt that we will be able to continue as a going concern.

The consolidated financial statements contained in this annual report 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 the Company's assets and discharge the Company's liabilities in the ordinary course of business. As of December 31, 2011, The Company had limited cash, a working capital deficit of approximately $4,389,000 and had accumulated substantial losses of approximately $13,455,000 since the Company's inception on February 19, 2008.

Risks Related to The Company

Our inability to contract for organic, natural and conventional products with growers and sell the food products to our customers will reduce or eliminate our revenue.

In order to generate revenue, we need to source organic food products from growers and sell the food products to our customers. We are seeking to establish an extensive network of suppliers that will mitigate the risk of not having ample supply to meet our customers' needs, but we cannot assure you will be successful in doing so. If we are unable to establish a more extensive supply network, it will have a material adverse effect on our Company.

Our products may be subject to recall, exposing us to significant liabilities.

Our organic, natural and conventional food products may be subject to recall due to the existence of disease or other conditions in connection with the growing or processing of the products, which could result in harm to the end user consumer. Any such recall or harm to a consumer could subject us to significant financial liability. We place a high emphasis on adherence to meeting our food safety standards from our grower base, we have regular audits performed that meet or exceed the USDA standards, and we work closely with each grower regularly to ensure compliance. In addition, we carry liability insurance covering us against liability for any food safety event, as well as covering our major customers through indemnification on our certificate. Even with these protections in place, a recall of our products could have a material adverse effect on our business.

We have no written agreements with retailers or growers.

We utilize purchase orders from our customers with agreed to quality specifications, quantity, and price prior to packing the product. We intend to establish written agreements with many of our suppliers and many of our customers prior to the start of each new season; however, we cannot assure you that we will be able to do so.

We have significant competition from a variety of sources, which could reduce our revenue and any profitability.

We operate in competitive markets, and our future success will be largely dependent on our ability to provide quality products and services at competitive prices. Our competition comes from a variety of sources, including other distributors of organic products as well as specialty grocery and mass market grocery distributors. We cannot assure you that our current or potential competitors will not provide services comparable or superior to those provided by us or adapt more quickly than we do to evolving industry trends or changing market requirements. It also is possible that alliances among competitors may develop that rapidly acquire significant market share, or that certain of our customers will increase distribution to their own retail facilities. Increased competition may result in price reductions, reduced gross margins and loss of market share, any of which could materially adversely affect our business, financial condition or results of operations.

Our operations are sensitive to economic downturns, which could reduce our revenue and any profitability.

The food industry is sensitive to national and regional economic conditions and the demand for our products may be adversely affected from time to time by economic downturns. Diversification in the markets we serve around the world may help mitigate the effect of economic downturn. In addition, we intend to continue our development into the European and Asian markets to mitigate our overall risk. We cannot assure you that we will be successful in achieving meaningful diversification or development in other markets. If we are unable to do so, it could have a material effect on our business.

We may not be able to grow or to effectively manage our growth.

Our future growth will depend upon a number of factors, some of which we cannot control. These factors include our ability to:

- enhance information and communication systems to ensure that our employees can effectively communicate with each other and our growing base of suppliers and distribution outlets;
- implement operational plans and strategies;
- improve our operating and financial systems and controls; and
- hire, train and retain qualified personnel to manage and operate our growing business.

The failure to manage any of these factors effectively could adversely affect our business, financial position and results of operations.

Our future operating results are subject to significant fluctuations which could have a negative effect on our operations and any analysis of our future operating results.

Our future operating results may vary significantly from period to period due to:

- demand for organic products;
- changes in our operating expenses;
- changes in customer preferences and changing demands for organic products, including levels of enthusiasm for health, fitness and environmental issues;
- fluctuation of organic product prices due to competitive pressures;
- personnel changes;
- supply shortages;
- general economic conditions;
- lack of an adequate supply of high-quality agricultural products due to poor growing conditions, natural disasters or otherwise; and

- volatility in prices of high-quality agricultural products resulting from poor growing conditions, natural disasters or otherwise.

Due to the foregoing factors, we believe that period-to-period comparisons of our operating results may not necessarily be meaningful and that such comparisons cannot be relied upon as indicators of future performance.

We are subject to significant governmental regulation which can increase our costs, timing of products to market and profitability.

Our business is highly regulated at the federal, state and local levels, and our products and distribution operations require various licenses, permits and approvals. In particular:

- our products are subject to inspection by the U.S. Food and Drug Administration;
- any warehouse and distribution facilities we may use will be subject to inspection by the U.S. Department of Agriculture and state health authorities;
- the U.S. Department of Transportation and the U.S. Federal Highway Administration regulate our trucking operations or those of our contractors; and
- our products must be certified as organic by the USDA.

The loss or revocation of any existing licenses, permits, certifications or approvals or the failure to obtain any additional licenses, permits or approvals in new jurisdictions where we intend to do business could reduce our revenue, increase our costs, affect the timing of our products going to market and reduce any profitability.

We are dependent for success on Parker Booth, our Chief Executive Officer, and Chris White, our Vice President of Global Supply Chain Development. Our inability to retain either Mr. Booth's or Mr. White's services would impede our operations and growth strategy, which would have a negative impact on the business and the value of your investment.

Our success is largely dependent on the skills, experience and efforts of Parker Booth, our Chief Executive Officer, and Chris White, our Vice President of Global Supply Chain Development. If Messrs.' Booth or White are unable or unwilling to continue in their present positions, our business may be severely disrupted, and we may incur additional expenses to recruit and retain new officers. We cannot assure you that we will be able to readily replace any departing executive officer. We do not maintain key man life insurance on any of our executive officers.

Our future success also depends, to a significant extent, on our ability to attract, train and retain qualified personnel. Recruiting and retaining capable personnel, particularly those with expertise in the organic food industry, are vital to our success. There is substantial competition for qualified personnel, and there can be no assurance that we will be able to attract or retain our personnel. If we are unable to attract and retain qualified employees, our business may be materially and adversely affected.

We will need to raise additional capital in order to continue our operations, which could dilute the ownership interests of existing shareholders and cause the issuance of securities with preferences and privileges superior to our common stock.

We will need to raise additional funds in the future in order to take advantage of opportunities for sourcing organic, natural and conventional food products or for potential acquisitions. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders will be, or may be, reduced, and such securities may have rights, preferences and privileges senior to those of our common stock and may have covenants which impose restrictions on the our operations.

Risks Relating to the Company's Securities

Insiders have substantial control over us, and they could delay or prevent a change in the Company's corporate control even if the Company's other stockholders wanted it to occur.

As of the date of this Form 10-K, the Company's executive officer, directors and 10% or greater stockholders own 8,154,687 shares of the Company's Common Stock or approximately 74% of the Company's outstanding Common Stock. Accordingly, these individuals will be able to control all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This could delay or prevent an outside party from acquiring or merging with us even if the Company's other stockholders wanted it to occur.

Our common stock is subject to the penny stock regulations and restrictions, which could impair our liquidity and make trading difficult.

SEC Rule 15g-9, as amended, establishes the definition of a "penny stock" as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to a limited number of exceptions. Our shares are considered to be penny stock. This classification could severely and adversely affect the market liquidity for our common stock.

For any transaction involving a penny stock, unless exempt, the penny stock rules require that a broker or dealer approve a person's account for transactions in a penny stock and the broker or dealer receive from the investor a written agreement to the transaction setting forth the identity and quantity of the penny stock to be purchased. To approve a person's account for transactions in a penny stock, the broker or dealer must obtain financial information and investment experience and objectives of the person, and make a reasonable determination that the transactions in penny stocks are suitable for that person and that the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer also must deliver, prior to any transaction in a penny stock, a disclosure schedule prepared by the SEC relating to the penny stock market, which, in highlight form, sets forth:

- the basis on which the broker or dealer made the suitability determination, and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and commission's payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the purchaser's account and information on the limited market in penny stocks.

Because of these regulations, broker-dealers may not wish to engage in the above-referenced necessary paperwork and disclosures and/or may encounter difficulties in their attempt to sell shares of our common stock. This, in turn, may affect the ability of selling stockholders or other holders to sell their shares in any secondary market and have the effect of reducing the level of trading activity in any secondary market. These additional sales practice and disclosure requirements could impede the sale of our securities. In addition, the liquidity for our securities may decrease, with a corresponding decrease in the price of our securities. Our shares, in all probability, will be subject to such penny stock rules for the foreseeable future and our stockholders will, in all likelihood, find it difficult to sell their securities.

The market price of our common stock may be volatile.

The market price of our common stock may be highly volatile, as is the stock market in general, and the market for Pink Sheet quoted stocks in particular. Some of the factors that may materially affect the market price of our common stock are beyond our control, such as changes in financial estimates by industry and securities analysts, announcements made by our competitors or sales of our common stock. These factors may materially adversely affect the market price of our common stock, regardless of our performance. In addition, the public stock markets have experienced extreme price and trading volume volatility. This volatility has significantly affected the market prices of securities of many companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

We do not expect to pay dividends in the near future, and any return on investment may be limited to the value of our stock.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future, so any return on investment may be limited to the growth in the value of our stock. We plan to retain any future earnings to finance growth.

Future sales of our common stock may depress our stock price.

Sales of a substantial number of shares of our common stock, including shares to be registered in connection with this Offering, into the public market could cause a decrease in the market price of our common stock.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could prevent us from producing reliable financial reports or identifying fraud. In addition, shareholders could lose confidence in our financial reporting, which could have an adverse effect on our stock price.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud, and a lack of effective controls could preclude us from accomplishing these critical functions. We are required to document and test our internal control procedures in order to satisfy the requirements of Section 404(a) of the Sarbanes-Oxley Act of 2002, which requires an annual management assessment of the effectiveness of our internal controls over financial reporting. During October 2011, we hired Barry Brookstein as Chief Financial Officer to augment our internal controls procedures and expand our accounting staff, but there is no guarantee that these efforts will be adequate.

During the course of our testing, we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to maintain the adequacy of our internal accounting controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. Failure to achieve and maintain an effective internal control environment could cause us to face regulatory action and also cause investors to lose confidence in our reported financial information, either of which could have an adverse effect on our stock price.

There is a reduced probability of a change of control or acquisition of us due to the possible issuance of preferred stock. This reduced probability could deprive our investors of the opportunity to otherwise sell our stock in an acquisition of us by others.

Our Articles of Incorporation authorize our Board of Directors to issue up to 10,000,000 shares of preferred stock, of which no shares have been issued. Our preferred stock is issuable in one or more series and our Board of Directors has the power to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any series or designation of such series, without further vote or action by stockholders. As a result of the existence of this “blank check” preferred stock, potential acquirers of our Company may find it more difficult to, or be discouraged from, attempting to effect an acquisition transaction with, or a change of control of, our Company, thereby possibly depriving holders of our securities of certain opportunities to sell or otherwise dispose of such securities at above-market prices pursuant to such transactions.

The market for our common stock is not active.

There is a limited market for our common stock. There can be no assurance that a more active market for our common stock will develop. Accordingly, investors may have to bear the economic risk of an investment in our common stock for an indefinite period of time.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable to small business filers.

ITEM 2. DESCRIPTION OF PROPERTY

The Company does not own any real property. Beginning in December 2008, the Company leased approximately 1250 square feet of office space located at 401 Monterey Street, Suite 202, Salinas, CA 93901, for approximately $2,300 per month under a one year agreement that expired on December 31, 2009. The Company is currently paying rent on a month to month basis.

ITEM 3. 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 proceeding would not have a material adverse effect on the business or financial condition of the Company. Additionally, from time to time, the Company may pursue litigation against third parties to enforce or protect the Company's rights under the Company's trademarks, trade secrets and the Company's intellectual property rights generally.

During 2010, the Company was served with three lawsuits for past due liabilities of the Company. The first lawsuit was Peri & Sons, plaintiff, vs. Organic Alliance, Inc. and Parker Booth, defendants, for past due produce liabilities. An agreement was reached and OAI has been making payments to the plaintiff. OAI was dismissed from the action and signed a confession of judgment. Over half of the past due amount has been paid with a balance of approximately $21,000 remaining. The second lawsuit filed in the US. District Court, Northern California District by a group of plaintiffs: Full Circle Sales, Inc., Growers Express LLC, Steinbeck County Produce Inc., Steve Almquist Sales and Brokerage, Dan Andrews Farms, Fresh Networks, LLC and Quebec Distributing Co., Inc., vs. Organic Alliance, Inc., defendant, for approximately $97,000 plus attorney fees and interest. These plaintiffs are produce suppliers of the Company. An agreement was reached and three of the plaintiffs were paid in full for $31,000. The balance of $66,000 remains unpaid. The third lawsuit was filed in Monterey County Superior Court by RE Transportation, plaintiff, vs. Organic Alliance, Inc., defendant, seeking approximately $34,000 principal plus interest at 18% per annum and attorney's fees. The plaintiff provided transportation services for the Company. An agreement was reached with the plaintiff receiving $10,000 a month for three months starting May 2012. The Company has accrued for all amounts claimed.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders since inception on February 19, 2008 through the date of this Form 10-K.

PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED SHAREHOLDER MATTERS.

Market Information

The Company's Common Stock is currently quoted for sale on Pink Sheets of the National Quotation Service under the symbol ORGC. The high and low closing prices of the Company's common stock since January 1, 2010 are set forth below. These closing prices do not reflect retail mark-up, markdown or commissions.

| | High | | Low | |
|---|---|---|---|---|
| 2010 | | | | |
| First quarter | $ | 1.70 | $ | 0.80 |
| Second quarter | $ | 1.20 | $ | 0.40 |
| Third quarter | $ | 0.90 | $ | 0.20 |
| Fourth quarter | $ | 0.84 | $ | 0.20 |
| | | | | |
| 2011 | | | | |
| Fir First quarter | $ | 0.51 | $ | 0.08 |
| Second quarter | $ | 0.31 | $ | 0.11 |
| Third quarter | $ | 0.55 | $ | 0.10 |
| Fourth quarter | $ | 0.31 | $ | 0.10 |

Holders

As of the June 18, 2012, the Company had approximately 550 stockholders of record of the Company's common stock. None of the Company's preferred stock was outstanding.

Dividends

The Company has not paid any dividends since its inception. The Company currently intends to retain any earnings for use in its business, and therefore does not anticipate paying dividends in the foreseeable future.

Recent Sales of Securities

Since January 1, 2010, the Company has issued the following shares of its securities:

All of the securities set forth below, except as otherwise indicated, were issued by us pursuant to Section 4(2) of the Securities Act of 1933 as amended. Unless indicated, 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 The Company's 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 92,500 shares of the Company's common stock for director compensation and financing incentive. These shares were valued from $1.60 to $2.60 per share.
- (ii) During April 2010, a consultant was issued 25,000 shares of the Company's common stock for Investor relations. These shares were valued at $0.80 per share.
- (iii) During July 2010, the Company issued 125,000 shares of the Company's common stock to retire a promissory note from an individual. These shares were valued at $0.34 per share.
- (iv) During September 2010, the Company issued 75,758 shares of the Company's common stock as a partial conversion of a promissory note outstanding. Per the variable rate establish in the promissory note, these shares were valued at $0.099 per share.
- (v) During November 2010, Parker Booth, CEO, purchased 940,977 shares of the Company's common stock for a purchase price of $0.40 per share to retire a portion of his promissory note.
- (vi) During November 2010, Michael Rosenthal, Director, purchased 235,243 shares of the Company's common stock for a purchase price of $0.40 per share to retire a portion of his promissory note.
- (vii) During December 2010, the Company issued 53,419 shares of the Company's common stock as a partial conversion of a promissory note outstanding. Per the variable rate established in the promissory note, these shares were valued at $0.14 per share.
- (viii) During February 2011, the Company issued to Alicia Kriese, director and Mark Klein, director, each 25,000 shares of the Company's common stock for services to the Company. The shares were valued at $0.34 per share.
- (ix) During February 2011, the Company issued to three employees 528,811 shares of the Company's common stock for services to the Company. The shares were valued at $0.34 per share.
- (x) During February 2011, Parker Booth, CEO, purchased 3,858,574 shares of the Company's common stock for a purchase price of $0.06 per share to retire a portion of his promissory note.
- (xi) During February 2011, Michael Rosenthal, Director, purchased 964,643 shares of the Company's common stock for a purchase price of $0.06 per share to retire the remaining portion of his promissory note.
- (xii) During March 2011, the Company issued 198,413 shares of the Company's common stock as a partial conversion of a promissory note outstanding. Per the variable rate established in the promissory note,

these shares were valued at $0.025 per share.

(xiii) During March 2011, the Company issued 695,930 shares of the Company's common stock to a consultant for investor and public relations services to the Company. These shares were valued at $0.25 per share.

(xiv) During June 2011, the Company issued to Parker Booth, CEO, and Michael Rosenthal, director, 478,681 and 382,944, respectively, shares of the Company’s common stock for services to the Company. The shares were valued at $0.20 per share.

(xv) During June 2011, the Company issued to three employees 45,604 shares of the Company's common stock for services to the Company. The shares were valued at $0.20 per share.

(xvi) During July 2011, the Company issued 600,000 shares of the Company's common stock to a consultant for investor and public relations services to the Company. The shares were valued at $0.32 per share

(xvii) During August 2011, the Company issued 444,444 shares of the Company’s common stock as a partial conversion of a promissory note outstanding. Per the variable rate established in the promissory note, these shares were valued at $0.045 per share.

Transfer Agent

The Company’s Transfer Agent and Registrar for the common stock is Corporate Stock Transfer, 3200 Cherry Creek Drive South, Suite 430, Denver CO, 80209.

ITEM 6. SELECTED FINANCIAL DATA

Not required under Regulation S-K for “smaller reporting companies”.

ITEM 7: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion includes forward looking statements and uncertainties, including plans, objectives, goals, strategies, financial projections as well as known and unknown uncertainties. The actual results of the Company’s future performance may differ materially from the results anticipated in these forward-looking statements. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievement. Forward-looking statements speak only as of the date the statement was made. The Company does not undertake and specifically decline any obligation to update any forward-looking statements.

Overview

Organic Alliance, Inc. ("OAI" or the "Company") is a sales and marketing distribution company that supplies conventional, organic, natural, and Fair Trade food products to the global market. Unlike most food marketers, OAI works directly with growers while also contracting farming production domestically and abroad to vertically integrate supply chains, reduce costs and provide a high degree of control over quality, food safety and production sustainability. Direct involvement in growing operations and an unparalleled international agriculture network allows the Company to develop new Organic and Fair Trade production and offer consistent supply with highly competitive pricing – the primary obstacles facing buyers in those fast growing segments. The Company also sources and distributes conventional produce (non-Organic and/or Fair Trade) using its high revenue potential to fuel development of Organic and Fair Trade production.

Beyond fresh produce, OAI applies its direct access to raw materials to create value-added consumer packaged goods and bulk products such as juices, oils, purees and dried fruit allowing a substantial cost and control edge over other large consumer packaged goods firms that rely on third parties for sourcing. Currently, the Company is focusing its sourcing and development strategy in Mexico, the U.S.’s largest food supplier with sales to the U.S. growing 25% in 2010 to $6 Billion. The focus there is the growing greenhouse agriculture industry (35% in 2010), which drastically reduces the risks of contract farming – particularly in organics.[1] This strategy will be rolled out in stages to key Latin American food exporting countries where OAI currently has strong grower and professional networks in Argentina, Chile, Peru, Dominican Republic and Costa Rica.

The primary segments for marketing the Company’s products are the mainstream supermarket channel, natural grocery chains, mass merchandisers, food service distributors, fresh produce processors, consumer package goods companies, and overseas markets focusing on grocery chains and their importer partners. The Company has strong food industry relationships and currently supply product to most of these market segments.

1 Source: http://www.ota.com/organic/mt/business.html.

Organic Market

Globally, sales of organic products have grown rapidly since 2000, with food products driving the market. In particular, the United States has seen sales of organic foods grow from $6.1 billion in 2000 to $29.2 billion in 2011, up 9.4% from 2010. Registering a third straight year of double-digit gains, sales of organic fruits and vegetables rose 11.7% in 2011 to $11.8 billion. The principal barriers to organic product growth are short supply and inconsistent quality /pricing, which OAI directly addresses. [2]

Organic certified foods are generally viewed as having a positive impact on one's health and long-term viability, even though studies are mixed. As Helpguide.org describes, some studies suggest that, on average, organically grown fruits and vegetables may contain slightly higher levels of vitamin C, trace minerals, and antioxidant phytonutrients than conventionally grown produce. Other studies, however, have found no nutritional differences between organic and non-organic foods.

Aside from the nutritional aspect, there is a more important part of the growing process related to chemicals. In crops that are grown using chemicals (fungicides, herbicides, insecticides) to ensure growth, the chemicals often never leave the product after it leaves the farms and ends up on the store shelves. Studies have linked certain chemicals used in farming to cancer, obesity, Alzheimer's and certain birth defects.[3]

Another advantage of organic foods is that they are often fresher, because they lack the preservatives that other foods often contain. In addition, organic farming practices reduce pollution in the air, water and soil, and use less energy than traditional non-organic farms.[4] While these do not implicate or eliminate all non-organic foods, all things being equal, most would seek to consume organic foods for the benefits to the individual and to the earth.

Fair Trade

In addition to providing fresh, healthy foods, the Company is dedicated to the practice of Fair Trade. Global Fair Trade sales have followed the rise of organic at an 18% annual growth rate reaching a total of $4.8 billion in 2009. Mainstream retailers such as Wal-Mart and Whole Foods have demonstrated strong interest in the segment with each offering a growing number of Fair Trade products including retail-brand private label options. In 2007, Whole Foods launched its 'Whole Trade' initiative requiring 50% of its imported food to be certified as Fair Trade within 10 years. Fair Trade sales in U.S. mainstream grocery outlets grew 24% in 2010. Like organic, the principal barrier to growth is lack of supply and inconsistent quality and/or pricing, which OAI directly addresses.

Fair Trade certification offers producers the ability to trade directly with improved payment terms while paying workers dignified wages and providing a premium for community development. This allows marginalized agricultural communities the opportunity to improve their lives with technical training, better business infrastructure, improved schooling, health care and nutritious food. Fair Trade investment provides a platform from which communities can rise out of poverty, be economically sustainable and take control of their future while providing the market with better, more sustainable products. Fair Trade certified products offer consumers a powerful way to reduce poverty through their everyday shopping.[5]

The key objectives of the Fair Trade standards are to:

- Ensure that producers receive prices that cover their average costs of sustainable production;
- Provide an additional Fair Trade premium which can be invested in projects that enhance social, economic and environmental development;
- Ensure safe working conditions and dignified wages for agriculture workers
- Facilitate long-term trading partnerships and enable greater producer control over the trading process; and
- Set clear minimum and progressive criteria to ensure that the conditions of production and trade of all Fair Trade certified products are socially, economically fair and environmentally responsible.

Sales and Marketing

Due to the continued increase in demand for certified organic and Fair Trade products, procurement departments are actively seeking additional sources. The challenge continues to be to attain a reliable, year round supply at sensible pricing for their buying programs, in part due to short supply and the fractionalized nature of the organic farm base. By taking control and developing organic and Fair Trade production at the seed level, OAI addresses these issues directly and attracts buyer favor by creating supply and price conditions that more closely resemble the conventional food alternative. While executing this strategy, OAI will continue using its operational infrastructure to sell high volumes of conventional produce to generate substantial resources for the execution of large-scale development in the organic and Fair Trade agriculture sectors.

2
Source: http://www.thepacker.com/fruit-vegetable-enewsletter/organics-insider/Survey-organic-produce-grows-by-double-dig
3 Source: http://www.organicfoodinfo.net.
4 Source: http://www.helpguide.org/life/organic_foods_pesticides_gmo.htm.
5 Source: http://www.fairtrade.net/what_is_fairtrade.html.

OAI brand marketing leverages its direct relationships with growing communities to take advantage of the "know where your food comes from" consumer trend. This is supported by creating entertaining media that highlights the producer story; tracking sustainability metrics such as agrochemicals eliminated, wage increases and carbon emissions; and making these available to consumers online and at the point of purchase via the increasingly popular quick response ("QR") scan technology available on smart phones. The Company's conversations with grocery executives indicate that the industry is hungry for point-of-purchase methods of communicating product information and promotional media. Additionally, Wal-Mart has developed and is implementing in phases its 'Sustainability Index' that will grade the level of sustainability of each of its supplier's products with a label. OAI believes it is far ahead of these trends and well poised to address the emerging production and communication needs of the 21st century food industry.

The primary segments for marketing the Company's products are the mainstream supermarket channel, natural grocery chains, mass merchandisers, food service distributors, fresh produce processors, consumer packaged goods companies, and overseas markets focusing on grocery chains and their importer partners. The Company has strong food industry relationships and currently supply product to most of these market segments with overseas markets in Asia being served.

History

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. During the second quarter of 2009, it ceased being a development company when it commenced its operations.

On April 29, 2008, NB Design, a Nevada corporation, acquired all 10,916,917 issued and outstanding shares of common stock of Organic Texas for 464,999 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 Company operates in California.

The acquisition of Organic Texas by NB Design on April 29, 2008 was accounted for as a reverse capitalization in accordance with the Security 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 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 464,999 shares of the Company's 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 50,001 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 $40.00, $40.00, $80.00, $80.00, $120.00 and $120.00, 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 $20.00 per share for all classes of Warrants and the expiration date was extended to December 31, 2011. As of December 31, 2011, all these warrants expired unexercised. In exchange for the exercise price reduction, the holders of at least 80% of the Warrants agreed to a call provision by the Company on 10 days' notice to them if (i) the bid price of the Company's common stock is quoted at $20.005 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.

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.

Critical Accounting Estimates and Policies

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. Significant estimates that are particularly sensitive to change in the near term include but are not limited to, realization of deferred tax assets, allowance for doubtful accounts, derivative liabilities and assumptions used in share based payment transactions. Actual results could differ from those estimates.

Principles of Consolidation - The consolidated financial statements include the accounts of 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.

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments and other short-term investments with maturity of three months or less, when purchased, to be cash equivalents. At December 31, 2011 and 2010, the Company did not hold any cash equivalents.

Allowance for Doubtful Accounts - An allowance for uncollectible accounts receivable is recorded based on a combination of aging analysis, past practices and any specific troubled accounts. The Company's produce is sold to the Company's 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. The allowance for doubtful accounts amounted to $77,969 and $53,007 at December 31, 2011 and 2010, respectively.
In addition, the Company also factors its receivables with full recourse and, as a result, accounts for the factoring akin to a secured borrowing, maintaining the gross receivable asset and due to factor liability on its books and records. In connection with the factoring of its receivables, the Company estimates an allowance for factoring fees associated with the collections. These fees range from 3% to 5% depending on the actual timing of the collection. The actual recognition of such fees may differ from the estimates depending upon the timing of collections.

Inventory - Inventory is stated at the lower of cost (first-in, first-out) or market, and includes produce the Company purchases from growers and packaging materials. The Company held no inventory as of December 31, 2011 and 2010, respectively.

Income Taxes - The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "Income Taxes". Under this method, income tax expense is recognized for the amount of (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. 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 the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments - The carrying amounts of financial instruments, including cash, receivables, and accounts payable and accrued expenses approximated fair value as of the balance sheet date presented, because of the relatively short maturity dates on these instruments. The carrying amounts of the notes payable issued approximate fair value as of the balance sheet date presented, because interest rates and other terms on these instruments approximate terms currently available on similar instruments.

Derivative Financial Instruments - The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks. The Company evaluates all of the Company's financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the instrument could be required within 12 months of the balance sheet date.

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.

Share Based Compensation - The Company accounts for share-based compensation in accordance with the fair value recognition provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 718. Share-based compensation expense for all share-based payment awards is based on the estimated grant-date fair value. The Company recognizes these compensation costs over the requisite service period of the award, which is generally the option vesting term. Option valuation models require the input of highly subjective assumptions, including the expected life of the option, and such assumptions can materially affect the fair value estimate. The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model. The Company accounts for the expected life of options in accordance with the "simplified" method provisions of SEC Staff Accounting Bulletin ("SAB") No. 110, which enables the use of the simplified method for "plain vanilla" share options as defined in SAB No. 107.

Results of Operations

Results of operations for the year ended December 31, 2011 compared to year ended December 31, 2010

For the year ended December 31, 2011, net sales of $1,004,176 were recorded compared to $1,335,287 for the year ended December 31, 2010. The $331,111, or 25%, decrease is attributable to the former financial services company ceasing operations in April 2010 and accordingly, was no longer able to advance 85% of qualified customer invoices to the Company, thereafter. The Company's sales for the three months ended March 31, 2010 was $1,156,758, or 87%, of the total sales for the year ended December 31, 2010. The new financial services company commenced funding during February 2011.

For the year ended December 31, 2011, cost of goods sold was $984,248 compared to $1,379,551 for the year ended December 31, 2010. The 395,303 or 29% decrease is primarily attributable to the lower sales volume.

For the year ended December 31, 2011, gross profit was $19,928 compared to $44,264 gross loss for the year ended December 31, 2010. The improvement is attributable to better margins.

For the year ended December 31, 2011, general and administrative (G&A) expenses were $2,694,313 compared to $1,797,478 for the year ended December 31, 2010. The increase in G&A expenses of $896,835, or 50%, is primarily attributable to increased share based compensation costs of approximately $1,188,000 for higher executive, director and consulting compensation offset by decreased spending in all areas. The decreased spending was primarily attributable to decreased professional and consulting fees by approximately $90,000 and reduced payroll spending by approximately $78,000. Contributing to the payroll decrease was Parker Booth, CEO, voluntarily reducing his annual salary from $300,000 to $180,000 during May 2010. In addition, the provision for bad debt decreased by approximately $47,000, travel expenses decreased by approximately $31,000 and insurance costs decreased by approximately $25,000. The aforementioned decreased spending was primarily caused by our lack of funding.

For the year ended December 31, 2011, the operating loss was $2,674,385as compared to $1,841,742 for year ended December 31, 2010. The $832,643, or 45%, increase in net operating loss was primarily attributable to the increased operating expenses described above.

For the year ended December 31, 2011, other expense was $383,546 as compared to $291,869 for year ended December 31, 2010. The Company recorded interest expense of $248,694 and $53,689 on notes and loans payable for the years ended December 31, 2011 and 2010, respectively. The interest expense for the years ended December 31, 2011 and 2010 also includes $79,874 and $177,267, amortization of discount on notes payable, $230,125 and $35,496, amortization of derivative discount on notes payable and $44,063 and $14,169, related to factor advances, respectively, offset by a $219,210 gain as compared to an $11,248 loss on derivative liability for convertible notes payable for the year ended December 31, 2010, respectively.

For the year ended December 31, 2011, the net loss was $3,057,931 or $0.25 basic and diluted loss per share compared to $2,133,611 or $1.11 basic and diluted loss per share for the year ended December 31, 2010. The $924,320 or 43% increase in net loss was primarily attributable to the increased operating expenses described above.

Liquidity and Capital Resources

The Company's operations to date have generated substantial losses that have been funded through the issuance of common stock and loans from related parties and others. The Company will require additional sources of outside capital to continue the Company's operations. The Company expects that the Company's 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, the former accounts receivable factoring company ceased operations and therefore any ability to advance funds to the Company. As a result, the Company experienced cash flow difficulties. On November 1, 2010, the Company signed a one year agreement with a financial services company for the purchase and sale of accounts receivable, which expired on October 31, 2011. The agreement is continuing on a month to month basis. The financial services company advances up to 80% of qualified customer invoices less applicable discount fee, and holds the remaining 20% as a reserve until the customer pays the financial services company. The released reserves are used to fund other vendor purchases or returned to the Company. The Company is charged 3% for the first 30 days outstanding plus 1/10 of 1% for funds outstanding over 30 days. Uncollectable customer invoices are charged back to the Company. The new financial services company commenced funding during February 2011.

The Company's 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 December 31, 2011, the Company has limited cash, a working capital deficit of approximately $4,389,000 and has accumulated losses of approximately $13,455,000 since its inception and has withheld $153,009 of payroll tax liabilities from wages paid which have yet to be remitted to the taxing authorities and are delinquent. The Company is currently delinquent with its payroll tax filings since December 31, 2008. 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 increasing its revenue in order to achieve profitable operations. The Company estimates a $2,000,000 capital infusion from the date of filing will be required to continue operations through the end of 2012. 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.

Generally, The Company has 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 December 31, 2011, the Company received approximately $212,000 from the sale of the Company's common stock. For the period from inception (February 19, 2008) to December 31, 2011, the Company received proceeds from notes payable of $2,152,488 of which $178,355 has been paid back and $822,134 has been converted to shares of the Company's common stock as of December 31, 2011.

The Company has limited funding available for marketing and will rely solely on the Company's ability to raise debt or equity funds in the immediate future.

The Company's contractual obligation consists of notes and loans payable in the amount of $1,283,184 including accrued interest of $131,185, for the notes at December 31, 2011.

On February 3, 2011, the Company signed a $500,000 promissory note with a maturity date of August 2, 2012, and with an interest rate of 15% per annum.

On April 28, 2011, the Company issued a $70,588 convertible promissory note with an original issue discount of 15%. The convertible promissory note has a maturity date of the earlier of (i) the Company raising debt or equity financing of $600,000 or more, or (ii) May 31, 2011. The note may be converted into the Company's common stock by the holder at $0.05 per share. The Company received a waiver from the lender on September 1, 2011 that defers payment until May 31, 2012 and waives the provision for payment upon the Company closing a debt or equity financing of $600,000 or more. The Company is currently negotiating an extension of such loan.

On June 15, 2011, the Company issued a $57,500 convertible promissory note with an original issue discount of 15%. The convertible promissory note has a maturity date of the earlier of (i) the Company raising debt or equity financing of $600,000 or more, or (ii) June 14, 2012. The note may be converted into the Company's common stock by the holder at $0.05 per share. The Company received a waiver from the lender on September 1, 2011 that waives the provision for payment upon the Company closing a debt or equity financing of $600,000 or more.

During June 2011, the Company entered into an agreement with a financial services company to provide deposits to suppliers not covered by the financial services company contracted with on November 1, 2010. The financial services company advances deposits to suppliers in return for 1/3 of the gross margin paid by the customer.

During July 2011, the Company entered into an agreement with a second financial services company to provide deposits to suppliers not covered by the financial services company contracted with on November 1, 2010. The financial services company advances deposits to suppliers in return for 1/3 of the gross margin paid by the customer.

On July 15, 2011, the Company issued a $109,822 convertible promissory note with an original issue discount of 15% that consolidated various demand notes from September 2010 through July 2011. The convertible promissory note has a maturity date of the earlier of (i) the Company raising debt or equity financing of $600,000 or more, or (ii) August 31, 2011. The note may be converted into the Company's common stock by the holder at $0.05 per share. The Company is currently negotiating an extension of such loan.

On August 22, 2011, an employee advanced the Company $6,000 which was evidenced by promissory note bearing interest at 5% per annum and payable on demand.

On October 10, 2011, an employee advanced the Company $10,000, which was evidenced by promissory note bearing interest at 5% per annum and payable on demand.

On October 17, 2011, the Company issued a $400,000 convertible multi-draw term loan facility (“loan”) to an entity owned by a related party. The loan bears interest at 21% and has a maturity date of the earlier of an event of default or April 17, 2012. In addition, the related party received a warrant to purchase 2.5 shares of the Company’s common stock for each $1.00 of principal extended to the Company up to 1,000,000 shares. The Company is currently negotiating an extension of such loan.

On February 28, 2012, the Company issued a $50,000 convertible note to a related party. The loan bears interest at 21% and has a maturity date of the earlier of an event of default or August 28, 2012.

On March 2, 2012, the Company entered into an agreement to sell secured promissory notes for an aggregate principal amount of $1,000,000, with warrants to purchase 2.5 shares the Company’s common stock for each $1 of the principal amount of the notes purchased. As of June 18, a total of $850,000 has been raised by the offering.

Net Cash Flows

For the year ended December 31, 2011, net cash used in operating activities was $1,056,345 as compared to $252,149 for the year ended December 31, 2010. The increase of $804,196, or 319%, was primarily attributable to the payment of accounts payable from the proceeds provided from notes payable.

For the year ended December 31, 2010, cash provided by investing activities was $6,800, from the sale of property and equipment purchased in 2009 for $8,500.

For the year ended December 31, 2011, net cash provided by financing activities was $1,060,736 as compared to $246,579 for the year ended December 31, 2010. The increase of $814,157, or 330%, was primarily related to proceeds from notes payable issued to third parties.

At December 31, 2011 and 2010, the Company had 2,983,750 and 33,750, and 5,862,140 and 394,858, of stock options and common stock purchase warrants outstanding, respectively. The outstanding stock options have an exercise price from $0.20 to $10.20 per share. The outstanding warrants have an exercise price from $0.001 per share to $0.20 per share. Accordingly, at December 31, 2011, the outstanding options and warrants represented a total of 8,845,890 shares issuable for a maximum of $1,615,876 if all options and warrants were exercised. The exercise of these options and warrants is at the discretion of the holder.  There is no assurance that any of these options or any additional warrants will be exercised.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

## ITEM 8. FINANCIAL STATEMENTS

The information required by this Item 8 is incorporated by reference to the Index to Consolidated Financial Statements beginning at page F-1 at the end of this Form 10-K.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

On October 18, 2011, the Company notified Mayer Hoffman McCann CPAs (The New York Practice of Mayer Hoffman McCann P.C.) (“MHM”) that they would be dismissed effective immediately as the Company’s independent registered public accounting firm, as reported on Current Report 8-K dated December 6, 2011. The decision to discontinue the audit services of MHM was approved by the Company’s Board of Directors upon the recommendation of the Chairman of the Audit Committee.

On October 26, 2011, the Company retained Marcum, LLP (“Marcum”) as the Company’s new independent registered public accounting firm to audit Registrant’s financial statements for the fiscal years ending December 31, 2010 and December 31, 2011. The appointment was approved by the Company’s Board of Directors upon the recommendation of the Chairman of the Audit Committee.

The report of MHM on the consolidated financial statements of the Registrant as of and for the years ended December 31, 2009 and December 31, 2008 did not contain an adverse opinion or a disclaimer of opinion nor was it qualified or modified as to uncertainty, audit scope or accounting principles, except that the report included an explanatory paragraph relating to an uncertainty as to the Company’s ability to continue as a going concern.

-21-

During the fiscal years ended December 31, 2009 and 2008 and through October 18, 2011, there has been no disagreement with MHM on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of MHM, would have caused MHM to make reference to the subject matter of the disagreement in its report.

The Company has provided MHM with a copy of the Form 8-K dated December 6, 2011 prior to its filing with the SEC to which MHM furnished a letter addressed to the SEC stating that it agreed with the statements made above.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management team, under the supervision and with the participation of the Company's principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company's 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, December 31, 2011. The term disclosure controls and procedures means the Company's controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that the Company filed or submitted 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 the Company filed or submitted under the Exchange Act is accumulated and communicated to management, including the Company's principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company's principal executive officer and principal financial officer are 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 the Company's 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. The Company's principal executive officer and principal financial officer, has chosen the COSO framework on which to base its assessment. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2011.

The controls designed were adequate for financial disclosures required for the preparation of the 10-K 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-K, include the creation of a financial disclosures roll-forward model in accordance with the disclosures contained in the 10-K 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. During October 2011, the Company hired Barry Brookstein as Chief Financial Officer to augment the Company's internal controls procedures and expand the Company's 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.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a set of processes designed by, or under the supervision of, a company's principal executive and principal financial officers, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the Company's transactions and dispositions of the Company's assets;
- provide reasonable assurance that The Company's transactions are recorded as necessary to permit preparation of the Company's financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statement.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. It should be noted that any system of internal control, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), as of December 31, 2011.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. In connection with the assessment described above, management identified the following control deficiency that represents a material weakness at December 31, 2011:

- Due to the limited number of Company personnel, a lack of segregation of duties and responsibilities with respect to our cash and control over the disbursements related thereto. An essential part of internal control is for certain procedures to be properly segregated and the results of their performance are adequately reviewed. This is normally accomplished by assigning duties so that no one person handles a transaction from beginning to end and incompatible duties between functions are not handled by the same person.

As a result of this material weakness described above, management has concluded that, as of December 31, 2011, the Company's internal control over financial reporting was not effective based on the criteria in "Internal Control-Integrated Framework" issued by COSO. The Company intends to augment the Company's internal controls procedures and expand the Company's accounting staff. The Company intends to initiate measures to remediate and refine the Company's internal controls to address this identified material weakness as the Company grows and obtains a stronger cash position that would justify additional expenditures.

-23-

Changes in internal control over financial reporting

Based on the evaluation of the Company's management as required by paragraph (d) of Rule 13a-15(f) or 15d-15(f) under the SEC Act of 1934 the Company believes that there were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Auditor Attestation

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, KEY EMPLOYEES AND CORPORATE GOVERNANCE

As of December 31, 2011, the names, ages and positions of the Company's directors and executive officers are as follows:

| Name of Director | Age | Position(s) with the Company | Director/Officer Since |
|---|---|---|---|
| Parker Booth | 56 | Chief Executive Officer | 2008 |
| Barry Brookstein | 70 | Chief Financial Officer | 2011 |
| Alicia Smith Kriese | 47 | Director | 2008 |
| Michael Rosenthal | 68 | Director | 2009 |
| Mark Klein | 38 | Director | 2009 |

There is no family relationship between any of the Company's directors or executive officers.

Thomas Morrison – Non-Executive Chairman of the Board of Directors

On April 22, 2010, Mr. Morrison resigned as the Non-Executive Chairman of the Board of Directors of the Company.

Parker Booth – Chief Executive Officer and Director

Mr. Booth has over 30 years of sales and operation experience in the fresh foods and international transportation industries. From May 2007 to November 2008 he was president of Ace Tomato and Delta PrePack, two companies that farm, ship, repack and market fresh fruits and vegetables. Prior to running Ace Tomato and Delta PrePack, from August 2000 to May 2007 he was employed by Fresh Express, most recently there as Vice President Food Service Division. In this position he was responsible for overseeing and directing the Company's foodservice business, which included managing the sales division's growth and formulating long-range strategic sales plans. Mr. Booth has extensive international business and sales experience as a result of his work in Asia, Europe and South America when he was employed by TransFresh Corp and where he was responsible for developing and expanding markets for the use of controlled atmosphere technology. This technology is used in the shipping industry today for the worldwide, long-distance, ocean transport of perishable commodities such as fresh fruits and vegetables.

Barry Brookstein – Chief Financial Officer and Director

Mr. Brookstein joined our Company in October 2011 as Chief Financial Officer and has been a Director since February 2012. Mr. Brookstein has been in the practice of public accounting for over 40 years and has served as Chairman and President of Barry M. Brookstein & Associates since 1996. Mr. Brookstein currently serves as Chairman and Chief Executive Officer of Compliance Systems Corporation and served as Chief Financial Officer and Treasurer since 2002. Mr. Brookstein has served as a director and officer in numerous other companies in the consulting, human resource and retail industries, and as Managing General Partner in real estate and oil and gas limited partnerships. Mr. Brookstein is a graduate of Pace University.

Alicia Smith Kriese – Director

On February 24, 2012, Ms. Kriese resigned as Director of the Company.

Dr. Corey Ruth – Director

On March 11, 2010, Dr. Ruth resigned as Director of the Company.

Michael Rosenthal – Director

On August 10, 2009, Michael Rosenthal joined the Company's Board of Directors. Mr. Rosenthal has served since 1986 as Chairman and President of M.J. Rosenthal and Associates, Inc., an investment and consulting firm. Mr. Rosenthal has been Chairman of Skins, Inc., since 2005, and Chairman and CEO of Bill Blass New York, a high-end manufacturer of men's and women's clothing, from January 2006 through November 2007, and Chairman through November 2008. From 1984 to 1986, Mr. Rosenthal served as a partner and a Managing Director of Wesray Capital Corp, an investment company, and prior to that was Senior Vice President and Managing Director of the Mergers and Acquisitions Department of Donaldson, Lufkin, and Jenrette, Inc., an investment banking firm. Mr. Rosenthal has also served as Chairman, director or Chief Operating Officer to a number of other companies including Wilson Sporting Goods, Northwestern Steel & Wire Company, Western Auto Supply Company and Star Corrugated Box Company, Inc.

Mark Klein – Director

On August 10, 2009, Mark Klein joined the Company's Board of Directors. Mr. Klein began working on the business concept behind the predecessor of Skins Footwear Inc. in 2002 and was appointed President and Chief Executive Officer of Skins Footwear Inc. on May 18, 2004. He has served in the capacity of President and CEO of both Skins Inc. and Skins Footwear Inc. from 2004 to Present. From 2001, Mr. Klein served as the Sales Director for ICQ Mobile, the mobile instant messaging division of AOL Time Warner. From 1999 to 2001, he was a senior marketing and sales executive for both Comverse Network Systems (CMVT) and Oraios.com, where he directed, created and implemented sales and marketing initiatives.

Board of Directors and Committees

Board Meetings

During calendar 2011, the Board of Directors of the Company held two meetings. Each director attended the meetings of the Board of Directors. The Company expects each of the Company's directors to attend the Company's Annual Meeting every year, unless extenuating circumstances prevent their attendance.

-25-

Committees

Currently the Company has no board committees. The Company's board acts as the Company's Audit, Compensation and Nominating and Governance Committee although the Company's intend to appoint such committees in the future comprised of a majority of members who will be independent directors.

Director Compensation

The Company's has not paid the Company's directors fees for attending any meetings of the Company's Board of Directors. The Company reimburses each director for reasonable travel expenses related to such director's attendance at Board of Directors' meetings. The Company's directors were given stock for joining the Company. See "Executive Compensation" below.

Director Independence

As the Company's common stock is traded using Pink Sheets and not listed on one of the national securities exchanges, it is not subject to any director independence requirements.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors and persons who beneficially own more than 10% of the Company's common stock to file with the SEC initial reports of ownership and reports of changes in ownership of the Company's common stock. Based solely upon the Company's review of copies of such forms the Company has received, and other information available to us, to the Company's knowledge:

James Haworth, a former Director, filed his Form 3 late, on March 18, 2010.

Parker Booth, Chief Executive Officer and a Director, did not file a Form 4 for the 3,858,574 Company shares issued to him during February 2011 and the 478,681 Company shares issued to him during June 2011.

Michael Rosenthal, a Director, filed his Form 3 late, on March 25, 2010. He did not file a Form 4 for the 964,643 Company shares issued to him during February 2011, for the 382,944 Company shares issued to him during June 2011 and for the 125,000 warrants earned in February 2012.

Mark Klein, a Director, filed his Form 3 late, on March 25, 2010. He did not file a Form 4 for the 25,000 Company shares issued to him during February 2011.

Alicia Smith Kriese, a Director, did not file a Form 4 for the 25,000 Company shares issued to her during February 2011.

Barry Brookstein, Chief Financial Officer and a Director, did not file his Form 3. He also did not file any reports with respect to the 1,000,000 Company warrants granted him during October 2011 through May 2012.

Chris White, 10% owner and employee, did not file his Form 3 for the 352,541 Company shares issued to him during February 2011. He also did not file a Form 4 for the 30,402 Company shares issued to him during June 2011 and the 2,950,000 Company stock options granted him during July 2011.

Summit Trading LTD, 10% owner and consultant providing investor and public relations, did not file a Form 3 for the 695,930 Company shares issued during February 2011. The consultant also did not file a Form 4 for the 3,473,708

Company shares earned during August 2011.

Code of Ethics

The Company’s has not adopted a Code of Ethics policy. The Company is in the process of establishing such policy.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth information concerning the compensation for the fiscal year ended December 31, 2011 of the principal executive officer, principal financial officer, in addition to, as applicable, the Company’s three most highly compensated officers whose annual compensation exceeded $100,000, and up to two additional individuals for whom disclosure would have been required but for the fact that the individual was not serving as an executive officer of the registrant at the end of the last fiscal year (the “Named Executive Officers”).

2011 SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary ($) | Bonus ($) | Stock Awards ($) | Option Awards ($) | Non-Equity Incentive Plan Compensation ($) | Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|---|---|
| Thomas Morrison Non-Executive Chairman of the Board (1) | 2011 | - | - | - | - | - | - | - | - |
| | 2010 | - | - | - | - | - | - | - | - |
| Parker Booth, Chief Executive Officer, Chief Financial Officer & Director | 2011 | 180,000(2) | - | 95,736(4) | | - | - | 75,624(5) | 351,360 |
| | 2010 | 228,231(3) | - | - | - | - | - | 10,800(5) | 239,031 |
| Alicia Smith Kriese, | | - | - | - | - | - | - | - | - |
| Director (6) | 2011 | - | - | 8,500(7) | - | - | - | - | 8,500 |

-27-

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | - | - | - | - | - | - | - | - | - |
| Dr. Corey Ruth, Director | 2011 | - | - | - | - | - | - | - | - | - |
| | 2010 | - | - | - | - | - | - | - | - | - |
| Michael Rosenthal, Director | 2011 | | | - | 76,589(9) | - | - | - | 31,091(10) | 107,680 |
| | 2010 | | | - | 2,500 (11) | - | - | - | | 2,500 |
| Mark Klein, Director | 2011 | | | - | 8,500 (12) | - | - | - | | 8,500 |
| | 2010 | | | - | - | - | - | - | | - |

---

(1) Mr. Morrison resigned as Chief Executive Officer and Chief Financial Officer on December 11, 2009 and retired from the Company on April 22, 2010.

(2) Mr. Booth was not paid during 2011.

(3) Mr. Booth's salary was reduced to $180,000 a year beginning May 16, 2010. $112,846 of his salary was not paid.

(4) Value of 478,681 shares of the Company's common stock received as compensation.

(5) Relates to automobile benefits for $10,800 plus $64,824 for value of shares issued to retire debt under market value.

(6) Ms. Kriese resigned from the Board of Directors during February 2012.

(7) Value of 25,000 shares of the Company's common stock received as a financing incentive.

(8) Dr. Ruth resigned from the Board of Directors during March 2010.

(9) Value of 382,944 shares of the Company's common stock earned as director compensation.

(10) Value of shares issued to retire debt below market value for $16,206. Value of shares issued to retire debt over outstanding amount for $14,885.

(11) Value of 50,000 shares of the Company's common stock earned as director compensation.

(12) Value of 25,000 shares of the Company's common stock earned as director compensation.

Only Mr. Booth has a formal employment or consulting agreement.

2011 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

| | Option Awards | | | | | Stock Awards | | | |
|---|---|---|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) | Option Exercise Price ($) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested ($) | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) |
| Parker Booth, Chief Executive Officer & Director (1) | 33,750(1) | - | - | 10.2 | September 30, 2013 | - | - | - | - |

(1) Mr. Booth was promoted to Chief Executive Officer and Chief Financial Officer on December 11, 2009. This award was granted on October 1, 2008, upon joining the Company. During October 2011, Mr. Booth was replaced by Mr. Brookstein as Chief Financial Officer of the Company.

Employment/Consulting Agreements

On July 1, 2008, the Company executed a 16 month consulting agreement with William J. Gallagher to provide financial advisory, investor relations and certain administrative services for $6,250 per month. The Company accrued consulting compensation for Mr. Gallagher beginning on July 1, 2008. This contract terminated on October 31, 2009 and was not renewed. The accrued expense for $100,000 has not been paid and remains a liability of the Company at December 31, 2011.

On October 1, 2008 the Company executed an employment offer with Mr. Booth as the Company's President, which was effective on November 15, 2008 and provides for an annual salary of $300,000, participation in the Company's annual performance-based incentive plan (PIP) that could increase the compensation up to 50% based on meeting projected strategic outputs and profit objectives to be determined by the Board of Directors, pay the premium on current $300,000 Life Insurance Policy, a $900 per month car allowance and participation in any other benefits that the Company may offer. The agreement also included options to purchase 33,750 shares of the Company stock at $10.20 per share that vest over a three year period beginning:

September 30, 2009 for 1/3 of the options
September 30, 2010 for 1/3 of the options

September 30, 2011 for 1/3 of the options

The options expire five years from the date of the original grant. The Company accrued the salary for Mr. Booth beginning on November 15, 2008 through June 1, 2009. Beginning on June 1, 2009, Mr. Booth began receiving his salary. Mr. Booth's salary was reduced to $180,000 a year beginning May 16, 2010. The Company accrued the salary for Mr. Booth beginning on May 16, 2010 through December 31, 2010. The accrued salary of $482,173 through June 1, 2009 and between June 1, 2010 and December 31, 2011 has not been paid and remains a liability of the Company at December 31, 2011.

On July 3, 2011, Chris White entered into an employment agreement with the Company and was promoted to Vice President of global supply chain. Mr. White’s employment agreement provides for an annual salary of $180,000. As part of his agreement, Mr. White was granted a stock option to purchase 2,950,000 shares of the Company’s common stock. The option expires in seven years with 1,180,000 shares vesting on July 3, 2011 and 295,000 shares vesting on each of the first six semi-annual anniversaries after such date. The exercise price is $0.20 per share.

Liability and Indemnification of Officers and Directors

The Company’s Articles of Incorporation provide that liability of directors to us for monetary damages is eliminated to the full extent provided by Nevada law. Under Nevada law, a director is not personally liable to us or the Company’s stockholders for monetary damages for breach of fiduciary duty as a director except for liability (i) for any breach of the director’s duty of loyalty to us or the Company’s stockholders; (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law; (iii) for authorizing the unlawful payment of a dividend or other distribution on the Company’s capital stock or the unlawful purchases of the Company’s capital stock; (iv) a violation of Nevada law with respect to conflicts of interest by directors; or (v) for any transaction from which the director derived any improper personal benefit.

The effect of this provision in the Company's Articles of Incorporation is to eliminate the Company's rights and the Company's stockholders' rights (through stockholders' derivative suits) to recover monetary damages from a director for breach of the fiduciary duty of care as a director (including any breach resulting from negligent or grossly negligent behavior) except in the situations described in clauses (i) through (v) above. This provision does not limit or eliminate the Company's rights or the rights of the Company's security holders to seek non-monetary relief, such as an injunction or rescission, in the event of a breach of a director's duty of care or any liability for violation of the federal securities laws.

Insofar as indemnification for liabilities arising under the Act may be permitted to the Company's directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

As of the date of this filing, there are 11,032,593 shares of common stock outstanding. The following table sets forth certain information regarding the beneficial ownership of the outstanding shares as of the date of this filing, including any conversion privileges, stock options or warrants exercisable within 60 days of the date of this filing, by (i) each person who is known by us to own beneficially more than 10% of the Company's outstanding common stock; (ii) each of the Company's executive officers and directors; and (iii) all of the Company's executive officers and directors as a group. Each such person has investment and voting power with respect to such shares, subject to community property laws where applicable. The address of each owner who is an officer or director is in care of the Company at 401 Monterey Street, Suite 202 Salinas, CA 939010.

| Name of Beneficial Owner | Shares Beneficially Owned (1) | Percentage Beneficially Owned |
|---|---|---|
| Directors and Executive Officers: | | |
| Parker Booth, Chief Executive Officer | 5,419,233(2) | 49.0% |
| Barry Brookstein, Chief Financial Officer and Director | 1,000,000(3) | 8.3% |
| Michael J. Rosenthal, Director | 1,647,831 | 14.9% |
| Mark Klein, Director | 42,500 | 0.4% |
| Executive Officers and Directors as a group (4 persons) | 8,109,564 | 67.2% |
| 10% or more Stockholders: | | |
| Chris White | 1,857,943(4) | 14.9% |
| Summit Trading | 4,169,638(5) | 28.7% |

(1) All shares post 20:1 reverse-split
(2) This amount includes 33,750 shares of common stock purchase options.
(3) Includes 1,000,000 shares of common stock issuable upon the exercise of warrants currently exercisable at $0.10 per share by Spirits Management Inc., an entity in which Mr. Brookstein is a 100% shareholder.
(4) This amount includes 1,475,000 shares of common stock purchase options.
(5) Includes 3,473,708 shares of common stock earned and not issued.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

During the fourth quarter of 2008 through December 31, 2011, Parker Booth, Chief Executive Officer, advanced the Company $628,605. The advances are evidenced by a promissory note bearing interest at 5% per annum. The unpaid balance including accrued interest was $6,803 at December 31, 2011.

In October and December 2009, Mike Rosenthal, Director, advanced the Company $130,000. The advances are evidenced by promissory notes bearing interest at 5% per annum. The promissory notes were paid back in February 2011. The promissory notes also include the issuance of 45,000 shares of the Company's common stock to Mr. Rosenthal as a financing incentive. These shares were issued in Mr. Rosenthal in March 2010.

In November 2009 and February 2010, Morrison Partners, LLC, (Tom Morrison, former CEO and Chairman of Board of the Company) advanced the Company $25,000. The advance is evidenced by promissory notes bearing interest at 5% per annum. The unpaid balance including accrued interest was $27,472 at December 31, 2011. The promissory note also includes the issuance of 2,770 shares of the Company's common stock as a financing incentive. These shares have not been issued to Morrison Partners, LLC.

In December 2009, Corey Ruth, Director, advanced the Company $50,000. The advance is evidenced by promissory notes bearing interest at 5% per annum. The loan was paid back in February 2010. The promissory note also includes the issuance of 10,000 shares of the Company's common stock to Dr. Ruth as a financing incentive. These shares were issued in Dr. Ruth in March 2010.

On October 17, 2011, the Company entered into a $400,000 convertible multi-draw term loan facility ("loan") with an entity owned by Barry Brookstein, Chief Financial Officer. The loan bears interest at 21% and has a maturity date of the earlier of an event of default or April 17, 2012. The Company is currently negotiating an extension of such loan. At the time of any new debt or equity financing of the Company, the note balance of principal and interest may be converted into the number of fully paid and non-assessable debt instruments, shares/or units to be issued in the financing. In addition, the related party received a warrant to purchase 2.5 shares of the Company's common stock for each $1.00 of principal extended to the Company up to 1,000,000 shares. The warrants have an exercise price of $.10 per share and vest with each cash advance from the loan and collectively expire on October 17, 2014. The unpaid balance, including accrued interest, was $283,993 at December 31, 2011. The note has not been repaid as of June 18, 2012. As of June 18, 2012, the Company has been advanced $400,000 on the loan.

Interest inclusive of amortized financing discount on the aforementioned related party notes aggregated $35,859 and $208,742 for the years ended December 31, 2011 and 2010, respectively.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees:

The aggregate fees billed to us by Marcum LLP, our principal accountant for professional services rendered during the fiscal years ended December 31, 2011 and 2010 are set forth in the table below:

| Fee Category | Fiscal year ended December 31, 2011 | Fiscal year ended December 31, 2010 |
|---|---|---|
| Audit fees (1) | $ 80,000 | $ 50,000 |
| Audit-related fees (2) | – | – |

| | | | | |
|---|---|---|---|---|
| Tax fees (3) | | – | | – |
| All other fees (4) | | – | | – |
| Total fees | $ | 80,000 | $ | 50,000 |

(1) Audit fees consist of fees incurred for professional services rendered for the audit of consolidated financial statements, for reviews of our interim consolidated financial statements included in our quarterly reports on Form 10-Q and for services that are normally provided in connection with statutory or regulatory filings or engagements.

(2) Audit-related fees consist of fees billed for professional services that are reasonably related to the performance of the audit or review of our consolidated financial statements, but are not reported under "Audit fees."

(3) Tax fees consist of fees billed for professional services relating to tax compliance, tax planning, and tax advice.

(4) All other fees consist of fees billed for all other services.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

| Number | Exhibit |
|---|---|
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer. |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer. |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURES

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

ORGANIC ALLIANCE, INC.

By: /s/ Parker Booth

Parker Booth
Chief Executive Officer and Director
Date: June 18, 2012

By: /s/ Barry Brookstein

Barry Brookstein
Chief Financial Officer (Principal Accounting Officer)

Date: June 18, 2012

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title |
|---|---|
| /s/ Parker Booth<br>Parker Booth | Chief Executive Officer and Director, |
| /s/ Barry Brookstein<br>Barry Brookstein | Chief Financial Officer (Principal Accounting Officer) and Director |
| /s/ Michael Rosenthal<br>Michael Rosenthal | Director |
| /s/ Mark Klein<br>Mark Klein | Director |

Organic Alliance Inc. and Subsidiary
Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

of Organic Alliance, Inc.

We have audited the accompanying consolidated balance sheets of Organic Alliance, Inc. (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Organic Alliance, Inc., as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements for the years ended December 31, 2011 and 2010 have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company's recurring losses from operations and stockholders' deficiency raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 3 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Marcum LLP
Marcum llp
New York, NY
June 18, 2012

Organic Alliance Inc.
Consolidated Balance Sheet

| | As of December 31, 2011 | 2010 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash | $5,852 | $1,461 |
| Accounts receivable, net | 128,886 | 48,598 |
| Prepaid expenses and other current assets | 23,527 | 12,631 |
| Total current assets | 158,265 | 62,690 |
| Total Assets | $158,265 | $62,690 |
| Liabilities and Stockholders' Deficiency | | |
| Current liabilities: | | |
| Accounts payable | $1,179,753 | $1,588,115 |
| Due to factor | 82,087 | - |
| Accrued expenses and other current liabilities | 2,001,427 | 1,053,189 |
| Derivative liabilities | 155,813 | 84,819 |
| Notes payable to related parties and others, net of discounts | 1,128,549 | 465,416 |
| Total current liabilities | 4,547,629 | 3,191,539 |
| Commitments and Contingencies | | |
| Stockholders' Deficiency: | | |
| Preferred stock, no stated value authorized; 10,000,000 shares authorized; -0- shares issued and outstanding as of December 31, 2011 and December 31, 2010 | - | - |
| Common stock, $.0001 par value, 100,000,000 shares authorized, 11,032,593 and 2,859,475 shares outstanding as of December 31, 2011 and December 31, 2010, respectively | 1,103 | 286 |
| Additional paid-in capital | 9,064,265 | 7,267,666 |
| Accumulated deficit | (13,454,732) | (10,396,801) |
| Total stockholders' deficiency | (4,389,364) | (3,128,849) |
| Total Liabilities and Stockholders' Deficiency | $158,265 | $62,690 |

The common stock shares authorized, issued and outstanding have been adjusted to reflect a 20 to 1 reverse split, which was effective in February 2011.

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

F-3

Organic Alliance Inc.
Consolidated Statements of Operations

| | For the Year Ended 2011 | For the Year Ended 2010 |
|---|---|---|
| Revenue | $ 1,004,176 | $ 1,335,287 |
| Cost of sales | 984,248 | 1,379,551 |
| Gross margin (loss) | 19,928 | (44,264) |
| General and administrative expenses | $ 2,694,313 | $ 1,797,478 |
| Operating loss | (2,674,385) | (1,841,742) |
| Other (income) expense: | | |
| Interest expense | 602,756 | 280,621 |
| Change in fair value of derivative liability | (219,210) | 11,248 |
| Total net other expenses | 383,546 | 291,869 |
| Net loss | $ (3,057,931) | $ (2,133,611) |
| Basic and diluted loss per share | $ (0.25) | $ (1.11) |
| Weighted average number of common shares outstanding - basic and diluted | 12,267,539 | 1,915,200 |

The common stock shares authorized, issued and outstanding have been adjusted to reflect a 20 to 1 reverse split, which was effective in February 2011.

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

Organic Alliance Inc.
Statement of Stockholders' Deficiency

| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Deficiency |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| Balance at December 31, 2009 | 1,364,997 | $136 | $6,660,242 | $(8,263,190 ) | $ (1,602,812 ) |
| Issuance of common stock for services | 62,500 | 6 | 22,494 | | 22,500 |
| Issuance of common stock related to financing transaction | 55,000 | 6 | (6 ) | | - |
| Issuance of common stock to retire debt of related parties and other | 1,301,220 | 130 | 512,859 | | 512,989 |
| Conversion of notes payable into shares of common stock | 75,758 | 8 | 14,992 | | 15,000 |
| Derivative liability on convertible notes | | | 8,000 | | 8,000 |
| Discount on shares issued for notes payable | - | - | 9,200 | | 9,200 |
| Share-based compensation | - | - | 39,885 | | 39,885 |
| Net loss | - | - | - | (2,133,611 ) | (2,133,611 ) |
| Balance at December 31, 2010 | 2,859,475 | $286 | $7,267,666 | $(10,396,801) | $ (3,128,849 ) |
| Issuance of common stock for services | 2,782,044 | 279 | 743,946 | | 744,225 |
| Issuance of common stock to retire debt of related parties and other | 4,823,217 | 482 | 274,026 | | 274,508 |
| Conversion of notes payable into shares of common stock | 642,857 | 64 | 24,936 | | 25,000 |
| Reclassification of derivative liability to equity upon conversion of note | | | 66,836 | | 66,836 |
| Discount on conversion option | | | 162,942 | | 162,942 |
| Share-based compensation | - | | 523,905 | | 523,905 |
| Cancellation of common stock | (75,000 ) | (8 ) | 8 | | - |
| Net loss | - | | | (3,057,931 ) | (3,057,931 ) |
| Balance at December 31, 2011 | 11,032,593 | $1,103 | $9,064,265 | $(13,454,732) | $ (4,389,364 ) |

The common stock shares authorized, issued and outstanding have been
adjusted to reflect a 20 to 1 reverse split, which was effective in February 2011.

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

Organic Alliance Inc.
Consolidated Statements of Cash Flows

| | For the Year Ended 2011 | 2010 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $(3,057,931) | $(2,133,611) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Common stock issued for services | 750,225 | 16,500 |
| Depreciation expense | - | 2,164 |
| Share-based compensation | 523,905 | 39,885 |
| Gain on extinguishment of debt | - | (9,952) |
| Non-cash interest | 106,708 | - |
| Change in fair value of derivative liability | (219,210) | 11,248 |
| Gain on sales of equipment | - | (1,645) |
| Provision for bad debts | 24,961 | 40,917 |
| Amortization of discounts of note payable | 309,999 | 212,763 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (105,249) | 15,003 |
| Due from factor | - | 18,908 |
| Prepaid expenses and other current assets | (16,896) | 1,001 |
| Accounts payable | (408,362) | 852,286 |
| Accrued expenses and other current liabilities | 1,035,505 | 682,384 |
| Net cash used in operating activities | (1,056,345) | (252,149) |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from the sale of equipment | | 6,800 |
| Net cash used in investing activities | - | 6,800 |
| | | |
| Cash flows from financing activities | | |
| Proceeds from notes and loans payable | 1,024,704 | 333,879 |
| Principal payments on note payable | (46,055) | (87,300) |
| Due to factor | 82,087 | - |
| Net cash provided by financing activities | 1,060,736 | 246,579 |
| | | |
| Net increase in cash | 4,391 | 1,230 |
| Cash - beginning of the period | 1,461 | 231 |
| Cash - end of the period | $5,852 | $1,461 |
| | | |
| Supplemental disclosures: | | |
| Interest paid | $111,643 | $33,078 |
| | | |
| Supplemental disclosure for non-cash financing activities: | | |
| Discount on notes payable | $413,274 | $90,771 |
| | | |
| Issuance of common stock to consultants for services to be provided over a one year term | $- | $888,724 |
| | | |
| Reclassification of derivative liabilities upon conversion of note | $66,836 | $- |

| | | |
|---|---|---|
| Issuance of common stock to settle notes payable | $274,507 | $512,990 |
| Issuance of common stock to convert notes payable | $25,000 | $15,000 |

The accompanying notes are an integral part of these financial statements

Organic Alliance Inc. and Subsidiary
Notes to Consolidated Financial Statements

1. NATURE OF BUSINESS AND OTHER MATTERS

Organic Alliance, Inc. ("OAI" or the "Company") is a sales and marketing distribution company that supplies conventional, organic, natural, and Fair Trade food products to the global market. OAI works directly with growers while also contracting farming production domestically and abroad to vertically integrate supply chains, reduce costs and provide a high degree of control over quality, food safety and production sustainability.

History - 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. During the second quarter of 2009, it ceased being a development stage company when it commenced its operations.

On April 29, 2008, NB Design, a Nevada corporation, acquired all 10,916,917 issued and outstanding shares of common stock of Organic Texas for 464,999 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 Company operates in California.

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 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 is 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 464,999 shares of the Company's 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 50,001 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 $40.00, $40.00, $80.00, $80.00, $120.00 and $120.00, 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 $20.00 per share for all classes of Warrants and the expiration date was extended to December 31, 2011. As of December 31, 2011, all these warrants expired unexercised. In exchange for the exercise price reduction, the holders of at least 80% of the Warrants agreed to a call provision by the Company on 10 days' notice to them if (i) the bid price of the Company's common stock is quoted at $25.00 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. 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 the annual report to "Organic Alliance, Inc." or the "Company" refers to the combined operations for Organic Alliance, Inc., a Nevada Corporation, and its wholly owned subsidiary, Organic Texas.

During November 2010, the Company increased the number of authorized shares of common stock from three million shares to 100 million shares.

On February 14, 2011, the Company executed a 20:1 reverse split relating to its common stock.  All shares of the Company's common stock have been retroactively restated.

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 (“GAAP”) for financial information and with the rules and regulations for the SEC.

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. Significant estimates that are particularly sensitive to change in the near term include but are not limited to, realization of deferred tax assets, allowance for doubtful accounts, derivative liabilities and assumptions used in share based payment transactions. Actual results could differ from those estimates.

Principles of Consolidation - The consolidated financial statements include the accounts of 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.

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments and other short-term investments with maturity of three months or less, when purchased, to be cash equivalents. At December 31, 2011 and 2010, the Company did not hold any cash equivalents.

Allowance for Doubtful Accounts - An allowance for uncollectible accounts receivable is recorded based on a combination of aging analysis, past practices and any specific troubled accounts. The Company’s produce is sold to the Company’s 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. The allowance for doubtful accounts amounted to $77,969 and $53,007 at December 31, 2011 and 2010, respectively.

In addition, the Company also factors its receivables with full recourse and, as a result, accounts for the factoring akin to a secured borrowing, maintaining the gross receivable asset and due to factor liability on its books and records. In connection with the factoring of its receivables, the Company estimates an allowance for factoring fees associated with the collections. These fees range from 3% to 5% depending on the actual timing of the collection. The actual recognition of such fees may differ from the estimates depending upon the timing of collections.

Inventory - Inventory is stated at the lower of cost (first-in, first-out) or market, and includes produce the Company purchases from growers and packaging materials. The Company held no inventory as of December 31, 2011 and 2010, respectively.

Property and Equipment – Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the applicable assets over three years. Expenditures for maintenance and repairs that do not improve or extend the expected lives of the assets are expensed to operations, while expenditures for major upgrades to existing items are capitalized. Upon retirement or other disposition of these assets, the costs and related accumulated depreciation and amortization of these assets are removed from the accounts and the resulting gains or losses are reflected in the consolidated results of operations.

The Company’s property and equipment has been fully depreciated. Such amount was not material; depreciation expense was $0 and $2,164 for the years ended December 31, 2011 and 2010, respectively.

Income Taxes - The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, “Income Taxes”.  Under this method, income tax expense is recognized for the amount of (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity’s financial statements or tax returns.  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 the results of operations in the period that includes the enactment date.  A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments - The carrying amounts of financial instruments, including cash, receivables, accounts payable and accrued expenses approximated fair value as of the balance sheet date presented, because of the relatively short maturity dates on these instruments. The carrying amounts of the notes payable issued approximate fair value as of the balance sheet date presented, because interest rates and other terms on these instruments approximate terms currently available on similar instruments.

Derivative Financial Instruments - The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks. The Company evaluates all of the Company's financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the instrument could be required within 12 months of the balance sheet date.

The accounting treatment of derivative financial instruments requires that the Company record the conversion option and related warrants at their fair values as of the inception date of the agreements and at fair value as of each subsequent balance sheet date. As a result of entering into the convertible notes, the Company is required to classify all other non-employee warrants as derivative liabilities and record them at their fair values at each balance sheet date. Any change in fair value was recorded as a change in the fair value of derivative liabilities for each reporting period at each balance sheet date. The Company reassesses the classification at each balance sheet date. If the classification changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

The fair value of conversion options at a fixed number of shares are recorded using the intrinsic value method and conversion options at variable rates and any options and warrants with ratchet provisions are deemed to be a "down-round protection" and therefore, do not meet the scope exception for treatment as a derivative under ASC 815. Since, "down-round protection" is not an input into the calculation of the fair value of the equity instruments and cannot be considered "indexed to the Company's own stock" which is a requirement for the scope exception as outlined under ASC 815. The Company determined the fair value of the Binomial Lattice Model and the Intrinsic Value Method to be materially the same. Warrants that have been reclassified to derivative liability that did not contain "down-round protection" were valued using the black-scholes model.

For the Black-Scholes pricing model, which approximates the binomial lattice model, the Company used the following assumptions and weighted average fair value ranges for the years ended December 31:

| | 2011 | 2010 |
|---|---|---|
| Risk-free interest rate | 0.06% - 0.30% | 0.19% - 0.655% |
| Dividend yield | None | None |
| Expected volatility | 32.4% - 42.8% | 40.0% - 66.4% |
| Expected life in months and years | 9 months - 2 years | 9 months - 2 years |

For the binomial lattice options pricing model, the Company used the following assumptions and weighted average fair value ranges for the year ended December 31:

| | 2011 |
|---|---|
| Risk-free interest rate | 0.01% - 2.00% |
| Dividend yield | None |

| | |
|---|---|
| Expected volatility | 33.4% - 57.5% |
| Expected life in months and years | 1 month – 5 years |

F-9

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.

Share Based Compensation - The Company accounts for share-based compensation in accordance with the fair value recognition provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 718. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on interim financial reporting dates until the service period is complete.

Option valuation models require the input of highly subjective assumptions, including the expected life of the option, and such assumptions can materially affect the fair value estimate. The fair value of share-based payment awards was estimated using the Black-Scholes option pricing model. 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.

For the Black-Scholes pricing model, the Company used the following assumptions and weighted average fair value ranges for the years ended December 31, 2011, and 2010:

| | 2011 | 2010 |
|---|---|---|
| Risk-free interest rate | 0.39% - 2.54% | 0.66% - 2.32% |
| Dividend yield | None | None |
| Expected volatility | 50.2% - 57.7% | 246.3% - 335.1% |
| Expected life in years | 3-7 | 1.5-5 |

F-10

Concentrations

- Credit Risk - The Company maintains cash balances at various high quality federally insured financial institutions, with balances at times, in excess of federally insured limits. Management believes that the financial institutions that hold the Company's deposits are financially sound and therefore pose a minimum credit risk. The Company has not experienced any losses in such accounts.
- Major customers - The Company has two and four major customers, which accounted for approximately 22% and 58% of sales for the years ended December 31, 2011 and 2010, respectively. For the year ended December 31, 2011, the total sales comprised of customer E 12%, customer F 10% compared to the year ended December 31, 2010, comprised of customer A 17%, customer B 16%, customer C 14% and customer D 11%. The loss of any of these customers could adversely affect the Company's operations.
- Major receivables - The Company has three major receivables at December 31, 2011 comprised of customer C 36%, customer E 33% and customer G 13% compared to two major receivables at December 31, 2010, comprised of customer C 51% and customer H 43%.

- Major suppliers - The Company has four major suppliers, which accounted for approximately 54% and 46% of purchases for the years ended December 31, 2011 and 2010, respectively. The loss of any of these suppliers could adversely affect the Company's operations.

Net Loss Per Share – Basic loss per share was computed using the weighted average number of outstanding common shares. Diluted loss per share includes the effect of dilutive common stock equivalents from the assumed exercise of options, warrants and convertible notes. Common stock equivalents were excluded in the computation of diluted loss per share since their inclusion would be anti-dilutive.

In accordance with ASC 260 "Earnings per Share", the Company has given effect to the issuance of 2,795,538 and 74,850 warrants as of December 31, 2011 and 2010, respectively, exercisable at $0.01 or less. These warrants have been included in computing the basic net loss per share for the years ended December 31, 2011 and 2010.

Total shares issuable upon the exercise of warrants, options and the conversion of convertible notes for the years ended December 31, 2011 and 2010 were as follows:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Options | 2,983,750 | 33,750 |
| Warrants | 3,066,602 | 320,008 |
| Convertible notes | 5,446,125 | 129,176 |
| Total Common Stock Equivalents | 11,496,477 | 482,934 |

F-11

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 in effect 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 impacted disclosures only in the Company’s consolidated financial statements.

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04, “Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This ASU addresses fair value measurement and disclosure requirements within Accounting Standards Codification ("ASC") Topic 820 for the purpose of providing consistency and common meaning between U.S. GAAP and IFRSs. Generally, this ASU is not intended to change the application of the requirements in Topic 820. Rather, this ASU primarily changes the wording to describe many of the requirements in U.S. GAAP for measuring fair value or for disclosing information about fair value measurements. This ASU is effective for periods beginning after December 15, 2011 and is not expected to have any impact on the Company’s consolidated financial statements or disclosures.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This guidance improves the comparability, consistency and transparency of financial reporting and increases the prominence of items reported in other comprehensive income. The guidance provided by this update becomes effective for interim and annual periods beginning on or after December 15, 2011. The adoption of this standard is not expected to have a material impact on the Company’s financial position or results of operations.

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 December 31, 2011, the Company has limited cash, a working capital deficit of approximately $4,389,000, has accumulated losses of approximately $13,455,000 since its inception and has withheld $153,009 of payroll tax liabilities from wages paid which have yet to be remitted to the taxing authorities and are delinquent. The Company is currently delinquent with its payroll tax filings since December 31, 2008. 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 increasing its revenue in order to achieve profitable operations. The Company estimates a $2,000,000 capital infusion from the date of filing will be required to continue operations through the end of 2012. 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 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 does 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. DUE TO FACTOR

During April 2009, the Company entered into an accounts receivable factoring facility with a financial services company with maximum borrowing of $1,500,000. The financial services company advances 85% of qualified customer invoices to the Company with full recourse and holds the remaining 15% as a reserve until the customer pays. The Company is charged .083% interest per day for all advances. During April 2010, the financial services company ceased operations and accordingly, was no longer able to advance funds to the Company.

On November 1, 2010 the Company entered into a new one year accounts receivable factoring facility with a financial services company with maximum borrowings of $1,800,000. The contract expired on October 31, 2011, and the Company is operating on a month to month basis, thereafter. The financial services company advances up to 80% of qualified customer invoices with full recourse and holds the remaining 20% as a reserve until the customer pays. The Company is charged 3% for the first 30 days outstanding plus 1/10 of 1% for funds outstanding over 30 days. The new financial services company commenced funding during February 2011. Advances from the factor are collateralized by substantially all assets of the Company.

5. INCOME TAXES

The Company files tax returns in U.S. Federal, California, and local jurisdictions, and has tax returns subject to examination by tax authorities beginning in the year ended December 31, 2008.

The income tax provision (benefit) consists of the following:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Federal | | |
| Current | $ – | $ – |
| Deferred | (716,557) | (720,113) |
| | | |
| State and local | | |
| Current | – | – |
| Deferred | (209,586) | (199,894) |
| | (926,143) | (920,007) |
| Change in valuation allowance | 926,143 | 920,007 |
| Income tax provision (benefit) | $ – | $ – |

The components of deferred tax assets as of December 31, 2011 and 2010 are as follows:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Share based compensation | $2,979,541 | $2,339,470 |
| Start-up costs | 278,233 | 300,792 |
| Federal net operating loss carryovers | 1,165,428 | 934,772 |
| State net operating loss carryovers | 326,664 | 255,664 |
| Bad debt reserve | 19,554 | 21,115 |
| Related party interest expense | 10,948 | 10,302 |
| Accrued compensation | 15,781 | 7,890 |
| Derivative liability | 60,108 | 17,823 |
| Total deferred tax assets | 4,856.257 | 3,887,828 |
| Less: valuation allowance | (4,796,149 | (3,870,007 |

| | | |
|---|---|---|
| Deferred tax asset, net of valuation allowance | 60,108 | 17,821 |
| | | |
| Deferred tax liabilities | | |
| Discount on convertible debt | (60,108 ) | (17,821 ) |
| Total deferred tax liabilities | (60,108 ) | (17,821 ) |
| Net deferred tax asset (liabilities) | $- | $- |

In assessing the realizability 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. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Company believes that uncertainty exists with respect to future realization of its deferred tax assets and has, therefore, established a full valuation allowance as of December 31, 2011 and December 31, 2010. The increase in valuation allowance was $926,143 and $920,007 for the years ended December 31, 2011 and 2010, respectively.

As of December 31, 2011 and December 31, 2010, the Company had approximately $3,430,000 and $2,750,000, respectively, of US federal net operating loss carryovers ("NOL's"). As of December 31, 2011 and 2010, the Company had approximately $3,700,000 and $2,890,000 of state NOL's, respectively. The federal and state NOL's expire beginning 2028. If not used, these NOL's may be subject to limitation under Internal Revenue Code Section 382 ("Section 382") should there be a greater than 50% ownership change as determined under the regulations. The Company has conducted a preliminary Section 382 analysis and has determined that there was a change of ownership on February 23, 2011 when the Company issued shares of the Company's common stock to settle notes payable with an executive officer and a director. The Company's pre-merger NOL's are subject to an annual limitation of $116,571. The Company has not filed its federal and state tax returns since December 31, 2008 and therefore, the NOL's for periods subsequent to 2008 will not be available to offset future taxable income until the tax returns are filed with the respective federal and state tax authorities.

A reconciliation of the benefit from income taxes based on the Federal statutory rate to the Company's effective rate for years ended December 31, 2011 and 2010 is as follows:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| | % | % |
| U.S. Statutory federal rate | (34 ) | (34 ) |
| State income tax, net of federal benefits | (5.8 ) | (5.8 ) |
| Other permanent differences | 1.0 | (3.3 ) |
| Section 382 impairment | 8.5 | - |
| Change in valuation allowance | 30.3 | 43.1 |
| Income tax provision (benefit) | - | - |

Tax benefits are recognized only for tax purposes that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon settlement. A liability for "unrecognized tax benefits" is recorded for any tax benefits claimed in the Company's tax returns that do not meet these recognition and measurement standards. As of December 31, 2011 and 2010, no liability for unrecognized tax benefits was required to be reported. The guidance also discusses the classification of related interest and penalties on income taxes. The Company's policy is to record interest and penalties incurred in connection with income taxes as a component of income tax expense. No interest or penalties were recorded during the years ended December 31, 2011 and 2010.

6. PREFERRED STOCK

The Company's articles of incorporation authorizes the Company's Board of Directors to issue up to 10,000,000 shares of preferred stock, having no par value, in one or more series without stockholder approval. Each such series of preferred stock may have such number of shares, designations, preferences, voting powers, qualifications, and special or relative rights or privileges as determined by the Company's Board of Directors. At December 31, 2011 and 2010, no shares of preferred stock were issued or outstanding.

In August 2010, the Company signed a one year consulting agreement with a consultant to provide investor and public relation services. The consultant's compensation includes convertible preferred stock which, at the final determination date, will be converted into shares of common stock of the Company equivalent to 25% of outstanding common shares, as defined in the agreement. The consultant elected to receive the common stock equivalent directly as compensation. The Company calculated the fair value of the award to be $868,724 or 4,169,638 shares of common stock. The Company accrued $506,680 and $362,044 of stock based compensation for these services during the years ended December 31, 2011 and 2010, respectively, which has been included in accrued expenses and other current liabilities. During March 2011, 695,930 shares of common stock valued at $173,982 were issued to the consultant for the settlement of a portion of the accrued compensation, the remaining 3,473,708 shares of common stock valued at $694,742 have not been issued as of December 31, 2011 and is currently due and payable.

7. EQUITY TRANSACTIONS

During March 2010, the Company issued to Michael Rosenthal, director, 2,500 shares of common stock for services. The fair value of the award was fully vested on the date of issuance and accordingly the Company recorded a charge for stock based compensation of $2,500 for the year ended December 31, 2010.

During April 2010, the Company issued 25,000 shares of common stock to a consultant for investor relations services to be provided over a one year term beginning April 18, 2010. The fair value of the award on the date of issuance was $20,000 and was amortized ratably over a one year term. The Company recorded a charge of $6,000 and $14,000 for the years ended December 31, 2011 and 2010, respectively.

During February 2011, the Company issued to Alicia Kriese, director and Mark Klein, director, in the aggregate 50,000 shares of common stock for services. The fair value of the award was fully vested on the date of issuance and accordingly the Company recorded a charge for stock based compensation of $17,000 for the year ended December 31, 2011.

During February 2011, the Company issued in the aggregate to three employees 528,811 shares of common stock for services. The fair value of the award was fully vested on the date of issuance and accordingly the Company recorded a charge for stock based compensation of $179,796 for the year ended December 31, 2011.

During June 2011, the Company issued to Parker Booth, CEO, and Michael Rosenthal, director, 478,681 and 382,944, shares of common stock, respectively for services. The fair value of the award was fully vested on the date of issuance and accordingly the Company recorded a charge for stock based compensation of $172,325 for the year ended December 31, 2011.

During June 2011, the Company issued to three employees an aggregate of 45,604 shares of common stock for services. The fair value of the award was fully vested on the date of issuance and accordingly the Company recorded a charge for stock based compensation of $9,121 for the year ended December 31, 2011.

During July 2011, the Company issued 600,000 shares of common stock to a consultant for investor and public relations services. The fair value of the award was fully vested on the date of issuance and accordingly the Company recorded a charge for stock based compensation of $192,000 for the year ended December 31, 2011.

During August 2011, Tom Morrison, former CEO, returned and the Company cancelled 75,000 shares of the Company's common stock for no consideration.

8. NOTES PAYABLE, LOANS AND DERIVATIVE LIABILITES

Notes payable to related parties and other, net of discounts consist of the following:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| N Notes Payable (net of debt discount of $63,114 and $5,285 at December 31, 2011 and 2010, respectively) (A) | $551,978 | $68,312 |
| Notes Payable – Related Parties (B) (net of debt discount of 50,053 at December 31, 2011) | 348,130 | 394,761 |
| Convertible Notes Payable (net of debt discount of $41,469 and $46,075 at December 31, 2011 and 2010, respectively) (C) | 228,441 | 2,343 |

| | | |
|---|---|---|
| Total | $1,128,549 | $465,416 |

(A) Notes Payable

i. In May 2010, an individual advanced to the Company $20,000 bearing interest at 6% per annum. As a financing incentive, the individual received warrants to purchase 20,000 shares of common stock at $1.00 per share. The warrants expired in November 2011. The gross proceeds of the note were recorded net of a debt discount of $9,200. The debt discount consisted of the relative fair value of the warrants of $9,200 and is accreted to interest expense ratably over the term of the note. The promissory note matured on November 17, 2011. The unpaid balance, including accrued interest, was $21,846 and $20,750 at December 31, 2011 and 2010, respectively. The Company is not compliant with the repayment terms of the note

ii. On November 3, 2010, the Company signed a $38,262 demand note with an interest rate of 5% per annum. The unpaid balance, including accrued interest, was $38,565 at December 31, 2010. The note was repaid in January 2011.

iii. On February 3, 2011, the Company signed a $500,000 promissory note with a maturity date of August 2, 2012, and has a stated interest rate of 15% per annum. As a financing incentive, the lender received three year warrants vesting on January 31, 2011, to purchase 452,354 shares of common stock at an exercise price of $0.01 per share and also received five year warrants, vesting on June 30, 2011, to purchase 452,354 shares at an exercise price of $0.01 per share.

The Company accounted for the issuance of the convertible promissory note in accordance with ASC 815" Derivatives and Hedging". Accordingly, the warrants are recorded as derivative liabilities at their fair value and are marked to market through earnings at the end of each reporting period. The gross proceeds from the sale of the note $500,000 was recorded net of a discount of $137,703. The debt discount consisted of $137,703 related to the fair value of the warrants and is accreted to interest expense ratably over the term of the note which amounted to $74,589 for the year ended December 31, 2011 and is included as a component of interest expense in the accompanying consolidated statement of operations. The Company has not made any note payments and received a waiver from the lender on September 1, 2011 that defers payment until September 1, 2012 and increased the interest rate to 21% beginning April 4, 2011, the date of the first event of default. The unpaid balance, including accrued interest, was $593,247 at December 31, 2011.

(B) Notes Payable – Related Parties

i. In September 2008, Earnest Mathis, a former owner, advanced to the Company $15,000. The advance is evidenced by a promissory note bearing interest at 10% per annum. The promissory note matured on September 13, 2009. The unpaid balance, including accrued interest, was $19,942 and $18,335 at December 31 2011 and 2010, respectively. The Company is not compliant with the repayment provisions of this note.

ii. During the years ended December 31, 2011 and 2010 the Company was advanced $8,045 and $111,279 from Parker Booth, Chief Executive Officer. The advances are evidenced by promissory notes bearing interest at 5% per annum. The promissory notes also include the issuance of 133,437 shares of common stock as a financing incentive.

The gross proceeds of the note were recorded net of a debt discount of $0 and $130,074 for the years ended December 31, 2011 and 2010, respectively. The debt discount consisted of the relative fair value of the common stock of $137,914 and is accreted to interest expense ratably over the term of the note.

On August 13, 2010, the Company consolidated the previous note dated April 21, 2010 into a single promissory note totaling $605,185 and accrues interest at 5% and matured on December 31, 2010. Between August 13, 2010 and February 18, 2011, The Company repaid $7,795 of the note

On November 4, 2010, at the option of the holder the Company issued 940,977 shares of common stock for the settlement of $376,391 of principal and accrued interest. On February 18, 2011, the Company issued an additional 3,858,574 shares of common stock for the settlement of $231,514 of principal and $5,996 of the accrued interest. The fair value of the common stock issued exceeded the fair value of the promissory notes and accrued interest by $64,824. Accordingly the Company recorded a charge to stock based compensation for the year ended December 31, 2011. As of December 31, 2011 and 2010 the amounts payable under these notes was $6,803 and $265,745, respectively. The Company is not compliant with the repayment terms of this note.

iii.

In October and December 2009, Michael 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 notes matured on March 31, 2010 and June 30, 2010, respectively. The advances provide for the issuance of 45,000 shares of the Company's common stock as a financing incentive. The Company recorded an aggregate debt discount of $55,940 to the face value of the notes based upon the relative fair values of the common stock. The discount is being accreted over the life of the note which amounted to $33,208 for the year ended December 31, 2010, and is included as a component of interest expense in the accompanying consolidated statement of operations. These shares were issued to Mr. Rosenthal in March 2010. On November 4, 2010, During the year ended December 31, 2010 at the option of the holder the Company issued 235,243 shares of common stock for the settlement of $94,098 of principal and accrued interest. The October 2009 $100,000 promissory note was reduced by an amount equal to the purchase price.

On February 18, 2011, the at the option of the holder the Company issued 964,643 shares of common stock for the settlement of $57,879 of principal and accrued interest of $7,091. The fair value of the common stock issued exceeded the remaining portion of promissory notes plus accrued interest by $31,092 and is included as a component of stock based compensation in the accompanying consolidated statement of operations.

iv. In November 2009 and February 2010, Morrison Partners, LLC (Thomas Morrison, former CEO and Chairman of the Board is the President), advanced to 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 advance provides for the issuance of 2,770 shares of the Company's common stock as a financing incentive. The Company recorded a debt discount of $2,935 for the relative fair value of the common stock. The discount is being accreted over the life of the note which amounted to $2,494 for the year ended December 31, 2010, and is included as a component of interest expense in the accompanying consolidated statement of operations.

The November 2009 and February 2010 notes were due on June 30, 2010 and September 30, 2010, respectively. The unpaid balance, including accrued interest, was $27,472 and $26,222 at December 31, 2011 and 2010, respectively. The shares have not been issued to Morrison Partners, LLC and are included in accrued expenses and other current liabilities. The Company is not compliant with the repayment terms of this note.

v. In December 2009, Dr. Corey Ruth, a former director, advanced to 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. The advance provided for the issuance of 10,000 shares of the Company's common stock as a financing incentive. The Company recorded a debt discount of $12,121 for the relative fair value of the common stock. The discount is being accreted over the life of the note which amounted to $7,756 for the year ended December 31, 2010, and is included as a component of interest expense in the accompanying consolidated statement of operations. The note principal was paid back in February 2010. The 10,000 shares of the Company's common stock were issued to Dr. Ruth during March 2010.

vi. During March, 2010 through October 2011, an employee of the Company loaned to the Company $65,958 of which an aggregate amount of $16,000 and $49,958 was advanced during 2011 and 2010, respectively. The loans are evidenced by promissory notes payable with interest at 5% and are due on demand. The Company repaid $9,000 during 2010. In addition, the employee will be issued 47,690 shares of the Company's common stock upon repayment of the promissory notes as additional consideration. The Company will record a fair value for these shares on the measurement date as a charge to interest expense. The unpaid balance including accrued interest was $59,974 and $41,706 at December 31, 2011 and 2010, respectively.

vii. On October 17, 2011, the Company entered into a $400,000 convertible multi-draw term loan facility with an entity owned by a related party who is a 100% shareholder. The loan bears interest at 21% and has a maturity date of the earlier of an event of default or April 17, 2012. The Company is currently negotiating an extension of such loan. At the time of any new debt or equity financing of the Company, the note balance of principal and interest may be converted into the number of fully paid and non-assessable debt instruments, shares/or units to be issued in the financing. In addition, the related party received a warrant to purchase 2.5 shares of the Company's common stock for each $1.00 of principal extended to the Company up to 1,000,000 shares. The warrants have an exercise price of $.10 per share and vest with each cash advance from the loan and collectively expire on October 17, 2014. During the year ended December 31, 2011, the Company issued three-year warrants to purchase an aggregate of 687,500 shares of common stock under this financing arrangement. The unpaid balance, including accrued interest, was $283,993 at December 31, 2011. As of June 18, 2012, the Company has been advanced $400,000 on the loan.

The conversion price of the notes was not fixed and determinable on the date of issuance and as such in accordance with ASC Topic 815 “Derivatives and Hedging” (“ASC 815”), the embedded conversion option of the notes on the date of issuance were valued using the binomial lattice options pricing model and recorded as derivative liabilities. The fair value of the three-year warrants issued in connection with the note on the date of issuance aggregated $70,074, and was recorded as debt discount. The debt discount was amortized through the term of the notes and amounted to $20,021 for the year ended December 31, 2011.

Interest inclusive of amortized financing discount on the aforementioned related party notes aggregated $35,859 and $208,742 for the years ended December 31, 2011 and 2010, respectively.

(C) Convertible Notes Payable

i. On June 18, 2010 the Company issued a $25,000 convertible promissory note with a maturity date of March 21, 2011, and with an interest rate of 8% per annum. The note may be converted into the Company's common stock by the holder based at a variable conversion price. The variable conversion price is defined in the note as 51% multiplied by the average of the lowest three trading prices for the Company's common stock during the previous 10 trading day period ending one trading day prior to the date of conversion. The Company received the $25,000 proceeds in July 2010. The note was paid off with cash in November 2010. The repayment of $38,261 includes interest expense of $13,261, which is included in other expense on the consolidated statement of operations.

The conversion price of the notes was not fixed and determinable on the date of issuance and as such in accordance with ASC Topic 815 “Derivatives and Hedging” (“ASC 815”), the embedded conversion option of the note on the date of issuance were valued using the Black-Scholes pricing model, which approximates the binomial lattice options pricing model and recorded as derivative liabilities. The fair value of the conversion options in connection with the note on the date of issuance aggregated $21,191, and was recorded as debt discount. The debt discount was amortized through the term of the note and amounted to $21,191 for the year ended December 31 2010.

ii. On July 14, 2010, the Company issued a $52,380 convertible promissory note with a maturity date of September 13, 2012, and with an interest rate of 20% per annum. 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 note as 45% multiplied by the average of the five lowest intraday prices for the Company’s stock during the previous 20 trading days prior to the date of conversion. The total conversion may not exceed 4.99% of the Company’s common stock issued and outstanding. In addition, the Company placed 250,000 shares of the Company’s common stock in escrow to secure our conversion obligations under the note. During September 2010, the lender converted $7,500 of the debt into 75,758 shares of the Company’s common stock for $.099 per share. During December 2010, the lender converted $7,500 of the debt into 53,419 shares of the Company’s common stock for $.14 per share. During March 2011, the lender converted $5,000 of the debt to 198,413 shares of the Company’s common stock for $.0252 per share. During September 2011, the lender converted $20,000 of the debt to 444,444 shares of the Company’s common stock for $.045 per share. The unpaid balance, including accrued interest, was $21,567 and $40,215 at December 31, 2011 and 2010, respectively. As of June 18, 2012, approximately $23,000 of the note and accrued interest remains unpaid.

The conversion price of the note was not fixed and determinable on the date of issuance and as such in accordance with ASC Topic 815 “Derivatives and Hedging” (“ASC 815”), the embedded conversion options of the note on the date of issuance were valued using the Black-Scholes pricing model, which approximates the binomial lattice options pricing model and recorded as derivative liabilities (see Derivative Financial Instruments below). The fair value of the conversion option in connection with the note on the date of issuance aggregated $52,380, and was recorded as debt discount. The debt discount was amortized through the term of the notes and amounted to $26,190 and $7,638 for the years ended December 31 2011 and 2010, respectively.

iii. On July 30, 2010, an individual advanced the Company $8,000. The advance is evidenced by a promissory note bearing interest at 6% per annum and maturing on March 2, 2011. The holder, at any time, may convert the promissory note into shares of Company’s common stock at $0.05 per share. The Company calculated the fair value of the beneficial conversion feature using the Black-Scholes pricing model on the date of issuance. The fair value of the conversion option in connection with the note on the date of issuance aggregated $8,000, and was recorded as debt discount. The debt discount was amortized through the term of the note and amounted to $1,333 and $6,667 for the years ended December 31, 2011 and 2010, respectively. The unpaid balance, including accrued interest, was $8,683 and $8,203 at December 31, 2011 and 2010, respectively. The Company is not compliant with the repayment terms of this note.

iv. On April 28, 2011, the Company issued a $70,588 convertible promissory note with an original issue discount of 15%. The convertible promissory note has a maturity date of the earlier of (i) the Company raising debt or equity financing of $600,000 or more, or (ii) May 31, 2011. The note may be converted into the Company's common stock by the holder at $0.05 per share. The Company has not made a note payment and received a waiver from the lender on September 1, 2011 that defers payment until May 31, 2012 and waives the provision for payment upon the Company closing a debt or equity financing of $600,000 or more. As a financing incentive, the lender received five-year warrants vesting April 28, 2011, to purchase 705,882 shares of Company's common stock at an exercise price of $0.25 per share. The unpaid balance, including accrued interest, was $70,588 at December 31, 2011. The Company is not compliant with the repayment terms of this note.

The conversion price of the note and five-year warrants was not fixed and determinable on the date of issuance and as such in accordance with ASC Topic 815 "Derivatives and Hedging" ("ASC 815"), the embedded conversion options of the note and warrants on the date of issuance were valued using the binomial lattice options pricing model and recorded as derivative liabilities (see Derivative Financial Instruments below). The fair value of the conversion option and five-year warrants issued in connection with the note on the date of issuance aggregated $60,000, and were recorded as debt discount. The debt discount was amortized through the term of the notes and amounted to $60,000 for the year ended December 31, 2011.

v. On June 15, 2011, the Company issued a $57,500 convertible promissory note with an original issue discount of 15%. The convertible promissory note has a maturity date of the earlier of (i) the Company raising debt or equity financing of $600,000 or more, or (ii) June 14, 2011. The note may be converted into the Company's common stock by the holder at $0.05 per share. The Company received a waiver from the lender on September 1, 2011 that waives the provision for payment upon the Company closing a debt or equity financing of $600,000 or more. As a financing incentive, the lender received five-year warrants vesting June 15, 2011, to purchase 575,000 shares of Company's common stock at an exercise price of $0.25 per share. The unpaid balance, including accrued interest, was $57,500 at December 31, 2011. The Company is not compliant with the repayment terms of this note.

The conversion price of the note and five-year warrants was not fixed and determinable on the date of issuance and as such in accordance with ASC Topic 815 "Derivatives and Hedging" ("ASC 815"), the embedded conversion options of the note and warrants on the date of issuance were valued using the binomial lattice options pricing model and recorded as derivative liabilities (see Derivative Financial Instruments below). The fair value of the conversion option and five-year warrants issued in connection with the note on the date of issuance aggregated $50,000, and were recorded as debt discount. The debt discount was amortized through the term of the notes and amounted to $27,083 for the year ended December 31, 2011.

vi. On July 15, 2011, the Company issued a $109,822 convertible promissory note with an original issue discount of 15% that consolidated various demand notes from September 2010 through July 2011. The convertible promissory note has a maturity date of the earlier of (i) the Company raising debt or equity financing of $600,000 or more, or (ii) August 31, 2011. The Company is currently negotiating an extension of such loan. The note may be converted into the Company's common stock by the holder at $0.05 per share. As a financing incentive, the lender received five-year warrants vesting July 15, 2011, to purchase 1,098,220 shares of Company's common stock at an exercise price of $0.25 per share. The unpaid balance, including accrued interest, was $111,572 at December 31, 2011. The Company is not compliant with the repayment terms of this note.

The conversion price of the note and five-year warrants was not fixed and determinable on the date of issuance and as such in accordance with ASC Topic 815 "Derivatives and Hedging" ("ASC 815"), the embedded conversion options of the note and warrants on the date of issuance were valued using the binomial lattice options pricing model and recorded as derivative liabilities (see Derivative Financial Instruments below). The fair value of the conversion option and five-year warrants issued in connection with the note on the date of issuance aggregated $95,497, and were recorded as debt discount. The debt discount was amortized through the term of the notes and amounted to $95,497 for the year ended December 31, 2011.

F-20

9. FAIR VALUE MEASURES

ASC 820 “Fair Value Measurements and Disclosures” defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Standard clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date and emphasizes that fair value is a market-based measurement and not an entity-specific measurement.

ASC 820 establishes the following hierarchy used in fair value measurements and expands the required disclosures of assets and liabilities measured at fair value:

Level 1 – Inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Inputs use other inputs that are observable, either directly or indirectly. These inputs include quoted prices for similar assets and liabilities in active markets as well as other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company’s assessment of the significance of particular inputs to these fair measurements requires judgment and considers factors specific to each asset or liability.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2011 and December 31, 2010, respectively:

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Derivative liabilities: | | | | |
| December 31, 2011 | $– | $– | $155,813 | $155,813 |
| December 31, 2010 | $– | $– | $84,819 | $84,819 |

F-21

The 2010 derivative liabilities are measured at fair value using the Black-Scholes options pricing model, which approximates the binomial lattice options pricing model, and are classified within Level 3 of the valuation hierarchy. The 2011 derivative liabilities are measured at fair value using the binomial lattice options pricing model, and are classified within Level 3 of the valuation hierarchy.

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis:

| | For The Years Ended December 31, 2011 | 2010 |
|---|---|---|
| Fair value, beginning of year | $ 84,819 | $ - |
| Included in liabilities – debt discount | 357,040 | 73,571 |
| Included in stockholders' deficiency - reclassifications | (66,836) | - |
| Change in fair value of derivative liabilities | (219,210) | 11,248 |
| Transfers in and out of Level 3 | - | - |
| Fair value, end of year | $ 155,813 | $ 84,819 |

10. STOCK OPTIONS AND WARRANTS

Stock Options

On October 1, 2008 in conjunction with Parker Booth's employment as the Company's Chief Executive Officer the Company provided an option to purchase 33,750 shares of common stock at $10.20 per share. The options have a life of five years from the date of grant and vest annually over three years.

On July 3, 2011, in conjunction with Chris White's employment as the Company's Vice President of Global Supply Chain the Company provided an option to purchase to purchase 2,950,000 shares of common stock at $0.20 per share. The options have a life of seven years and 1,180,000 options vested immediately and 295,000 shares vesting on each of the first six semi-annual anniversaries after such date.

The Company recognized stock based compensation expense included in general and administrative expenses on the consolidated statement of operations for the year ended December 31, 2011 and 2010, for $79,060 and $34,863, respectively for these awards.

Options Summary:

A summary of option activity during the years ended December 31, 2011 and 2010 is presented below:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Intrinsic Value |
|---|---|---|---|---|
| Balance at December 31, 2009 | 33,750 | $10.20 | 3.88 | $- |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Forfeited | - | - | - | - |
| Balance at December 31, 2010 | 33,750 | $10.20 | 2.88 | $- |
| Granted | 2,950,000 | $0.20 | 7.00 | - |
| Exercised | - | - | - | - |
| Forfeited | - | - | - | - |
| Balance at December 31, 2011 | 2,983,750 | $0.31 | 4.00 | $- |
| | | | | |
| Exercisable at December 31, 2011 | 1,213,750 | $0.31 | 4.19 | $- |

Common Stock Warrants

Warrant transactions during the years ended December 31, 2011 and 2010 are as follows:

| | Number of Warrants | | Weighted Average Exercise Price | Average Remaining Life In Years | | Intrinsic Value |
|---|---|---|---|---|---|---|
| Balance, December 31, 2009 | 300,008 | $ | 20.00 | | | |
| Granted | 94,850 | | 0.21 | | | |
| Exercised | – | | – | | | |
| Forfeited | – | | – | | | |
| Balance, December 31, 2010 | 394,858 | $ | 15.25 | | | |
| Granted | 5,787,290 | | 0.12 | | | |
| Exercised | – | | – | | | |
| Forfeited | (320,008) | | 18.81 | | | |
| Balance, December 31, 2011 | 5,862,140 | $ | 0.12 | 3.49 | $ | 261,453 |
| | | | | | | |
| Exercisable, December 31, 2011 | 5,862,140 | $ | 0.12 | 3.49 | $ | 261,453 |

The intrinsic value is calculated on the difference between the fair market value of the Company's stock, which was $0.10 per share as of December 31, 2011, and the exercise price of the warrants.

The following table presents information related to warrants at December 31, 2011:

| Warrants Outstanding | | Warrants Exercisable | |
|---|---|---|---|
| Exercise Price | Number of Warrants | Weighted Average Remaining Life In Years | Exercisable Number of Warrants |
| $0.001 | 74,850 | 1.75 | 74,850 |
| 0.01 | 452,354 | 2.08 | 452,354 |
| 0.01 | 795,866 | 4.13 | 795,866 |
| 0.25 | 705,882 | 4.33 | 705,882 |
| 0.25 | 575,000 | 4.46 | 575,000 |
| 0.01 | 452,355 | 4.50 | 452,355 |
| 0.25 | 1,098,220 | 4.54 | 1,098,220 |
| 0.001 | 1,020,113 | 2.75 | 1,020,113 |
| 0.10 | 687,500 | 2.88 | 687,500 |
| | 5,862,140 | 3.49 | 5,862,140 |

11. RELATED PARTY TRANSACTIONS

Consulting Agreement

On July 1, 2008, the Company signed a 16 month consulting agreement with a related party. The consulting services include financial advisory, investment relations and certain administrative and other services for a $6,250 monthly fee. This contract expired on October 31, 2009 and was not renewed. As of December 31, 2011 and 2010, the Company owed $100,000 related to above consulting services, which is included in accrued expenses and other current liabilities in the consolidated balance sheets.

Director Retirement

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, effective immediately. Mr. Morrison returned to the Company 75,000 shares of common stock for no consideration. Subsequently the Company cancelled these shares.

12. COMMITMENTS AND CONTINGENCIES

Agreements

On September 27, 2010 the Company signed a twelve month agreement for investment banking services which is being extended. The banking services include equity financing, business combinations and other financing transactions. The compensation to the banker includes a flat fee plus other compensation as defined in the agreement. The agreement includes three year warrants, which were fully vested on the date of the grant to purchase 74,850 shares of Company’s common stock at an exercise price of $0.001 per share. The fair value of the award was $19,443 and is amortized over the term of the agreement, accordingly, the Company recorded a stock based compensation charge of $14,422 and $5,021 for the years ended December 31, 2011 and 2010, respectively.

In addition, the agreement provides for an additional warrant to be issued by the Company upon the 1 year anniversary provided that the banker did not exercise any of their other compensation elements as defined in the agreement. This warrant carries cashless exercise provision and is limited to up to 4.99% of the Company’s outstanding common stock on a fully diluted basis. In September 2011, the Company issued 1,020,113 warrants and incurred a charge of $55,056. The warrants are exercisable at $0.001 per share, have a life of 3 years and were fully vested on the date of the grant.

On November 2, 2010, the Company entered into an agreement with an attorney for general corporate and transactional matters that provide a 3.50% equity interest in the Company upon meeting certain milestones. These milestones were met in February 2011, and the attorney was granted 5 year warrants vesting on February 14, 2011 to purchase 795,866 shares of Company’s common stock at an exercise price of $0.01 per share. The warrant was fully vested on the date of the grant and accordingly the Company recorded a stock based compensation charge of $279,453 for the year ended December 31, 2011 which represents the fair value of the award.

Legal matters

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, the Company may pursue litigation against third parties to enforce or protect the Company’s rights under the Company’s trademarks, trade secrets and the Company’s intellectual property rights generally.

During 2010, the Company was served with three lawsuits for past due liabilities of the Company.  The first lawsuit was Peri & Sons, plaintiff, vs. Organic Alliance, Inc. and Parker Booth, defendants, for past due produce liabilities. An agreement was reached and OAI has been making payments to the plaintiff. OAI was dismissed from the action and signed a confession of judgment.  Over half of the past due amount has been paid with a balance of approximately $21,000 remaining.  The second lawsuit filed in the US. District Court, Northern California District by a group of plaintiffs: Full Circle Sales, Inc., Growers Express LLC, Steinbeck County Produce Inc., Steve Almquist Sales and Brokerage, Dan Andrews Farms, Fresh Networks, LLC and Quebec Distributing Co., Inc., vs. Organic Alliance, Inc., defendant, for approximately $97,000 plus attorney fees and interest.  These plaintiffs are produce suppliers of the Company.  An agreement was reached and three of the plaintiffs were paid in full for $31,000. The balance of $66,000 remains unpaid. The third lawsuit was filed in Monterey County Superior Court by RE Transportation, plaintiff, vs. Organic Alliance, Inc., defendant, seeking approximately $34,000 principal plus interest at 18% per annum and attorney’s fees.  The plaintiff provided transportation services for the Company.  An agreement was reach with the plaintiff receiving $10,000 a month for three months starting May 2012. The Company has accrued for all amounts claimed.

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

| | For The Years Ended December 31, 2011 | 2010 |
|---|---|---|
| Due to consultant (Note 11) | $ 100,000 | $ 100,000 |
| Accrued consulting fees, common stock to be issued (Note 6) | 694,742 | 362,044 |
| Payroll and payroll taxes payable (A) | 1,131,572 | 584,454 |
| Other accrued liabilities | 75,113 | 6,691 |
| | $ 2,001,427 | $ 1,053,189 |

(A) As of December 31, 2011 and 2010, the Company has withheld $153,009 and $98,982 of payroll tax liabilities from wages paid which have yet to be remitted to the taxing authorities.

14. SUBSEQUENT EVENTS

On January 6, 2012, Mark Zeller joined the Company and entered into a three year employment agreement to serve as the Company's North American Director of Sales. As part of the agreement, Mr. Zeller was granted stock options to purchase 1,500,000 shares of the Company's common stock. The option expires in five years with 250,000 shares vesting on January 6, 2012 and the remaining 1,250,000 shares vesting equally on the first three anniversaries after such date. The exercise price is $0.20 per share.

During February 2012, an employee was granted three year warrants to purchase 300,000 shares of the Company's common stock. The warrants vest immediately with an exercise price of $0.25 per share.

On February 28, 2012, the Company issued a $50,000 convertible note to a related party. The loan bears interest at 21% and has a maturity date of the earlier of an event of default or August 28, 2012. In addition, the related party received three year warrants vesting February 28, 2012, to purchase 125,000 shares of Company's common stock at an exercise price of $0.10 per share.

On March 2, 2012, the Company entered into an agreement to sell secured promissory notes for an aggregate principal amount of $1,000,000, with warrants to purchase 2.5 shares the Company's common stock for each $1 of the principal amount of the notes purchased. As of June 2012, a total of $850,000 has been raised by the offering. The notes bear interest at 18% and have a maturity date of September 2, 2012. At the time of any new debt or equity financing of the Company, the note balance of principal and interest may be converted into the number of fully paid and non-assessable debt instruments, shares/or units to be issued in the financing. The three year warrants vest immediately at an exercise price of $.10 per share.

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required further adjustment to or disclosure in the consolidated financial statements.