ADVANCED MEDICAL OPTICS INC
Form 10-Q
June 24, 2002

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2002

OR

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

For the transition period from to

Commission file number 001-31257

ADVANCED MEDICAL OPTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**33-098682**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2525 Dupont Drive, Irvine, California	**92612**
(Address of principal executive offices)	(Zip Code)

(714) 246-4500
(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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.

(1) YES [X] NO [ ]

(2) YES [ ] NO [X]

The Registrant had 100 shares of common stock outstanding as of June 19, 2002.

THE REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(A) AND (B) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM IN THE REDUCED DISCLOSURE FORMAT.

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PART I FINANCIAL INFORMATION

ADVANCED MEDICAL OPTICS, INC.

UNAUDITED CONDENSED COMBINED STATEMENTS OF EARNINGS

	Three Months Ended	
	March 29, 2002	March 30, 2001
	(in thousands)	
Net sales	$113,997	$120,811
Cost of sales	44,276	50,335
Gross margin	69,721	70,476
Selling, general and administrative	54,170	62,118
Research and development	6,984	7,264
Operating income	8,567	1,094
Non-operating expense (income)		
Interest expense	681	824
Unrealized loss (gain) on derivative instruments	213	(1,321)
Other, net	51	(90)
	945	(587)
Earnings before income taxes	7,622	1,681
Provision for income taxes	2,896	467
Earnings before cumulative effect of change in accounting principle	4,726	1,214
Cumulative effect of change in accounting principle, net of $160 of tax		(391)
Net earnings	$ 4,726	$ 823

See accompanying notes to unaudited condensed combined financial statements.

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ADVANCED MEDICAL OPTICS, INC.

UNAUDITED CONDENSED COMBINED BALANCE SHEETS

	March 29, 2002	December 31, 2001
	(in thousands)	
ASSETS		
Current assets		
Cash and equivalents	$ 4,836	$ 6,957
Trade receivables, net	94,861	114,724
Inventories	67,131	65,237
Other current assets	17,322	23,634
Total current assets	184,150	210,552
Property, plant and equipment, net	27,209	28,293
Other assets	36,481	37,248
Goodwill	100,066	100,374
Intangibles, net	924	999
Total assets	$348,830	$377,466
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of long-term debt	$ 18,834	$ 18,988
Accounts payable	19,473	29,583
Accrued compensation	14,957	16,652
Other accrued expenses	17,110	20,328
Total current liabilities	70,374	85,551
Long-term debt, net of current portion	75,189	75,809
Other liabilities	3,396	2,176
Commitments and contingencies		
Equity		
Allergan, Inc. net investment	202,101	215,653
Accumulated other comprehensive loss	(2,230)	(1,723)
Total equity	199,871	213,930
Total liabilities and equity	$348,830	$377,466

See accompanying notes to unaudited condensed combined financial statements.

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ADVANCED MEDICAL OPTICS, INC.

UNAUDITED CONDENSED COMBINED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	March 29, 2002	**March 30, 2001**
	(in thousands)	
Cash flows provided by operating activities		
Net earnings	$ 4,726	$ 823
Non cash items included in net earnings:		
Cumulative effect of accounting change for derivative instruments		551
Depreciation and amortization	3,355	5,335
Amortization of prepaid royalties		100
Loss on investments and assets	216	97
Unrealized loss/(gain) on derivatives	213	(1,321)
Changes in assets and liabilities:		
Trade receivables	18,369	12,994
Inventories	(2,785)	(3,500)
Other current assets	6,054	291
Accounts payable	(9,894)	(4,367)
Accrued expenses and other liabilities	(2,057)	(4,334)
Other non-current assets	477	(1,604)
Net cash provided by operating activities	18,674	5,065
Cash flows from investing activities		
Additions to property, plant and equipment	(460)	(1,069)
Additions to capitalized internal-use software	(632)	(538)
Additions to demonstration and bundled equipment	(1,062)	(1,549)
Net cash used in investing activities	(2,154)	(3,156)
Cash flows from financing activities		
Distributions to Allergan, Inc., net of advances	(18,278)	(4,127)
Net cash used in financing activities	(18,278)	(4,127)
Effect of exchange rates on cash and equivalents	(363)	(608)
Net decrease in cash and equivalents	(2,121)	(2,826)
Cash and equivalents at beginning of period	6,957	12,641
Cash and equivalents at end of period	$ 4,836	$ 9,815
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	$ 819	$ 818
Income taxes	$ 513	$ 32

See accompanying notes to unaudited condensed combined financial statements.

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ADVANCED MEDICAL OPTICS, INC.

NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS

Note 1: Description of Business

On January 22, 2002, Allergan, Inc. (Allergan) announced a plan to spin off its optical medical device business consisting of ophthalmic surgical and contact lens care product business lines to Allergan stockholders. Management expects that shares of the new optical medical device company, Advanced Medical Optics, Inc. (AMO or the Company), will be distributed on June 29, 2002 to Allergan stockholders of record on June 14, 2002 by means of a tax free dividend for purposes of U.S. income taxes. The distribution will result in AMO operating as an independent entity with publicly traded common stock.

Note 2: Basis of Presentation

In the opinion of management, the accompanying unaudited condensed combined financial statements contain all adjustments necessary (consisting only of normal recurring accruals) to present fairly the financial information contained therein. These statements do not include all disclosures required by accounting principles generally accepted in the United States of America and should be read in conjunction with the audited combined financial statements of the Company for the year ended December 31, 2001. The results of operations for the three months ended March 29, 2002 are not necessarily indicative of the results to be expected for the year ending December 31, 2002.

Allergan does not account for the business that comprises AMO on the basis of separate legal entities, subsidiaries, divisions or segments. The accompanying unaudited condensed combined financial statements include those assets, liabilities, revenues and expenses directly attributable to AMO s operations and allocations of certain Allergan corporate assets, liabilities and expenses to AMO. These amounts have been allocated to AMO on the basis that is considered by management to reflect most fairly or reasonably the utilization of the services provided to or the benefit obtained by the Company. Management believes the methods used to allocate these amounts are reasonable and consistent with prior periods. All material intercompany balances have been eliminated. The financial information included herein does not necessarily reflect what the financial position and results of operations of the Company would have been had it operated as a stand-alone public entity during the periods covered, and may not be indicative of future operations or financial position. Subsequent to the distribution, the Company estimates that it will incur incremental annual pre-tax costs of approximately $52 million associated with being an independent public company. Such incremental annual costs include approximately $7 million for cost of sales, $22 million for selling, general and administrative expenses including accounting, information systems, legal, human resources and other costs, $1 million for research and development costs, and interest expense of $22 million, including the estimated annual amortization of capitalizable debt origination fees.

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Note 3: Recently Adopted Accounting Standards

In July 2001, Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141), was issued. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method combinations completed after June 30, 2001. SFAS No. 141 also requires that the Company evaluate its existing intangible assets and goodwill that were acquired in prior business combinations, and to make any necessary reclassifications in order to conform with the new criteria in SFAS No. 141 for recognition of intangibles apart from goodwill.

Additionally, in July 2001, Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), was issued and is effective for all periods of fiscal years beginning after December 15, 2001 (January 1, 2002 for the Company). SFAS No. 142 establishes accounting and reporting standards for intangible assets. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives be evaluated annually for impairment rather than amortized. Upon adoption of SFAS No. 142, the Company is also required to test goodwill and intangible assets with indefinite useful lives for impairment within the first interim period with any impairment loss being recognized as a cumulative effect of a change in accounting principle.

In connection with the transitional goodwill impairment evaluation, SFAS No. 142 requires the Company to perform an assessment of whether there is an indication that goodwill and intangible assets with indefinite useful lives are impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company then has up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit s carrying amount. To the extent a reporting unit s carrying amount exceeds its fair value, an indication exists that the reporting unit s goodwill may be impaired.

The Company adopted the provisions of SFAS No. 141 on June 30, 2001 and SFAS No. 142 on January 1, 2002, effective with Allergan s adoption of the new accounting standards. Allergan s adoption did not result in a negative impact on Allergan s Consolidated Financial Statements. After the spin-off is completed, the Company will be required to complete a separate assessment of goodwill and intangibles on a stand-alone basis. The Company s separate assessment is not expected to result in a negative impact on its combined financial statements.

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ADVANCED MEDICAL OPTICS, INC.

NOTES TO UNAUDITED CONDENSED

COMBINED FINANCIAL STATEMENTS (Continued)

The components of amortizable intangibles and goodwill were as follows:

	March 29, 2002		December 31, 2001	
Intangibles	**Gross Amount**	**Accumulated Amortization**	**Gross Amount**	**Accumulated Amortization**
		(in thousands)		
Amortizable Intangible Assets:				
Licensing	$3,940	$(3,076)	$3,940	$(3,004)
Trademarks	79	(19)	78	(15)
	$4,019	$(3,095)	$4,018	$(3,019)

Aggregate amortization expense for the quarters ended March 29, 2002 and March 30, 2001 was approximately $76,000.

Estimated amortization expense for years ending December 31, 2002, 2003, 2004, 2005 and 2006 are $304,000, $304,000, $304,000, $88,000 and zero, respectively.

Goodwill	**March 29, 2002**	**December 31, 2001**
	(in thousands)	
Goodwill:		
United States	$ 12,783	$ 12,783
Asia Pacific	22,497	22,805
Manufacturing Operations	64,786	64,786
	$100,066	$100,374

There was no activity related to goodwill during the quarter ended March 29, 2002.

Pro forma financial information related to the adoption of SFAS No. 142 is as follows:

	For the Quarters Ended	
	March 29, 2002	**March 30, 2001**
	(in thousands)	
Net earnings	$4,726	$ 823
Add:		
Goodwill amortization, net of tax		1,307

Adjusted net earnings	$4,726	$2,130

In October 2001, Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), was issued. SFAS No. 144 supersedes Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of , and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations Reporting the effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions , for the disposal of a segment of a business. SFAS No. 144 retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of or is classified as held for sale. The Company adopted the provisions of SFAS No. 144 for the quarter ended March 29, 2002. The adoption of SFAS No. 144 did not have a material impact on the Company s unaudited condensed combined financial statements.

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ADVANCED MEDICAL OPTICS, INC.

NOTES TO UNAUDITED CONDENSED

COMBINED FINANCIAL STATEMENTS (Continued)

Note 4: Inventories

Components of inventories were:

	March 29, 2002	December 31, 2001
	(in thousands)	
Finished goods, including inventory on consignment with customers of $6,550 and $6,653 in 2002 and 2001, respectively	$52,685	$51,479
Work in process	4,950	5,078
Raw materials	9,496	8,680
Total	$67,131	$65,237

Note 5: Income Taxes

The Company s operations were historically included in Allergan s consolidated U.S. federal and state income tax returns and in the tax returns of certain Allergan foreign subsidiaries. The provision for income taxes has been determined as if the Company had filed separate tax returns under its existing structure for the periods presented. Accordingly, the effective tax rate of the Company in future years could vary from its historical effective tax rate depending on the Company s future legal structure and tax elections. A majority of income taxes are paid by Allergan and reflected through the Allergan, Inc. net investment account.

Note 6: Legal

The Company is involved in various litigation and claims arising in the normal course of business. Management believes that recovery or liability with respect to any pending lawsuits or asserted claims will not have a material adverse effect on the Company s combined financial position or results of operations.

Note 7: Other Comprehensive Income

The following table summarizes components of comprehensive income for the quarters ended (in thousands):

	March 29, 2002			March 30, 2001		
	Before-tax Amount	Tax (expense) or Benefit	Net-of-tax Amount	Before-tax Amount	Tax (expense) or Benefit	Net-of-tax Amount
Foreign currency translation adjustments	$(507)		$ (507)	$1,337	$	$1,337
Net earnings			4,726			823
Total comprehensive income			$4,219			$2,160

Note 8: Business Segment Information

As a part of Allergan, the Company operates in Regions or geographic operating segments. The United States information is presented separately as it is the Company s headquarters country, and U.S. sales represented 30.6% and 32.8% of total net sales in the three months ended March 29, 2002 and in the three months ended March 30, 2001, respectively. Additionally, sales in Japan represented 25.4% and 20.3% of total net sales in the three months ended March 29, 2002 and in the three months ended March 30, 2001, respectively. No other country, or single customer, generates over 10% of total net sales. Operations for the Europe Region also include sales to customers in Africa and the Middle East, and operations in the Asia Pacific Region include sales to customers in Australia and New Zealand.

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ADVANCED MEDICAL OPTICS, INC.

NOTES TO UNAUDITED CONDENSED

COMBINED FINANCIAL STATEMENTS (Continued)

Operating income attributable to each operating segment is based upon the management assignment of costs to such regions, which includes the manufacturing standard cost of goods produced by the Company s manufacturing operations (or the cost to acquire goods from third parties), freight, duty and local distribution costs, and royalties. Operating income for all operating segments and manufacturing operations also includes a charge for corporate services and asset utilization which permits management to better measure segment performance by including a cost of capital in the determination of operating income for each segment.

Income from manufacturing operations is not assigned to geographic regions because most manufacturing operations produce products for more than one region. Research and development costs are corporate costs.

Identifiable assets for each geographic operating segment consist of trade receivables, inventories and property, plant and equipment. All other assets are assigned to general corporate as corporate maintains responsibility for all other assets. Corporate assets are primarily cash and equivalents, goodwill, intangibles and other assets. Assets in each geographic operating segment have not changed materially since December 31, 2001.

Geographic Operating Segments

Competition in lawn and garden organic product sales is equally as intense however few companies have the ability to ship their products cost effectively across the country. The Company believes its distribution network of LOL/Purina Feed, ThermoFisher Scientific and Grainger can satisfy these concerns. These markets are large and can support many companies offering these and similar organic products. The Company is unique in that it offers a service (the radio program) in addition to a product. It does not know of another company that does this. However, many of the companies that make up the competition in this market are better financed, more experienced, have more recognizable or established brand names, may have better control over their manufacturing and distribution process, have a longer history of servicing the retail and commercial industries and may be better positioned to control sales to large retail outlets and, as a result, realize a dominant or substantial market share. The Company is in discussions with some large horticultural companies who may want to private label its fertilizers. These discussions are on-going and may have a material impact on its sales however, since the Company does not presently have any significant contracts in place, there can be no guarantees that these discussions will materialize.

The market for cleaning and garden products is highly competitive. Although these products are natural and that some of which carry USDA BioPreferred designation and therefore distinguishable from most other more established brands, which do contain chemicals, it is possible that many consumers neither care about that fact, nor understand its significance. There are a number of other established providers that have greater resources, including more extensive research and development, marketing and capital than we do and also have greater name recognition and market presence. These competitors could reduce their prices and thereby decrease the demand for the Compmany’s products and technologies. The Company expects competition to intensify in the future, which could also result in price reductions, fewer customers and lower gross profit margins.

Access to retail or commercial opportunities may be restricted due to pre-existing agreements that prohibit these potential vendors from selling its products, or certain retailers may require substantial payments (slotting fees) for shelf space which is beyond the Company's financial capabilities. Such payments are common in the retail industry, but historically, the Company has been successful in mitigating these costs due to the uniqueness of its products. In the future some existing retailers may require such payments in order for the Company to continue to sell them and new retail outlets may require payments to sell our product. The Company will treat each opportunity on a case by case basis. It must be emphasized that lack of revenues and somewhat limited financial resources may also have a serious impact on the ability to sell these products in various venues.

5. The Sources and Availability of Raw Materials

The Company is not necessarily dependent on any one vendor for its raw materials. All products which are sold and marketed by the Company are fulfilled by its fulfillment companies. Although the Company believes it can secure other suppliers should the need arise, it would expect that the deterioration or cessation of any relationship would have a temporarily adverse effect, until new relationships are satisfactorily in place.

The Company may also run the risk of manufacturer price increases and component shortages. Competition for products or materials in short supply can be intense, and it may not be able to compete effectively against other purchasers who have higher volume requirements or more established relationships. Even if manufacturers have adequate supplies of components, they may be unreliable in meeting delivery schedules, experience their own financial difficulties, provide components of inadequate quality or provide them at prices which reduce our profit. Any problems with our third-party suppliers can be expected to temporarily have a material adverse effect on our financial condition, business, results of operations and continued growth prospects. Our principal suppliers are:

Abott-Action, Inc.	-	Shipping Materials
Enzyme Solutions, Inc.		Organic Liquid Concentrates
Key Container, Corp.	-	Shipping Materials
Lightning Labels Inc.	-	Bottle Labels
Tursso Label, Inc.	-	Bottle Labels
Microbial Technologies, Ltd.	-	Organic Liquid Concentrates
Webco Chemical Corp.	—	Liquid Fulfillment
Webco Chemical Corp.	-	Bottles and Sprayers
Organica		Neem concentrate
McKernan Packaging	-	Bottles and Sprayers

6. Dependence on a Single or Few Customers

The Company currently has several customers. It has developed and continues to develop multiple strategic alliances with several distributors and independent sales organizations. The Company does not anticipate that it will ultimately be dependent on a single customer or small group of customers.

7. The Importance of Patents, Trademarks, Licenses, Franchises and Concessions Held

To protect its rights to its intellectual property, the Company relies on a combination of trademark and copyright law, patents, trade secret protection, confidentiality agreements, and other contractual arrangements with its employees, affiliates, clients, strategic partners, and others. The protective steps it has taken may be inadequate to deter misappropriation of the Company's proprietary information. The Company may be unable to detect the unauthorized use of, or take appropriate steps to enforce its intellectual property rights. The Company has registered certain of its trademarks in the United States and has pending U.S. applications for other trademarks and patents.

Effective trademark, copyright, patent, and trade secret protection may not be available in every country in which it offers or intends to offer its products or services. In addition, although The Company believes that its proprietary rights do not infringe on the intellectual property rights of others, other parties may assert infringement claims against the Company or claims that we have violated a patent or infringed a copyright, trademark, or other proprietary right belonging to them. Such claims, even if not meritorious, could result in the expenditure of significant time and money on our part which could materially adversely affect the Company's business, results of operations, and financial condition.

The Company incorporates certain licensed third-party technology in some if its services. In these license agreements, the licensors have generally agreed to defend, indemnify, and hold the Company harmless with respect to any claim by a third party that the licensed software infringes any patent or other proprietary right. The Company cannot assure that these provisions will be adequate to protect it from infringement claims. The loss or inability to obtain or maintain any of these technology licenses could result in delays in introduction of new services.

The Company has trademark protection for its "Garden Guys Down to Earth Up to Date"(TM) trademark, for its "Dragonfly Organix from the Earth to the World"(TM) brand-name trade mark,for " Mother Natures Cuisine(TM) Feed your Land from Mother Nature" brand name trade mark, and the picture of the "Plate with Garden Hand Fork and Hand Trowel with Gingham Placemat" trade dress. Final action on these applications is pending subject to publication in the Official Gazette.

8. Government Approval

Government approval is required for some of the Company's current products. The initial approval process is generally handled by the manufacturer. Should a manufacturer that registers a product with the Federal Government such as the EPA and then sub-registers said product to the Company, and not meet proper Government approval and not notify the Company of any such wrong doing, this could have a material and financial effect on some of the Company’s products and sales. The Company has received official notification that it is a participant in the United States Department of Agriculture’s (USDA) BioPreferred program for some of its cleaners, hand sanitizers, and agricultural products. BioPreferred is a Federally managed program that aims to increase the purchase and use of renewable, sustainable biobased products.

9. Effect of Any Existing or Proposed Government Regulations

Other than normal government regulation that any business encounters, the Company's business is not significantly affected by any government regulations. As a publicly held company, we do have extensive responsibilities and expenses to assure compliance with federal and state securities regulation.

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10. Research and Development Costs

The cost of Research and Development is borne initially by the manufacturer and built into our manufacturing expense. Since the Company began operations in August 2003 it has spent over one million dollars on market research and development of its markets. The revenues of the Company will be primarily from strategic alliances as described above. Revenues generated, while paying indirectly for research and technology costs accrued to date, will fund the operations of the Company, which includes funding any ongoing research and development.

11. Cost and Effects of Compliance With Environmental Laws and Regulations

The Company is not involved in a business which involves the use of materials in a manufacturing stage where such materials are likely to result in the violation of any potential environmental rules and/or regulations. Further, the Company does not own any real property which would lead to potential liability as a land owner. Therefore, the Company does not anticipate that there will be any costs associated with compliance with environmental laws and regulations. The Company does, however, pay registration fees to each state in which it sells its fertilizers and insecticide/fungicide products.

12. Employees

As of the date hereof, the Company employs 5 full-time employees and 2 part-time employees. The Company hires independent contractors on an "as needed" basis only. It has no collective bargaining agreements with its employees. The Company believes that its employee relationships are satisfactory. In the long term, the Company will hire additional employees, as needed, based on the growth of the Company.

We will be dependent on our current management team for the foreseeable future. The loss of the services of any member of this management group could have a material adverse effect on our operations and prospects. Our success will be dependent to a substantial degree on Sam Jeffries and other key management personnel. CEO Sam Jeffries' continued involvement is particularly critical. In the event he becomes unavailable, it would have a material adverse effect on operations. At this time, we have no employment agreements in place and we have a "key man" insurance policy on Sam Jeffries, but no one else. The expansion of our business may be hampered by our inability to attract and retain additional qualified personnel, as needed, for the management team. There is no assurance that we can find suitable management personnel or that we will have the financial resources to hire or retain them once found.

13. Cautionary Statement on Forward Looking Statements

Certain statements in this Report constitute "forward — looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. Management believes such statements to be relevant to an assessment and understanding of our results of operations and financial condition, which are based upon our financial statements prepared in accordance with generally accepted accounting principles in the USA. The discussion should be read in conjunction with our financial statements and notes thereto, appearing in this report.

The preparation of these financial statements requires us to make estimates and judgments that may affect the reported amount of assets and liabilities, revenues and expenses, and the related disclosure of such contingent assets and liabilities at the date of our financial statements. Actual results may substantially differ from these estimates under different assumptions and conditions.

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This report also contains forward-looking statements that involve risks and uncertainties, which may include statements about our:

- Business strategy
- Expansion of our manufacturing capabilities
- Plans for entering into collaborative agreements
- Anticipated sources of funds to finance our operations following the date of this report

The Company is in the process of applying for a 2.5 million dollar loan through the State of Rhode Island as part of the Rhode Island Economic Development Job Creation Guaranty Program.

- Plans, objectives, expectations and intentions contained in this report that are not historical fact

The following words and financial projections contain figures related to plans, expectations, future hoped-for results, performance, events or other matters that are "forward-looking statements". When used in the section describing our Plan of Operations, words such as "estimate", "project", "intend", "expect", "anticipate", and other similar expressions are intended to be forward-looking statements. Such statements involve numerous risks and uncertainties, including, but not limited to, the science of organics, the development of the Company's products, markets for those products, timing and level of customer orders, competitive products and pricing, changes in economic conditions and other risks and uncertainties. Actual results, performance and events could likely differ materially and adversely. Investors are cautioned not to place undue reliance on these forward looking statements which are often no more than Management's expression of its expectations. The Company undertakes no obligation to release or deliver to investors, revisions to these forward-looking statements to reflect events or circumstances after the date of this report, the occurrence of unanticipated events or other matters that may occur in the future.

ITEM 2. DESCRIPTION OF PROPERTY

The Company is in a "tenant at will" agreement with Leo S. Arcand (Lessor) of 114 Broadway, Raynham, MA. The premises encompass the North side of a one story, commercial, wood building with approximately 500 square feet of office space. The monthly lease payment is $600 per month. It is located in an area that has easy access to major highways. Products are received and shipped by contract carriers.

The Company also maintains storage space at two locations. The cleaning and gardening products raw material and finished goods inventories are stored at our fulfillment house, Webco Chemical in Dudley, Massachusetts. The storage and picking is performed as a function of fulfillment and the Company is not separately charged for storage. We utilize about 10,000 sq. ft. of space. We do not have a warehouse agreement with Webco.

In addition, the Company rents a small storage unit on a month-to-month basis with Extra Space Storage located at 266 Broadway, Raynham, MA, The storage unit is approximately 20' X 20' and is used for storing office records, sales support materials and small amounts of corrugated materials used for shipping. The monthly payment for this space is $129.

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ITEM 3. LEGAL PROCEEDINGS

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

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

ITEM 4. (Removed and Reserved)

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND PURCHASERS OF EQUITY SECURITIES

(a) Market Information. The Company's common stock has been listed on NASDAQ's Over The Counter Bulletin Board since May 5, 2008 and is traded under the symbol OGSM.

(b) Holders. As of December 15, 2010, there are 155 record holders of 13,840,722 shares of the Company's common stock.

(c) Dividends. The Company has not paid any cash dividends to date and does not anticipate or contemplate paying dividends in the foreseeable future. It is the present intention of management to utilize all available funds for the development of the Company's business.

(d) Recent sales of unregistered securities.

On December 16, 2009, the Company commenced a private stock offering, whereby it authorized the issuance of 3,333,334 shares of its common stock for a total raise of $500,000. The offering was closed on March 31, 2010 and $37,097 of the $500,000 was raised and 247,317 shares of common stock were issued.

On January 21, 2010, the Board of Directors approved the issuance of 1,773,333 shares of common stock in satisfaction of $260,000 in related party notes payable and $6,000 in accrued interest to a director of the Company. As part of the agreement, the remaining balance of the related party note of $100,000 (See Note 11) will be due and payable over the next 7 years at an interest rate of 8% per annum.

On January 21, 2010, the Board of Directors approved the issuance of 680,000 shares of common stock in satisfaction of $90,000 in related party notes payable and $12,000 in accrued interest to a director of the Company. As part of the agreement, the remaining balance of the related party note of $14,000 (See Note 11) will be due and payable over the next 2 years at an interest rate of 8% per annum.

On May 1, 2010 the Company commenced a private stock offering, whereby it authorized the issuance of 5,000,000 shares of its common stock for a total raise of $500,000. As of September 30, 2010 $92,005 of the $500,000 was raised and 920,050 shares of common stock were issued.

For a more complete list of previous sales of unregistered securities by the Company, please refer to Part 5 of Form 10K for the year ended September 30, 2009, which is incorporated by reference herein.

(e) Description of Securities.

(i) Common Stock

The Company is authorized by its Certificate of Incorporation to issue an aggregate of 100,000,000 shares of capital stock, of which 100,000,000 are shares of Common Stock, par value $.0001 per share (the "Common Stock").

The following is a summary description of our capital stock and certain provisions of our certificate of incorporation and by-laws, copies of which have been included as exhibits to this report. The following discussion is qualified in its entirety by reference to such exhibits.

All common shares are equal to each other with respect to voting; dividend rights and liquidation rights. Special meetings may be called by the Board of Directors or by any officer instructed by the directors to call the meeting. Shareholders have no right to call special meetings. Holders of common shares are entitled to one vote at any meeting of the shareholders for each common share they own as of the record date fixed by the Board of Directors. At any meeting of shareholders, a majority of the outstanding common shares represented at the meeting will govern, even if this is substantially less than a majority of common shares outstanding. Directors are elected by a plurality of votes. Holders of shares are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefore; and on liquidation are entitled to participate pro rata in a distribution of assets available for such a distribution to shareholders. Assets for conversion, pre-emptive or other subscriptions are not available for such a distribution to shareholders. Shares do not have cumulative voting rights which mean that the holders of more than fifty percent of the common shares voting for election of directors may elect all the directors, if they choose to do so. In such event, the holders of the remaining shares aggregating less than fifty will not be able to elect directors.

This description of certain matters relating to the securities of the Company is a summary and is qualified in its entirety by the provisions of the Company's Certificate of Incorporation and By-Laws, copies of which have been filed as exhibits to the Form 10-KSB for the year ended September 30, 2007, which is incorporated by reference herein.

(ii) Debt Securities. None

(iii) Securities To Be Registered. None

ITEM 6. SELECTED FINANCIAL DATA Not Applicable

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS; PLAN OF OPERATIONS

Results of Operations

Year Ended September 30, 2010, Compared to Year Ended September 30, 2009

Revenues for FY 2010 totaled $224,680 compared to $224,999 for FY 2009. Stable sales growth is mainly due to the company’s efforts to discontinue unprofitable product lines while increasing sales in higher margin lines. The largest growth came from self-branded cleaners using wider distribution networks in 2010, while reducing lower-margin product sales to retail end users versus 2009.

Gross profit was 41.7% in FY 2010 compared to 18.4% in FY 2009. The increase in gross margin can be attributed mainly to a concerted effort toward higher-margin, lower cost products via superior distribution networks.

Operating expenses decreased by almost 50% during FY 2010, primarily due to decreases in staffing, advertising costs via radio show and professional consulting. These reductions were necessary to reduce overhead costs

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Other Income/(Expense) was significantly lower in due to no warrants being issued in FY 2010 versus FY 2009. In FY 2009, warrants were granted to entice investors to participate in our private placement, incurring a warrant expense of $954,837. Interest expense increased 20.9% in FY 2010 when compared to FY 2009 primarily due to the Notes Payable - Related Party increases as discussed in the footnotes to the Financial Statements included in this filing.

Liquidity and Capital Resources

Cash was $46,237 at September 30, 2010 compared to $24,547 in FY 2009 or an increase of $21,690. Net Cash Used in Operating Activities decreased by 50% or $394,085 from the prior fiscal year. The net loss of the Company of $693,761 is offset, in part, by stock issuances for cash and options granted during the year in the amount of $455,394, with an additional $367,755 in stock issuances for conversion of debt. Net Cash Provided by Financing Activities was $416,296 in FY 2010 compared to $785,400 in FY 2009 or a decrease of $369,104 or 47% which was due to decreased proceeds from issuance of common stock, offset by increased borrowing from a related party.

Significant Accounting Policies

Financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Significant accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions and are incorporated in these financial statements. We believe that our significant accounting policies are limited to those described below.

Principles of Accounting
The Company employs the accrual method of accounting for both financial statements and tax purposes. Using the accrual method, revenues and related assets are recognized when earned, and expenses and the related obligations are recognized when incurred. The Company has elected a September 30th year end.

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

Revenue Recognition
We earn our revenues from the distribution of garden and cleaning products to retailers and directly to consumers via our internet site and from advertising contracts. Four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectability is reasonably assured.

Revenue from garden and cleaning products is recognized upon shipment of the product. The distribution of products is governed by purchase orders or direct sale agreements which fix the price and delivery date. In accordance with ASC 605-45 "Accounting for Shipping and Handling Fees and Costs," distribution costs charged to customers are recognized as revenue when the related product is shipped. Advance payments are recorded on the balance sheet as deferred revenue until the revenue recognition criteria is met.

Revenue from radio advertising is derived from three sources, the sale of commercial spots on the Garden Guys radio talk shows, the sponsorship of informative show segments and hosting live remote broadcasts. Revenue from radio advertising is recognized after the commercial has been aired and/or a remote broadcast has taken place. Customers will prepay for radio spots or remote broadcasts at the time they contract with the Company to air their commercials or host a remote broadcast. The Company will carry this prepayment as a liability, until such time as economic performance takes place. Money received is refundable prior to the airing of commercials or the airing of the remote broadcast, adjusted by any production or other direct costs incurred up to that point in time.

Cash and Cash Equivalents
The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. During the past twelve months the Company maintained cash in bank accounts which, at times, exceeded Federal Deposit Insurance Corporation insured limits. The Company has not experienced, nor does it anticipate, any losses on these accounts and believes their risk to be minimal.

Accounts Receivable
The Company carries its accounts receivable at cost less an allowance for doubtful accounts. Periodically, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. The Company feels that the entire balance of Accounts Receivable as of September 30, 2010 and September 30, 2009 are collectable and, therefore, no allowance has been taken. The full value of accounts receivable is held as collateral for the Company’s Line of Credit.

Inventory
The inventory is stated at the lower of cost (first-in-first-out method) or market. Inventory items consist of raw material and finished goods. Raw materials consist of labels, bottles, sprayers, fertilizers and shipping materials. Finished goods consist of fertilizer bags and bottles of organic cleaning products ready for shipment. The inventory consists of newly purchased items; therefore, there is currently no allowance for excess or obsolete inventory. The full value of inventory is held as collateral for the Company’s Line of Credit.

Prepaid Expenses
Business expenses, including consulting expenses, that are paid for in advance of services being rendered are treated as prepaid expenses. On occasion, the Company pays for prepaid expenses with common stock. When these transactions occur, they are identified as negative components of stockholders’ equity.

Fixed Assets
Fixed assets are stated at cost less accumulated depreciation. The Company has elected to capitalize and depreciate any fixed asset item costing in excess of $1,000. Expenditures for minor replacements, maintenance and repairs which do not increase the useful lives of the property and equipment are charged to operations as incurred. Major additions and improvements are capitalized. Depreciation and amortization are computed using the straight-line method over estimated useful lives of three to seven years. The full value of fixed assets is held as collateral for the Company's Line of Credit.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense primarily consists of the Company's three hour weekly Garden Guys radio call in program with Greater Media and Citadel Communications, slotting fee expense, display case costs, samples and trade show participation. The total advertising expense for the radio show contracts was $54,200 and $209,615 for the twelve months ended September 30, 2010 and September 30, 2009, respectively. In addition, the Company advertises its products on its own website and in numerous trade and industry publications. Total advertising, including radio contracts for the years ended September 30, 2010 and 2009 was $69,790 and $311,362, respectively.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are provided based on the difference between the financial statement and tax bases of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities.

Fair Value of Financial Instruments

On January 1, 2008, the Company adopted FASB ASC 820-10-50, "Fair Value Measurements." This guidance defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 inputs to valuation methodology are unobservable and significant to the fair measurement.

The carrying amounts reported in the balance sheets for the cash and cash equivalents, receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The carrying value of related party notes payable approximates fair value because negotiated terms and conditions are consistent with current market rates as of September 30, 2010 and 2009.

Stock-Based Compensation

In December 2004, FASB issued FASB ASC 718 (Prior authoritative literature: SFAS No. 123R, "Share-Based Payment"). FASB ASC 718 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. FASB ASC 718 focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. FASB ASC 718 requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued.

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The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of FASB ASC 505-50 (Prior authoritative literature: EITF 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and EITF 00-18, "Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees"). The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable in accordance with FASB ASC 718.

Recently Issued Accounting Standards

In May 2009, FASB issued FASB ASC 855-10 (Prior authoritative literature: SFAS No. 165, "Subsequent Events"). FASB ASC 855-10 establishes principles and requirements for the reporting of events or transactions that occur after the balance sheet date, but before financial statements are issued or are available to be issued. FASB ASC 855-10 is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ended June 30, 2009. Adoption of FASB ASC 855-10 did not have a material effect on our financial statements.

In June 2009, the FASB ASC 860-10 (Prior authoritative literature: issued SFAS No. 166, "Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140"), which eliminates the concept of a qualifying special-purpose entity ("QSPE"), clarifies and amends the de-recognition criteria for a transfer to be accounted for as a sale, amends and clarifies the unit of account eligible for sale accounting and requires that a transferor initially measure at fair value and recognize all assets obtained and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. This standard is effective for fiscal years beginning after November 15, 2009. The Company is currently evaluating the potential impact of this standard on its financial statements, but does not expect it to have a material effect.

In June 2009, the FASB issued FASB ASC 810-10-65 (Prior authoritative literature: SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)") which amends the consolidation guidance applicable to a variable interest entity ("VIE"). This standard also amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is therefore required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. Previously, the standard required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. This standard is effective for fiscal years beginning after November 15, 2009, and for interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the potential impact of the adoption of this standard on its financial statements, but does not expect it to have a material effect.

In June 2009, FASB issued ASC 105-10 (Prior authoritative literature: SFAS No. 168, "The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162").FASB ASC 105-10 establishes the FASB Accounting Standards Codification TM (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. FASB ASC 105-10 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending September 30, 2009. Adoption of FASB ASC 105-10 did not have a material effect on the Company's financial statements.

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force ("ASU 2009-13"). ASU 2009-13 changes accounting for certain multiple deliverable arrangements. ASU 2009-13 addresses the separation of deliverables and how to measure and allocate the arrangement consideration to one or more units of accounting in multiple deliverable arrangements. Currently, under the residual method of allocation, we use objective and reliable evidence of the fair value of the undelivered elements to separate deliverables in multiple deliverable arrangements. ASU 2009-13 eliminates the residual method and requires that consideration from the arrangement be allocated to all deliverables using the relative selling price method. ASU 2009-13 requires additional disclosures related to multiple deliverable revenue arrangements upon adoption and is effective for fiscal years beginning after June 15, 2010. In addition, ASU 2009-13 may be early adopted. It may be implemented with either prospective or retrospective application; however, if early adoption is chosen, the entity must either adopt at the beginning of its fiscal year, or adopt using retrospective application. We are currently evaluating the impact ASU 2009-13 will have on our financial position and results of operations, whether to early adopt and which implementation method to use upon adoption if not prescribed.

In October 2009, the FASB issued ASU 2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements—a consensus of the FASB Emerging Issues Task Force ("ASU 2009-14"). ASU 2009-14 changes the accounting for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality is no longer within the scope of the software revenue guidance. Under prior guidance such arrangements were accounted for as software if the software was determined to be more than incidental. ASU 2009-14 requires that any hardware components of such arrangements be excluded from software revenue guidance and that any essential software that is sold with or embedded within the product also be excluded from software revenue guidance. This ASU is effective for fiscal years beginning after June 15, 2010. In addition, ASU 2009-14 may be early adopted. ASU 2009-14 may be implemented with either prospective or retrospective application; however, if early adoption is chosen, the entity must either adopt at the beginning of its fiscal year, or adopt using retrospective application. Further, ASU 2009-14 must be adopted in the same period and with the same implementation method as ASU 2009-13. We are currently evaluating the impact ASU 2009-14 will have on our financial position and results of operations, whether to early adopt and which implementation method to use upon adoption if not prescribed.

In January 2010, the FASB issued ASU No. 2010-06 regarding fair value measurements and disclosures and improvement in the disclosure about fair value measurements. This ASU requires additional disclosures regarding significant transfers in and out of Levels 1 and 2 of fair value measurements, including a description of the reasons for the transfers. Further, this ASU requires additional disclosures for the activity in Level 3 fair value measurements, requiring presentation of information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements. This ASU is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of ASU 2010-06 did not have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued Accounting Standards Update No. 2010-09 ("ASU 2010-09") as amendments to certain recognition and disclosure requirements. The amendments remove the requirement for an SEC filer to disclose a date in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. Those amendments remove potential conflicts with the SEC's literature. All of the amendments in ASU 2010-09 were effective upon issuance for interim and annual periods. The adoption of ASU 2010-09 did not have a material impact on the Company's consolidated financial statements.

Forward Looking Statements

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition, which are based upon our financial statements. The discussion should be read in conjunction with our financial statements and notes thereto, appearing in this Report.

The preparation of these financial statements requires us to make estimates and judgments that may affect the reported amount of assets and liabilities, revenues and expenses, and the related disclosure of such contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions and conditions.

This Report also contains forward-looking statements that involve risks and uncertainties, which may include statements about our:

- Business strategy
- Expansion of our manufacturing capabilities
- Plans for entering into collaborative agreements
- Anticipated sources of funds to finance our operations following the date of this Report
- Plans, objectives, expectations and intentions contained in this prospectus that are not historical fact

The following words and financial projections contain figures related to plans, expectations, future results, performance, events or other matters that are "forward-looking statements". When used in the Plan of Operations, words such as "estimate", "project", "intend", "expect", "anticipate", and other similar expressions intended to identify forward-looking statements. Such statements involve numerous risks and uncertainties, including, but not limited to, the science of organics, the development of the Company's products, markets for those products, timing and level of customer orders, competitive products and pricing, changes in economic conditions and other risks and uncertainties. Actual results, performance and events are likely to differ and may differ materially and adversely. Investors are cautioned not to place undue reliance on these forward looking statements which speak only as of the date of the Plan of Operations. The Company undertakes no obligation to release or deliver to investors revisions to these forward-looking statements to reflect events or circumstances after the date of the Plan of Operations, the occurrence of unanticipated events or other matters that may occur.

PLAN OF OPERATIONS

OSM, Inc., is a sales and marketing company that specializes in the sales and marketing of non-food natural and organically certified products. Primarily cleaners, hand sanitizers and fertilizers, developed through much of its own licensed technology the Company uses a contract manufacturer located in Massachusetts for much of its production. The Company is continuing to focus its efforts for sales opportunities to Federal government agencies, military branches, small to mid-sized retail supermarkets, hotel and hospitality facilities, colleges, universities, and laboratories, local and regional government agencies, and lawn and garden centers. In addition, new markets continue to be pursued that include on line retail operations, some of whom carry their own inventory and others who may rely on the Company to fulfill their orders. The Company also will continue to offer its products for private label. Essentially, OSM, Inc. has become a sales and marketing company of branded certified organic and natural products which markets into many different industries throughout the world.

The Company continues to develop its operating history on which to evaluate its prospects. The risks, expenses and difficulties encountered by an expanding company must be considered when evaluating the Company's prospects. Management believes that minimum funds sought to be raised during 2010 and 2011 and projected revenues from operations will be sufficient to reach self-sufficiency by late 2011 or early 2012. Expansion of the business into 2011 and beyond will require additional investment through private placement offers or the ability of the Company to secure funding elsewhere. There can be no guarantee, however, that the Company will be able to raise either the minimum capital it needs to sustain its 2011 operations or the larger amount of capital it will need to expand and grow the business well into 2011 and beyond. Failure to do so would likely have an adverse effect on the Company's ability to continue its operations. Most recently, the Company has been loaned money by its President & CEO, Sam Jeffries.

The Company believes it is equipped with the necessary products to go to market and has developed strategic alliances with several distributors in various industries, however given the existing economic climate, and lack of sales to date, operating expenses cannot be predicted with any real degree of certainty. They will depend on several factors, including, but not limited to, marketing expenses, continued acceptance of the Company's products, competition for such products and the current economic environment. In order to preserve cash, the Company Officers have elected to not be compensated with cash and in lieu thereof, will receive compensation in the form of stock, stock options, and or warrants for any unpaid time.

Management has no firm basis for projecting the increase in revenue required to sustain operations, as anticipated above. Such assumptions are based almost entirely on the strategic relationships the Company has forged which it believes will ultimately translate into operating revenues. It is important to stress, however, that these assumptions are not at all based on firm commitments from customers or on other tangible evidence.

The Company recently entered into an Agreement with Land O'Lakes Purina Feed LLC (LOLPF) to act as its preferred sales agent to promote sales to and solicit and process orders of Products from organic fertilizer customers on behalf of LOLPF in the United States and Canada. Presently, it is not an exclusive relationship.

The Company anticipates its sales will continue to grow with the addition of W.W. Grainger as one of its leading distributors in the many sales sectors aforementioned. Since agreement finalization earlier in 2010, the Company continues to be proactive in sales tool offerings to its employees. The Company will have some of its 11 total horticultural items (fertilizers, insect and animal repellants), on display and showcased in the 'Sustainability booth' at the upcoming Grainger trade show in late February early March. The plan is to further educate Grainger employees and customers of the new products and product category. Moreover, the Grainger Sourcing division will continue selling OSM cleaners & hand sanitizers. In addition, OSM products will become available on the GSA contract schedule through Grainger. The OSM/Bradfield Organics fertilizers offered by Grainger will be manufactured by LOLPF and distributed by Grainger. As this relationship continues to grow and mature, the Company anticipates sales growth and a much larger joint opportunity and positive outlook going forward given the positioning, timing, and USDA BioPreferred designation of these products.

The Garden Guys radio show is still looking to have a key GSA Administrator on the radio show to discuss GSA's "green initiatives" and how they relate to sales with the US Government through GSA and its partners. The Garden Guys radio show recently interviewed a senior scientist from the United States Department of Energy.

The Company continues to work closely with the USDA (United Stated Department of Agriculture) BioPreferred group by adding its products as new categories are approved for USDA BioPreferred designation (www.biopreferred.gov). The Company anticipates that as new categories are added by BioPreferred, any of the Company's applicable items will be later added. In addition, should the Company attain additional funding, it will look to have applicable products become certified by a third party certification group. It currently has a relationship with Green Seal.

The Company continues to work towards growing its business as a registered vendor/supplier for the Department of Defense, as part of the DOD EMALL. The Company is in discussions with an independent sales agent to the DOD and its affiliates. There have not been any orders received to date.

The Company is currently in discussions with a major world wide distributor of fire safety equipment and apparatus about some of its products. These may be sold under the Company's own OSM brand or a private label. The discussions are still in the developmental stages.

The Company recently entered into a Supplier Service Agreement with IntraMalls LLC of Hunt Valley, MD. The Company will act as a supplier in the NIH IntraMall e-commerce platforms offered to various government or commercial buyers. To date, there have not been any orders received.

The Company currently has in excess of 100 SKU's in its product line offering. Should other opportunities present themselves whereby the Company can capitalize on immediate sales growth then the Company will carefully evaluate such opportunities provided it has the necessary funds to do so.

In the current market, consumers have become more discretionary in their disposable income since the economic downturn. They have embraced "trading down" as well as searching for better bargains online. This is especially true of the Millennial generation's 70-80 million members (21-33 year olds) who are willing to experiment and are bargain savvy, using electronic media to find the best deals. Since the Company started offering its e-mail newsletter, with weekly coupons, on-line sales have increased by 54 %. The Company anticipates its on-line sales will continue to grow as its products become more mainstream.

The Company continues to develop relationships where there is an increasing demand for consistent performance and safe environmental acceptability of eco-products. Should the present “green movement” continue, the Company may be well positioned capitalize in these sales. Together, and in conjunction with its recent USDA BioPreferred status, the Company believes that it could provide simple, safe solutions for the replacement of harmful chemicals increasingly being found in the various work places encountered daily by such entities as W.W. Grainger, Fisher Scientific and others.

The Company continues to maintain an e-commerce internet presence hosting five different sites, www.garden-guys.com , www.mothernaturescuisine.com , www.osm-inc.com , www.naturalnevrdull.com , and www.dragonflyorganix.com ..

Since its participation in the USDA BioPreferred program, this distinction continues to open doors for the Company into those distributors who sell the national government through GSA (General Services Administration), or state and local contracts and other contracts where there may be an increased interest for USDA BioPreferred approved products. When or should additional resources become available, the Company anticipates it will apply for its own GSA number. Until then, it will continue to rely upon distributors and or brokers with whom it has relations.

The Company’s average monthly sales for the quarter ending 9/30/2010 increased by 5.8% over the average monthly sales for the same quarter of the prior fiscal year and profit margins for the current fiscal year are have steadily increased vs. the prior fiscal year. This is due in part to driving down such costs as operational & freight costs, slotting fees, radio expenditures, and salary cutbacks. The Company chose to maintain its largest network station while eliminating all of its other stations, thereby eliminating cost and redundancy. In addition, the Company cut back the amount paid out to its weekly radio talent. The Company continually looks for opportunities to cut costs that don’t impact customer service or product quality.

In 2011, the Company projects a loss. If, however, the Company is unsuccessful in raising additional capital by the end of spring of 2011, the probability of hitting its short term financial goals will be seriously impacted.

The Company will continue to use the radio as the primary source for marketing and creating brand awareness of its non-food, and natural product offerings. The Company’s commercials are currently being aired weekly on a Boston based FM talk station. Sam Jeffries, the Company’s President, continues to host a live, weekly three hour Sunday morning garden talk radio show which is currently heard on Greater Media radio 96.9 FM WTKK and also available on the internet via streaming or Podcasts through one of the Company’s websites, www.garden-guys.com .. He shares the responsibility with two other hosts of his choosing and therefore works on a rotating schedule. Using this allows it to keep listeners informed about the importance of considering natural, organic, chemical-free alternatives, how they should use these products and where they can buy them. This also forges relationships with key people in various scopes of business, politics and the general public. Since the Company pays for the air time, it also receives an inventory of commercials which are used as a follow up during the work week to educate consumers about its organic and natural products, hand sanitizers, etc. and where they can purchase these products. This also creates a medium for the Company to offset some of its radio and related expenses by selling the air time to potential sponsors and or advertisers of the radio show. The Company has yet to sell all of the inventory allotted or enough to cover the current costs of the radio. Owned by Greater Media, WTKK 96.9 FM is the base station. Based in Boston, MA, it is part to one of the largest markets in the country.

As previously noted, the Company has strategic relationships established with key sales representative and distributor organizations in the markets that it services and has developed very strong relationships with several vendors for the fulfillment of its organic liquid and granular fertilizer product lines. The Company plans to vigorously pursue all strategic relationships that enhance its ability to deliver quality non-food, all natural products at reasonable prices.

The Company's projected Plan of Operations for 2011 consist of the following: (000's omitted)

	Year 2011
Revenues	$ 4,140
Margin	1,209
Selling, General and Administrative Expense	1,198
Net Profit from Operations	$ 11

The Company continues to rely on invested capital and short-term debt. It also continues to seek additional financing of $2,500,000 to maintain operations in 2011. Additional investor funds will still be needed to continue to expand in 2011 and beyond. On the other hand, if the Company is unable to raise the minimum financing needed in 2011, it would likely exhaust its resources.

1. Revenue Projections

Despite its heavy financial commitment to continually advertise and promote its products to enhance brand awareness, foster customer loyalty and encourage reorders, there can be no guarantee that the products will sell as the Company believes they will, or that the consumer will reorder the products once they have used them.

Given the most recent an unprecedented economic market, the Company did not reach and fell well short of its 2010 projections. Although the Company has been able to strategically align itself with a multitude of distributors in various retail, wholesale and commercial sectors, it did not anticipate the length of time go to market. The 2011 projections have been made on a product category basis with 82% of projected revenues coming from a combination national distributors in the Federal government, military, laboratory, commercial and industrial sectors, grocery, farm & fleet, private label, hotel & hospitality, and the remaining from a combination of website and radio ad sales:

Retail Sales	11%
Commercial Sales	63%
Private Label Sales	19%
Other	7%

In preparing these projections customers were identified as those currently being shipped, those to whom are about to start shipping and those who have indicated a desire to carry the products at some point during 2011. Based upon these assumptions, estimates of how much product would be sold each month and how much the projected dollar revenue would represent on a monthly, quarterly and annual basis.

2. Expense Projections

Costs of sales were projected based upon the amount of product being sold using the extensive by product costs we had developed for each of our products. As volume increases it is expected that costs will go down as a function of better quantity purchases. Our projections do not, however, take all of these cost reductions into consideration.

General and Administrative costs were projected at 17.5% of revenues, in line with our corporate objective of keeping G&A expenses level as sales increase.

Selling expenses were projected at 11.4% of revenues. If revenues are higher than projected, more of the additional revenues will be reinvested in further marketing and selling activities. If revenues come in lower than projected, analysis will be done to determine why and, if appropriate, marketing and selling expenses will be reduced or redirected. These expenses include, but are not limited to, radio show costs, display cases, trade shows, commissions, samples, payroll and advertising.

The Company believes that it has developed a careful, well-thought out business plan based upon educated assumptions using the most current data available. There is, of course, no guarantee as to how much or how often existing or new customers will buy. The Company also believes that its business plan contains enough flexibility to weather unforeseen delays in the generation of revenues by being able to modify expenses and other spending, as required, assuming minimum financing is obtained by the spring of 2011.

There can be no assurance that the Company's actual operations will reflect the above projections. Market conditions, competition, supplier delays, the ability to raise capital and all other risks associated with the operation of a business could adversely impact the Company's ability to reach the above projections.

The Company anticipates that in order to fulfill its plan of operations, it will need to attract additional key markets to sell its natural cleaning and gardening products, and continue to leverage its other business relationships. The Company continues to receive orders and re-orders from the various outlets in which it is positioned. In addition, the recent emphasis on Executive Order #13514 may create additional sales opportunities for the Company's products through existing distributor, broker and on-line relationships.

To fulfill orders in a timely fashion, the Company must have the capability of producing and delivering its cleaning and gardening products in sufficient volume and quantity to achieve its projections. The Company will rely on LOL/Purina Feed to fulfill its fertilizer requirements. In addition, it will continue to outsource its fulfillment of liquid products to Webco Chemical Co., located in Dudley, Massachusetts and possibly others. It believes that these contract manufacturers have the capacity and ability to handle any and all requirements that the Company may have and more, over the next five years. As a backup, the Company also has made arrangements with JNJ Industries, located in Franklin, MA. The Company has also made arrangements with LOL/Purina and RitePak of St. Joe, MO to fulfill its distribution needs for potential orders that will require different sizes and quantity of dry fertilizer products.

In addition to the minimum financing needed by spring of 2011, the Company will need to continue to seek financing from outside sources to expand the business further into 2011 and beyond. In order to provide this necessary additional financing, the Company intends to offer private placement opportunities to investors in an as yet undetermined amount. The Company has no basis, however, for predicting the success of such other offerings.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

¨ Risks Related To Our Business and Operations

¨ Economic or industry-wide factors relevant to the Company:

Should consumer interest in "organic" or "natural" products diminish or discontinue; should there be a natural disaster that adversely impacts garden center product sales such as extreme weather conditions throughout the United States; should there be a shortage of suppliers in the enzyme technology that is used in some of our products or should there be a slower than anticipated roll-out of products to customers due to such external factors, the Company's ability to realize a profit and yield a positive cash flow from operations as quickly as we anticipate could be adversely impacted.

¨ Material opportunities, challenges:

Should our suppliers not be able to deliver in the quantities the Company needs at any given time in order to fulfill orders; should our contract manufacturer not be able to deliver finished goods in a timely manner or suffer any type of physical plant disaster, labor strike or shortage, it would adversely impact the Company's' business. Difficult challenges may be incurred as more competitors, who are more heavily financed than we are, enter into the market and create pricing issues which could adversely impact the Company's operations.

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

Undercapitalization could impose growth restraints on the Company preventing us from entering other markets and regions, as planned. The Company will continue to actively pursue private placement investor funding as allowed by SEC regulations and to satisfy debt and payables with stock, stock options and/or warrants as a means of capitalizing the Company until operations are sufficient enough to be self-sustaining, which could happen by the end of 2011. There can be no assurance, however, that these activities will be successful.

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

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

¨ Reliance on Investment Funds

Although the Company has increased its cash flow from customer sales, we expect that for the short term future, we will still rely on external funding sources, primarily equity capital, to finance our operations. While we believe that increasing cash flow from customer sales will ultimately provide adequate funds to permit us to become self-sufficient, possibly by the end of 2011, until then we will continue to require additional capital from investors. If we were unable to obtain such funding from outside sources, we would likely be forced to reduce the level of our operations and business failure could become a real possibility.

¨ Reliance on Management Team

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

o Risks Related to Ownership of Our Stock

¨ Trading Market

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

¨ No Dividends in Foreseeable Future

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

For the Financial Statements required by Item 8 see the Financial Statements included at the end of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES.

The Company changed audit firms for the fiscal year ended September 30, 2010 to Morrill & Associates. There have been no changes in or disagreements with accountants with respect to accounting and/or financial disclosure.

ITEM 9A. CONTROLS AND PROCEDURES.

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

As of the end of the period covered by this Report we conducted an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were ineffective as of September 30, 2010.

There were no changes in our internal controls over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during our year ended September 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. As such, because the Company maintains a small office staff it maintains that the internal controls are ineffective.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

A. Directors and Executive Officers

The following table sets forth our current directors, officers and significant employees, their ages, and all offices and positions with our company.

NAME	AGE	POSITION
Samuel F.H. Jeffries	48	President, Chief Executive Officer and Chairman of the Board of Directors
Stephen B. Jeffries	49	Director and Audit Committee Member
Leonard B. Colt, Jr.	73	Director
Jerry Adelstein	77	Director
Joanne L.H. Anderson	52	Director, Vice President
Laurie Basch-Levy	56	Director and Audit Committee Member
Michael Ernst.	52	Director, Secretary
Keith D. Lowey	49	Treasurer and Chief Financial Officer

The following is a biographical summary of our directors and officers:

Samuel F.H. Jeffries has been president, Chief Executive Officer, and Chairman of the Board of Directors since inception. He is also a member of the Executive Committee. Prior to such time, he was president and co-managing member of Garden Connections, LLC, from its inception in 2002. From 1999 to 2001, Mr. Jeffries was Eastern Regional Sales Manager and area manager for Etera Corporation, a wholesale garden products distributor based in Mount Vernon, Washington. His responsibilities included sales, management, forecasts, hiring, computer training, new accounts, budgeting, advertising and promotions. From 1992 to 2000, Mr. Jeffries owned and operated Jeffries Horticultural Sales and Jeffries Landscape and Design, based in Franklin, Massachusetts. In 1984, Mr. Jeffries received his Bachelor of Science degree in environmental design from the University of Massachusetts at Amherst. He minored in arboriculture. He was also a certified Occupational Education instructor at the Norfolk County Agricultural High School, Walpole, MA. He is the first cousin of Stephen B. Jeffries, a director.

Joanne L.H. Anderson, Director, Vice President and member of the Executive Committee. She has been a director of the Company since May, 2005 and is utilizing her artistic designing talents in creating our logos, labels, packaging and our websites. She also oversees the Company's advertising and marketing. Since 1980, Joanne has been employed as an artist, designer, and head of the art department of North American Carrousel Company located in Minneapolis, Minnesota. She is experienced in website design and graphic and commercial art. She is trained as an artistic painter, sculptor and art conservationist. She apprenticed for four years with leading portrait artist Jerome Ryan. She majored in art at Hamline University in Saint Paul, Minnesota and has restored paintings and ceilings in the Minnesota State Capital and St. Paul Courthouse.

Len Colt, has been our director since the inception. Since 1993, he has been owner of Pegasus Marketing & Sales based in Little Compton, Rhode Island. Pegasus is in the packaging consultancy firm and sales representative for various packaging manufacturers. In 1958, Mr. Colt received his bachelor of arts degree in history from Middlebury College located in Middlebury, Vermont.

Jerry Adelstein, has been a director since the inception and is a member of the Audit Committee and the Executive Committee. Since 1968, he has been the president of H&J Associates, a textile sales company, based in Long Island, New York. In 1953, he received a bachelor of science in economics from Alfred University, in New York State. In 1957, he received a Masters degree in business administration with a major in economics from New York University.

Stephen B. Jeffries, has been a director since the inception. He is also on the Audit Committee. He has been the owner of S.B. Jeffries Consultants since 1990. S.B. Jeffries Consultants is based in Boston, Massachusetts, and is in the business of equity analysis and financial portfolio and estate management. In 1983, he received a Bachelor of Arts in Economics from the University of Chicago. He has completed the C.F.A. Level 1 Examination and C.F.P. Level 1 Examination.

Laurie Basch-Levy, Director and a member of the Audit Committee. She has been a textile designer, creating designs widely used by major fashion designers in New York City until 1982 when she became treasurer of The George Basch Co. In January 2001 she became President and CEO of The George Basch Co., a privately owned manufacturer and global distributor of the product Nevr-Dull Metal Polish, which was formed in and has operated since 1929. This may give rise to a potential conflict inasmuch as the Company has a business relationship with Nevr-Dull and has a licensing agreement with them (see "Business of the Company", above). Ms. Basch-Levy and the Company will endeavor to avoid any such conflict by excluding her from any decision making or Board votes referable to Nevr-Dull. She received her degree from the Fashion Institute of Technology in New York City.

Michael Ernst, Director, since the inception. He has been Senior Energy Consultant, Tetra Tech Ec Inc., an engineering and consulting firm since 2006; Vice President of Permitting and Siting for TransEnergie U.S. Ltd. 2001-2006 specializing in environmental engineering; Associate Attorney, Rubin & Rudman, Boston, specializing in environmental law; General Counsel and Legislative Director of the Massachusetts Department of Telecommunications and Energy, 1992-2001; Hearing Officer for the Massachusetts Energy Facilities Siting Board, 1990-1992; Counsel to the Joint Committee on Energy of the Massachusetts Legislature, 1984-1990; Safe Energy Advocate, MASSPIRG, 1981-1983. He received his degrees from Northeastern University School of Law, J.D., and Davidson College, B.S.

Keith D. Lowey was elected Treasurer and Chief Financial Officer on May 6, 2010. He has been in public and private practice in the accounting field for 24 years. He joined his current firm as a Principal in 1990. He has wide-ranging expertise in accounting, consulting and business advisory services across many industries.

B. Significant Employees.

We intend to enter into employment agreements with our officers and significant employees, but we have not yet done so.

C. Family Relationships. Samuel F.H. Jeffries and Stephen B. Jeffries are first cousins.

D. Involvement in Certain Legal Proceedings. None

E. The Executive Committee and the Audit Committee of the Board are separate committees.

The Executive Committee consists of our independent directors. Its principal functions are to advise and make recommendations to our Board of Directors regarding matters relating to the compensation of officers and senior management.

The Audit Committee consists of Stephen B. Jeffries, Jerry Adelstein and Laurie Basch-Levy. The Board of Directors has determined that all three members are independent directors as (1) defined in Rule 10A-3(b)(i)(ii) under the Securities Exchange Act of 1934 (the "Exchange Act") and (ii) under Section 121 B(2)(a) of the AMEX Company Guide (although our securities are not listed on the American Stock Exchange or any other national exchange). Stephen B. Jeffries serves as the financial expert as defined in Securities and Exchange Commission rules relating to the Audit Committee.

We believe Messrs. Adelstein and Jeffries and Ms. Basch-Levy to be independent of management and free of any relationship that would interfere with their exercise of independent judgment as members of this committee. The principal functions of the Audit Committee are to (i) assist the Board in fulfilling its oversight responsibility relating to the annual independent audit of our consolidated financial statements, the engagement of the independent registered public accounting firm and the evaluation of the independent registered public accounting firm's qualifications, independence and performance (ii) review the reports or statements as may be required by the securities laws, (iii) assist the Board in fulfilling its oversight responsibility relating to the integrity of our financial statements and financial reporting process and our system of internal accounting and financial controls, (iv) discuss the financial statements and reports with management, including any significant adjustments, management judgments and estimates, new accounting policies and disagreements with management, and (v) review disclosures by independent accountants concerning relationships with us and the performance of our independent accountants.

F. Meetings of the Board and Committees.

Our Board of Directors is responsible for the management and direction of our company and for establishing broad corporate policies. A primary responsibility of the Board is to provide effective governance over our affairs for the benefit of our stockholders. In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be the best interests of our company. In discharging that obligation, Directors may rely on the honest and integrity of our senior executives and our outside advisors and auditors.

The Board of Directors and the Audit Committee of the board meet periodically throughout the year to receive and discuss operating and financial reports presented by our executive officers as reports by experts and other advisors.

The Board held meetings during the fiscal year ended September 30, 2010 in person and telephonically and acted by unanimous written consent on one occasion. In fiscal 2010, the Audit Committee met telephonically on May 6, 2010.

G. Compliance with Section 16(a) of The Securities Exchange Act of 1934.

To our knowledge, during the fiscal year ended September 30, 2010, based solely on a review of such materials as are required by the Securities and Exchange Commission, no officer, director or beneficial holder of more than ten percent of our issued and outstanding shares of Common Stock failed to timely file with the Securities and Exchange Commission any form or report required to be so filed pursuant to Section 16(a) of the Securities Exchange Act of 1934.

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ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth the aggregated compensation awarded to, earned by or paid to our Chief Executive Officer and our other executive officers as a group, or to directors for all services rendered in all capacities.

SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Option Awards ($) (f)	Non-Equity Incentive plan Compensation ($) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (h)	All Other Compensation ($) (i)	Total ($) (j)
Sam Jeffries	2010	14,107	-0-	-0-	-0-	-0-	-0-	-0-	14,107
Sam Jeffries	2009	51,108	-0-	-0-	-0-	-0-	-0-	6,000	57,108

All officers and directors as a group were paid in the aggregate $51,276 for the fiscal year ended September 30, 2010.

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

The following table sets forth, as of December 2, 2010 certain information with respect to the beneficial ownership of the common stock by (1) each person known by us to beneficially own more than 5% of our outstanding shares, (2) each of our directors, (3) each named executive officer and (4) all of our executive officers and directors as a group. Except as otherwise indicated, each person listed below has sole voting and investment power with respect to the shares of common stock set forth opposite such person's name.

Name	Shares	% of O/S Stock
Samuel F.H. Jeffries	1,390,500	10.0%
Stephen B. Jeffries	732,203	5.3%
Leonard B. Colt, Jr.	171,938	1.2%
Jerry Adelstein	1,158,565	8.4%
Joanne L.H. Anderson	256,940	1.9%
Laurie Basch-Levy	355,000	2.6%
Michael Ernst.	62,000	0.4%
Keith D. Lowey	200,000	1.4%
All Executive Officers and Directors as a Group (8 persons)	4,327,146	31.3%

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(1) Beneficial ownership so determined in accordance with the rules of the Securities and Exchange Commission. Unless otherwise indicated, this column reflects amounts as to which the beneficial owner has sole voting power and sole investment power.

Applicable percentage of ownership is based on 13,840,722 shares of our common stock outstanding on December 31, 2010.

The address of each of the executive officers and directors is care of Organic Sales and Marketing, Inc. 114 Broadway, Raynham, MA 02767.

The Company has not granted any of the following during or after its fiscal year ended September 30, 2010:

Grants of Plan-Based Awards

Equity Awards

Nonqualified Deferred Compensation

The Company anticipates that its Executive Committee will develop and establish clear compensation policies and procedures for disclosing these policies.

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

Jerry Adelstein, a director of the company, held a demand note dated March 1, 2007 with a principal balance due as of January 21, 2010 of $116,197. On January 21, 2010, the Company's Board authorized the conversion of $102,000 of principal and accrued interest to common stock and issued a new promissory note for balance in the amount of $14,197. The new promissory note of $14,197 carries an interest rate of 8% per annum, is payable monthly at $1,000 per month beginning February 21, 2010, matures March, 2012 and is unsecured. Monthly payments on the note were not made through September 30, 2010. Total principal payments during the period were $300. As of September 30, 2010, accrued interest owed on the new promissory note was $809. As of September 30, 2010, accrued interest and principal owed on the Note was $14,706.

Leonard Colt, a director of the company, holds a demand note dated March 15, 2008 with a principal balance due as of September 30, 2010 of $10,855. This note is payable monthly by the Company in the amount of $1,020 with interest at the rate of 6% per annum. As of September 30, 2009, interest and principal owed on the Note was $12,544.

Laurie Basch-Levy, a director of the company, holds a 12 month promissory note dated December 1, 2007 with a principal balance due as of September 30, 2010 of $175,000. Interest accrues at 12% per annum. Accrued interest and principal was due at maturity, December 1, 2009, however, the note holder has agreed to extend the maturity date given the same terms and conditions as the original note. Early indications are that the maturity date will be extended for an additional twelve months subject to Board approval in January 2011. As of September 30, 2010 interest and principal owed on the note was $250,900.

Samuel Jeffries, CEO and Chairman of the Board of Directors of the company, held a demand note dated January 1, 2009 with a principal balance due as of January 21, 2010 of $363,356. On January 21, 2010, the Company's Board authorized the conversion of $266,000 of principal and accrued interest to common stock and issued a new promissory note for the balance in the amount of $97,356. The new promissory note of $97,356 carries an interest rate of 8% per annum, is payable monthly at $1,558 per month beginning February 21, 2010, matures January, 2017 and is unsecured. As of September 30, 2010, interest and principal owed on the Note was $246,436.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

All audit and professional services provided by Certified Public Accountants will be approved in advance by the Audit Committee to assure such services do not impair the auditor's independence from us. The aggregate fees billed by Morrill & Associates were $29,332 for the fiscal year ended September 30, 2010 and by the previous audit firm of $31,632 for the fiscal year ended September 30, 2009.

Description of Fees	2010	2009
Audit Fees	$ 29,332	$ 31,632
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
Total	$ 29,332	$ 31,632

Audit Fees
Represent fees for professional services provided for the audit of our annual financial statements, services that are performed to comply with generally accepted auditing standards, and review of our financial statements included in our quarterly reports and services in connection with statutory and regulatory filings.

Audit-Related Fees
Represent the fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements.

Tax Fees
This represents professional services rendered for tax compliance, tax advice and tax planning.

All Other Fees
Morrill & Associates was paid no other fees for professional services during the fiscal years September 30, 2010 and 2009.

The Audit Committee will pre-approve all auditing services and the terms thereof {which may include providing comfort letters in connection with securities underwriting) and non-audit services (other than non-audit services prohibited under Section 10A{g) of the Exchange Act or the applicable rules of the SEC or the Public Company Accounting Oversight Board) to be provided to us by the independent auditor; provided, however, the pre-approval requirement is waived with respect to the provisions of non-audit services for us if the "de minimus" provisions of Section 10A(i) (1)(B) of the Exchange Act are satisfied. This authority to pre-approve non-audit services may be delegated to one or more members of the Audit Committee, who shall present all decisions to pre-approve an activity to the full Audit Committee at its first meeting following such decision. The Audit Committee may review and approve the scope and staffing of the independent auditors' annual audit plan.

PART IV

ITEM 15. EXHIBITS

1.1	Certificate of Incorporation of Garden Connections, Inc.
2.2	Amendment of Certificate of Incorporation Changing name from Garden Connections, Inc. to Organic Sales and Marketing, Inc.
2.3	Amended and Restated By-Laws
3.2	2008 Stock Option Plan
3.3	Microbial Technologies Licensing Agreement
10.16	Nu Vision Holdings Consulting Agreement
10.17	EC Desmond Sales Representation Agreement
10.18	CA Fortune Specialty Foods Brokerage Agreement
10.19	WHYN Radio Contract (Springfield, MA)
10.20	WBAE Radio Contract (Portland, ME)
10.21	WGIR Radio Contract (Manchester, NH)
10.22	Kehe Foods Vendor Buying Agreement

Exhibit 1.1- 10.22 referred to above may be found attached to the September 30, 2008 Form 10KSB which is incorporated by reference herein.

10.29	Consulting Agreement (LOI) - Sadler
10.30	Sales Agent Agreement – Land O'Lakes Purina Feed
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer.
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.

SIGNATURES

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

	ORGANIC SALES AND MARKETING, INC.
	(Registrant)
February 11, 2011 Date	/s/ Samuel F.H. Jeffries SAMUEL F.H. JEFFRIES CEO AND CHAIRMAN
February 11, 2011 Date	/s/_Keith D. Lowey KEITH D. LOWEY CHIEF FINANCIAL OFFICER

Organic Sales and Marketing, Inc.

Financial Statements for the Years Ended
September 30, 2010 and 2009
And Reports of Independent Registered
Public Accounting Firms

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Morrill & Associates, LLC
Certified Public Accountants
563 West 500 South, Suite 425
Bountiful, Utah 8401
801-292-8756 Phone; 801-292-3558 Fax

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Audit Committee
Organic Sales and Marketing, Inc.
Raynham, Massachusetts 02767

We have audited the accompanying balance sheet of Organic Sales and Marketing, Inc. as of September 30, 2010, and the related statements of operations, stockholders' deficit, and cash flows for the year 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 audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Sales and Marketing, Inc. as of September 30, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 14 to the financial statements, the Company has incurred recurring substantial losses from operations, recurring negative working capital, negative cash flows from operations, and has limited sales of its products which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Morrill & Associates

Morrill & Associates,
LLC
Bountiful, Utah
February 11, 2011

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Audit Committee
Organic Sales and Marketing, Inc.
Raynham, Massachusetts 02767

We have audited the accompanying balance sheets of Organic Sales and Marketing, Inc. as of September 30, 2009 and 2008, and the related statements of operations, stockholders' deficit, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Sales and Marketing, Inc. as of September 30, 2009 and 2008, 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 financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 14 to the financial statements, the Company has incurred recurring substantial losses from operations, recurring negative working capital, negative cash flows from operations and has limited sales of its products which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Chisholm, Bierwolf,
Nilson & Morrill, LLC

Chisholm, Bierwolf,
Nilson & Morrill, LLC
Bountiful, Utah
January 13, 2010

ORGANIC SALES AND MARKETING, INC.
Balance Sheets

ASSETS

	September 30, 2010	September 30, 2009
CURRENT ASSETS		
Cash and cash equivalents	$ 46,237	$ 24,547
Accounts receivable, net	22,939	8,090
Inventories	90,797	109,581
Prepaid expense	16,160	7,479
Total Current Assets	176,133	149,697
PROPERTY AND EQUIPMENT, NET	4,481	9,383
OTHER ASSETS		
Deposits	200	200
Total Other Assets	200	200
TOTAL ASSETS	$ 180,814	$ 159,280

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

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

LIABILITIES AND STOCKHOLDERS' (DEFICIT)

	September 30, 2010	September 30, 2009
CURRENT LIABILITIES		
Accounts payable-trade	$ 523,598	$ 581,215
Accounts payable-related party	19,098	3,986
Accrued expenses	5,444	33,807
Accrued interest payable	85,347	61,620
Line of credit	67,387	72,054
Notes payable - related parties	439,334	495,736
Total Current Liabilities	1,140,208	1,248,418
Total Liabilities	1,140,208	1,248,418
COMMITMENTS	-	-
STOCKHOLDERS' (DEFICIT)		
Common stock, $0.0001 par value; 100,000,000 shares authorized, 13,709,494 and 10,088,794 shares issued and outstanding, respectively	1,371	1,009
Additional paid-in capital	6,493,112	5,669,969
Accumulated (Deficit)	(7,453,877)	(6,760,116)
Total Stockholders' (Deficit)	(959,394)	(1,089,138)
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	$ 180,814	$ 159,280

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

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ORGANIC SALES AND MARKETING, INC.
Statements of Operations

	For the Years Ended September 30, 2010	2009
REVENUES		
Product sales, net	$ 197,375	$ 184,789
Radio advertising	27,305	40,210
Total Revenues	224,680	224,999
COST OF SALES	131,086	183,511
GROSS PROFIT	93,594	41,488
OPERATING EXPENSES		
Advertising expense	69,790	311,362
Payroll and compensation expense	254,751	332,121
Selling expense	62,688	115,428
General and administrative	168,958	500,474
Legal and accounting	172,634	187,488
Total Operating Expenses	728,821	1,446,873
LOSS FROM OPERATIONS	(635,227)	(1,405,385)
OTHER INCOME (EXPENSE)		
Interest income	-	1,311
Interest expense	(58,534)	(48,416)
Valuation of warrants granted for financing costs	-	(954,837)
Total Other Income (Expense)	(58,534)	(1,001,942)
NET LOSS BEFORE INCOME TAXES	(693,761)	(2,407,327)
INCOME TAX EXPENSE	-	-
NET LOSS	$ (693,761)	$ (2,407,327)
LOSS PER SHARE- Basic and Diluted	$ (0.06)	$ (0.26)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING- Basic and Diluted	12,159,856	9,124,777

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

ORGANIC SALES AND MARKETING, INC.
Statements of Stockholders' (Deficit)
For the period October 1, 2008 through Septmeber 30, 2010

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated (Deficit)	Total Stockholders' Equity (Deficit)
Balance, September 30, 2008	6,799,494	$ 680	$ 3,738,959	$ (4,352,789)	$ (613,150)
Shares issued for cash at $.25/share	1,440,000	144	359,856	-	360,000
Shares issued for cash at $.15/share	1,296,800	130	194,390	-	194,520
Shares issued for services rendered at $.40/share	450,000	45	179,955	-	180,000
Shares issued for services rendered at $.10/share	50,000	5	4,995	-	5,000
Shares issued for services rendered at $.18/share	50,000	5	8,995	-	9,000
Shares issued for services rendered at $.14/share	2,500	-	350	-	350
Valuation of options and warrants granted	-	-	1,182,469	-	1,182,469
Net loss for the year ended September 30, 2009	-	-	-	(2,407,327)	(2,407,327)
Balance, September 30, 2009	10,088,794	$ 1,009	$ 5,669,969	$ (6,760,116)	$ (1,089,138)
Shares issued for cash at $.15/share	247,317	25	37,071	-	37,096
Shares issued for cash at $.10/share	920,050	92	91,911	-	92,003
Shares issued for conversion of debt at $.15/share	2,453,333	245	367,753	-	367,998
Valuation of options and warrants granted	-	-	326,408	-	326,408
Net loss for the year ended September 30, 2010	-	-	-	(693,761)	(693,761)
Balance, September 30, 2010	13,709,494	$ 1,371	$ 6,493,112	$ (7,453,877)	$ (959,394)

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

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ORGANIC SALES AND MARKETING, INC.
Statements of Cash Flows

	For the Years Ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (693,761)	$ (2,407,327)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	4,902	4,901
Shares issued for services rendered	-	194,350
Valuation of options and warrants granted	326,408	1,182,470
Stock issued for accrued interest	19,732	-
Change in operating assets and liabilities:		
Accounts receivable-trade	(14,849)	18,620
Inventories	18,784	39,805
Prepaid expense	(8,681)	46,453
Accounts payable-trade	(57,617)	100,732
Accounts payable-related party	15,112	3,986
Accrued expenses	(28,363)	(7,378)
Accrued interest payable	23,727	34,697
Net Cash Used in Operating Activities	(394,606)	(788,691)
CASH FLOWS FROM INVESTING ACTIVITIES	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	129,099	554,520
Proceeds from line of credit	10,000	15,827
Payments on line of credit	(14,667)	(18,580)
Proceeds from notes payable - related party	304,800	233,633
Payments on notes payable - related party	(12,940)	-
Net Cash Provided by Financing Activities	416,292	785,400
NET INCREASE (DECREASE) IN CASH	21,686	(3,291)
CASH, BEGINNING OF PERIOD	24,547	27,838
CASH, END OF PERIOD	$ 46,233	$ 24,547
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$ 7,776	$ 13,524
Cash paid for taxes	$ -	$ -

NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Shares issued for conversion of notes payable and accrued interest	$	368,000	$	-
Shares issued for services rendered	$	-	$	194,350
Valuation of options and warrants granted	$	326,408	$	1,182,470

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

ORGANIC SALES AND MARKETING, INC.
Notes to the Financial Statements
September 30, 2010 and 2009

Note 1 – Organization and Principle Activities of the Company

Business Description
Organic Sales and Marketing, Inc. was incorporated in the state of Delaware on August 23, 2003. On September 8, 2003, a security exchange agreement was entered into with Garden Connections, LLC. Garden Connections, LLC partners received all of the issued and outstanding common stock of Organic Sales and Marketing, Inc. in exchange for their interests in Garden Connections, LLC.

The Company is located in Raynham, Massachusetts and is engaged in the sale and marketing of a wide variety of all natural, non-food products for distribution and sale to major distributors and retail outlets throughout the United States. The Company continues to expand their market penetration by acquiring or developing consumer products that have organic origins that can be private labeled. The Company currently has private label all natural, non-food products that have been modified to meet applications in other industries including costume jewelry, sporting goods, grocery, optical, health and beauty, footwear, museum stores, historical preservation groups, funeral homes, quilting and boating.

Note 2 – Summary of Significant Accounting Policies

Financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Significant accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions and are incorporated in these financial statements. We believe that our significant accounting policies are limited to those described below.

Principles of Accounting
The Company employs the accrual method of accounting for both financial statements and tax purposes. Using the accrual method, revenues and related assets are recognized when earned, and expenses and the related obligations are recognized when incurred. The Company has elected a September 30th year end.

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

ORGANIC SALES AND MARKETING, INC.
Notes to the Financial Statements
September 30, 2010 and 2009

Note 2 – Summary of Significant Accounting Policies (Continued)

Revenue Recognition
We earn our revenues from the distribution of garden and cleaning products to retailers and directly to consumers via our internet site and from advertising contracts. Four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectability is reasonably assured.

Revenue from garden and cleaning products is recognized upon shipment of the product. The distribution of products is governed by purchase orders or direct sale agreements which fix the price and delivery date. In accordance with ASC 605-45 "Accounting for Shipping and Handling Fees and Costs," distribution costs charged to customers are recognized as revenue when the related product is shipped. Advance payments are recorded on the balance sheet as deferred revenue until the revenue recognition criteria is met.

Revenue from radio advertising is derived from three sources, the sale of commercial spots on the Garden Guys radio talk shows, the sponsorship of informative show segments and hosting live remote broadcasts. Revenue from radio advertising is recognized after the commercial has been aired and/or a remote broadcast has taken place. Customers will prepay for radio spots or remote broadcasts at the time they contract with the Company to air their commercials or host a remote broadcast. The Company will carry this prepayment as a liability, until such time as economic performance takes place. Money received is refundable prior to the airing of commercials or the airing of the remote broadcast, adjusted by any production or other direct costs incurred up to that point in time.

Cash and Cash Equivalents
The Company considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. During the past twelve months the Company maintained cash in bank accounts which, at times, exceeded Federal Deposit Insurance Corporation insured limits. The Company has not experienced, nor does it anticipate, any losses on these accounts and believes their risk to be minimal.

Accounts Receivable
The Company carries its accounts receivable at cost less an allowance for doubtful accounts. Periodically, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. The Company feels that the entire balance of Accounts Receivable as of September 30, 2010 and September 30, 2009 are collectable and, therefore, no allowance has been taken. The full value of accounts receivable is held as collateral for the Company's Line of Credit.

Inventory
The inventory is stated at the lower of cost (first-in-first-out method) or market. Inventory items consist of raw material and finished goods. Raw materials consist of labels, bottles, sprayers, fertilizers and shipping materials. Finished goods consist of fertilizer bags and bottles of organic cleaning products ready for shipment. The inventory consists of newly purchased items; therefore, there is currently no allowance for excess or obsolete inventory. The full value of inventory is held as collateral for the Company's Line of

Credit.

Prepaid Expenses

Business expenses, including consulting expenses, that are paid for in advance of services being rendered are treated as prepaid expenses. On occasion, the Company pays for prepaid expenses with common stock. When these transactions occur, they are identified as negative components of stockholders' equity.

ORGANIC SALES AND MARKETING, INC.
Notes to the Financial Statements
September 30, 2010 and 2009

Note 2 – Summary of Significant Accounting Policies (Continued)

Fixed Assets
Fixed assets are stated at cost less accumulated depreciation. The Company has elected to capitalize and depreciate any fixed asset item costing in excess of $1,000. Expenditures for minor replacements, maintenance and repairs which do not increase the useful lives of the property and equipment are charged to operations as incurred. Major additions and improvements are capitalized. Depreciation and amortization are computed using the straight-line method over estimated useful lives of three to seven years. The full value of fixed assets is held as collateral for the Company's Line of Credit.

Advertising
The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense primarily consists of the Company’s three hour weekly Garden Guys radio call in program with Greater Media and Citadel Communications, slotting fee expense, display case costs, samples and trade show participation. The total advertising expense for the radio show contracts was $54,200 and $209,615 for the twelve months ended September 30, 2010 and September 30, 2009, respectively. In addition, the Company advertises its products on its own website and in numerous trade and industry publications. Total advertising, including radio contracts for the years ended September 30, 2010 and 2009 was $69,790 and $311,362, respectively.

Income Taxes
The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are provided based on the difference between the financial statement and tax bases of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities.

Fair Value of Financial Instruments
On January 1, 2008, the Company adopted FASB ASC 820-10-50, “Fair Value Measurements.” This guidance defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 inputs to valuation methodology are unobservable and significant to the fair measurement.

The carrying amounts reported in the balance sheets for the cash and cash equivalents, receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The carrying value of related party notes payable approximates fair value because negotiated terms and conditions are consistent with current market rates as of September 30, 2010 and 2009.

ORGANIC SALES AND MARKETING, INC.
Notes to the Financial Statements
September 30, 2010 and 2009

Note 2 – Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation
In December 2004, FASB issued FASB ASC 718 (Prior authoritative literature: SFAS No. 123R, "Share-Based Payment"). FASB ASC 718 establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. FASB ASC 718 focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. FASB ASC 718 requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued.

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of FASB ASC 505-50 (Prior authoritative literature: EITF 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and EITF 00-18, "Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees"). The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable in accordance with FASB ASC 718.

Recently Issued Accounting Standards
In May 2009, FASB issued FASB ASC 855-10 (Prior authoritative literature: SFAS No. 165, "Subsequent Events"). FASB ASC 855-10 establishes principles and requirements for the reporting of events or transactions that occur after the balance sheet date, but before financial statements are issued or are available to be issued. FASB ASC 855-10 is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ended June 30, 2009. Adoption of FASB ASC 855-10 did not have a material effect on our financial statements.

In June 2009, the FASB ASC 860-10 (Prior authoritative literature: issued SFAS No. 166, "Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140"), which eliminates the concept of a qualifying special-purpose entity ("QSPE"), clarifies and amends the de-recognition criteria for a transfer to be accounted for as a sale, amends and clarifies the unit of account eligible for sale accounting and requires that a transferor initially measure at fair value and recognize all assets obtained and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. This standard is effective for fiscal years beginning after November 15, 2009. The Company is currently evaluating the potential impact of this standard on its financial statements, but does not expect it to have a material effect.

In June 2009, the FASB issued FASB ASC 810-10-65 (Prior authoritative literature: SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)") which amends the consolidation guidance applicable to a variable interest entity ("VIE"). This standard also amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is therefore required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. Previously, the standard required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. This standard is effective for fiscal years beginning after November 15, 2009, and for interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the potential impact of the adoption of this standard on its financial statements, but does not expect it to have a material effect.

ORGANIC SALES AND MARKETING, INC.
Notes to the Financial Statements
September 30, 2010 and 2009

Note 2 – Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards (Continued)

In June 2009, FASB issued ASC 105-10 (Prior authoritative literature: SFAS No. 168, "The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162").FASB ASC 105-10 establishes the FASB Accounting Standards Codification TM (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. FASB ASC 105-10 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending September 30, 2009. Adoption of FASB ASC 105-10 did not have a material effect on the Company's financial statements.

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force ("ASU 2009-13"). ASU 2009-13 changes accounting for certain multiple deliverable arrangements. ASU 2009-13 addresses the separation of deliverables and how to measure and allocate the arrangement consideration to one or more units of accounting in multiple deliverable arrangements. Currently, under the residual method of allocation, we use objective and reliable evidence of the fair value of the undelivered elements to separate deliverables in multiple deliverable arrangements. ASU 2009-13 eliminates the residual method and requires that consideration from the arrangement be allocated to all deliverables using the relative selling price method. ASU 2009-13 requires additional disclosures related to multiple deliverable revenue arrangements upon adoption and is effective for fiscal years beginning after June 15, 2010. In addition, ASU 2009-13 may be early adopted. It may be implemented with either prospective or retrospective application; however, if early adoption is chosen, the entity must either adopt at the beginning of its fiscal year, or adopt using retrospective application. We are currently evaluating the impact ASU 2009-13 will have on our financial position and results of operations, whether to early adopt and which implementation method to use upon adoption if not prescribed.

In October 2009, the FASB issued ASU 2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements—a consensus of the FASB Emerging Issues Task Force ("ASU 2009-14"). ASU 2009-14 changes the accounting for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality is no longer within the scope of the software revenue guidance. Under prior guidance such arrangements were accounted for as software if the software was determined to be more than incidental. ASU 2009-14 requires that any hardware components of such arrangements be excluded from software revenue guidance and that any essential software that is sold with or embedded within the product also be excluded from software revenue guidance. This ASU is effective for fiscal years beginning after June 15, 2010. In addition, ASU 2009-14 may be early adopted. ASU 2009-14 may be implemented with either prospective or retrospective application; however, if early adoption is chosen, the entity must either adopt at the beginning of its fiscal year, or adopt using retrospective application. Further, ASU 2009-14 must be adopted in the same period and with the same implementation method as ASU 2009-13. We are currently evaluating the impact ASU

2009-14 will have on our financial position and results of operations, whether to early adopt and which implementation method to use upon adoption if not prescribed.

ORGANIC SALES AND MARKETING, INC.
Notes to the Financial Statements
September 30, 2010 and 2009

Note 2 – Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards (Continued)

In January 2010, the FASB issued ASU No. 2010-06 regarding fair value measurements and disclosures and improvement in the disclosure about fair value measurements. This ASU requires additional disclosures regarding significant transfers in and out of Levels 1 and 2 of fair value measurements, including a description of the reasons for the transfers. Further, this ASU requires additional disclosures for the activity in Level 3 fair value measurements, requiring presentation of information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements. This ASU is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of ASU 2010-06 did not have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued Accounting Standards Update No. 2010-09 ("ASU 2010-09") as amendments to certain recognition and disclosure requirements. The amendments remove the requirement for an SEC filer to disclose a date in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. Those amendments remove potential conflicts with the SEC's literature. All of the amendments in ASU 2010-09 were effective upon issuance for interim and annual periods. The adoption of ASU 2010-09 did not have a material impact on the Company's consolidated financial statements.

ORGANIC SALES AND MARKETING, INC.
Notes to the Financial Statements
September 30, 2010 and 2009

Note 3 – Net Income/(Loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding and dilutive potential common shares, which includes the dilutive effect of stock options and warrants granted. Dilutive potential common shares for all periods presented are computed utilizing the treasury stock method. Common stock options of 2,355,145 were considered, but not included in the computation of loss per share because their effect is anti-dilutive. Common stock warrants of 2,920,920 were considered, but not included in the computation of loss per share because their effect is also anti-dilutive.

	For the Years Ended September 30,	
	2010	2009
Basic and Diluted		
Net Loss - Numerator	$ (693,761)	$ (2,407,327)
Weighted Average Shares - Denominator	12,159,856	9,124,777
Per Share Amount	$ (0.06)	$ (0.26)

Note 4 – Income Taxes

The Financial Accounting Standards Board (FASB) has issued FASB ASC 740-10 (Prior authoritative literature: Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109 (FIN 48)). FASB ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with prior literature FASB Statement No. 109, Accounting for Income Taxes. This standard requires a company to determine whether it is more likely than not that a tax position will be sustained will be sustained upon examination based upon the technical merits of the position. If the more-likely-than- not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. As a result of the implementation of this standard, the Company performed a review of its material tax positions in accordance with recognition and measurement standards established by FASB ASC 740-10.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

ORGANIC SALES AND MARKETING, INC.
Notes to the Financial Statements
September 30, 2010 and 2009

Note 4 – Income Taxes (Continued)

Deferred tax assets and the valuation account are as follows:

	For the Years Ended September 30, 2010	2009
Deferred tax asset:		
Net operating loss carryforward	$ 1,777,092	$ 1,633,824
Valuation allowance	(1,777,092)	(1,633,824)
	$ -	$ -

The components of income tax expense are as follows:

	For the Years Ended September 30, 2010	2009
Current Federal tax	$ -	$ -
Current State tax	-	-
Change in NOL benefit	143,268	477,695
Change in valuation allowance	(143,268)	(477,695)
	$ -	$ -

The Company has adopted FASB ASC 740-10 to account for income taxes. The Company currently has no issues creating timing differences that would mandate deferred tax expense. Net operating losses would create possible tax assets in future years. Due to the uncertainty of the utilization of net operating loss carry forwards, an evaluation allowance has been made to the extent of any tax benefit that net operating losses may generate. A provision for income taxes has not been made due to net operating loss carry-forwards of $4,556,645 and $4,189,293 as of September 30, 20010 and September 30, 2009, respectively, which may be offset against future taxable income through 2029. No tax benefit has been reported in the financial statements.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	For the Years Ended September 30, 2010	2009
Beginning Balance	$ -	$ -
Additions based on tax positions related to current year	-	-
Additions for tax positions of prior years	-	-
Reductions for tax positions of prior years	-	-

Reductions in benefit due to income tax expense		-		-
Ending Balance	$	-	$	-

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ORGANIC SALES AND MARKETING, INC.
Notes to the Financial Statements
September 30, 2010 and 2009

Note 4 – Income Taxes (Continued)

The Company did not have any tax positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The Company includes interest and penalties arising from the underpayment of income taxes in the consolidated statements of operations in the provision for income taxes. As of September 30, 2010 and 2009, the Company had no accrued interest or penalties related to uncertain tax positions.

The tax years that remain subject to examination by major taxing jurisdictions are for the years ended December 31, 2009, 2008 and 2007.

Note 5 – Inventories

Inventories consisted of the following as of:

	September 30, 2010	September 30, 2009
Raw materials	$ 78,182	$ 70,179
Finished goods	12,615	39,402
Totals	$ 90,797	$ 109,581

At September 30, 2010 and September 30, 2009, no provision for obsolete inventory was recorded by the Company.

Note 6 – Property and Equipment

Property and Equipment consisted of the following as of:

	September 30, 2010	September 30, 2009
Property and equipment	$ 21,900	$ 21,900
Less: accumulated depreciation	(17,419)	(12,517)
Property and equipment, net	$ 4,481	$ 9,383

Depreciation expense on property and equipment was $4,902 and $4,901 for the years ended September 30, 2010 and September 30, 2009, respectively.

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Note 7 – Stock Options

On February 28, 2008, our Board of Directors approved the 2008 Stock Option and Purchase Plan. Under the terms of this plan, options may be granted to officers, directors, employees, consultants and independent contractors to purchase up to an aggregate of 1,350,000 shares of common stock at an exercise price of $1.00 per share. Options are exercisable and vest over a four year period at a rate of 25% per year.

On January 21, 2010, the Board of Directors approved the granting of 1,155,000 common stock option shares to officers, directors, employees and independent contractors. Under the terms of the grants approved, shares carry an exercise price of $.15 per share, vest over a four year period at a rate of 25% per year and only vested options can be exercised over a ten year period.

On May 6, 2010, the Board of Directors approved the granting of 60,000 common stock option shares to employees and independent contractors. Under the terms of the grants approved, shares carry an exercise price of $.15 per share, vesting 100% in one year and only vested options can be exercised over a four year period.

As of September 30, 2010, under this plan, there were 1,140,145 options outstanding at the exercise price of $1.00 per share and 1,215,000 options outstanding at the exercise price of $.15 per share. The issuance of these options was approved by holders of the majority of the Company's outstanding common stock. The total amount of option expense recorded for the Twelve Months ended September 30, 2010 was $326,408, of which, $193,431 was recorded as payroll and compensation expense and $132,977 was recorded as legal and accounting expense. The amount of option expense to be charged over the remainder of the exercise period is $380,014.

The Company has determined the estimated value of the stock options granted by using the Black-Scholes pricing model with the following assumptions: expected life of 4 or 10 years, a risk free interest rate of 2.46-3.71%, a dividend yield of 0% and volatility ranging from 75% in 2008, 154% to 192% in 2009 and 190% in 2010.

Outstanding common stock options as of September 30, 2010 are summarized below:

	Number of Shares	Weighted Average Exercise Price	
Stock Options Outstanding, October 1, 2007	-	$	-
Options Granted	1,126,250	$	1.00
Options Exercised	-	$	-
Options Canceled	-	$	-
Stock Options Outstanding, September 30, 2008	1,126,250	$	1.00
Stock Options Exercisable, September 30, 2008	148,619	$	1.00
Options Granted	29,000	$	1.00

Options Exercised	-	$	-
Options Canceled	(15,105)	$	1.00
Stock Options Outstanding, September 30, 2009	1,140,145	$	1.00
Stock Options Exercisable, September 30, 2009	438,057	$	1.00
Options Granted	1,215,000	$	0.15
Options Exercised	-		.
Options Canceled	-	$	-
Stock Options Outstanding, September 30, 2010	2,355,145	$	0.56
Stock Options Exercisable, September 30, 2010	1,517,627	$	0.58

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Note 7 – Stock Options (Continued)

The following table summarizes the changes in options outstanding and the related prices for the shares of the Company's common stock options issued to both employees and non-employees of the Company.

	Options Outstanding			Options Exercisable	
Year	Exercise Price	Number Shares Outstanding	Average Contractual Life (Years)	Number Exercisable	Weighted Average Exercise Price
February-08	$ 1.00	861,145	7.41	583,230	$ 1.00
May-08	$ 1.00	250,000	7.67	151,042	$ 1.00
January-09	$ 1.00	5,000	8.34	2,188	$ 1.00
April-09	$ 1.00	10,000	8.58	3,750	$ 1.00
August-09	$ 1.00	14,000	8.92	4,083	$ 1.00
January-10	$ 0.15	1,155,000	9.34	756,667	$ 0.15
May-10	$ 0.15	60,000	9.60	16,667	$ 0.15
		2,355,145		1,517,627	

The aggregate intrinsic value of stock options outstanding and exercisable at September 30, 2010 and 2009 totaled $-0- and $-0- and $-0- and $-0-, respectively. The weighted average grant date fair value of options granted during the period ended September 30, 2010 and 2009 is $0.13 and $0.27, respectively. The fair value of vested options as of the periods ended September 30, 2010 and 2009 totaled $151,763 and $122,656, respectively.

Note 8 – Common Stock Purchase Warrants

On October 3, 2008, the Company commenced a private stock offering, whereby it authorized the issuance of 1,440,000 units consisting of one share of its common stock and one common stock purchase warrant for a total raise of $360,000. The common stock purchase warrants are exercisable at $1.00 per share and carrying a five year exercise period. The offering was closed as of November 30, 2008. All 1,440,000 units were issued and $360,000 in cash was received. The amount of warrant expense related to this offering for the Twelve Months ending September 30, 2009 was $593,484.

On January 28, 2009, the Company commenced a private stock offering, whereby it authorized the issuance of 1,750,000 units, each consisting of one share of its common stock and one common stock purchase warrant for a total raise of $262,500. The common stock purchase warrants are exercisable at $1.00 per share and carry a five year exercise period. The offering was closed on March 31, 2009, at which time 1,296,800 unit shares were issued and $194,520 in cash was received. The amount of warrant expense related to this offering for the Twelve Months ending September 30, 2009 was $361,353.

Total warrant expense charged as financing costs for the Twelve Months ended September 30, 2010 and 2009 was $-0- and $954,837, respectively.

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ORGANIC SALES AND MARKETING, INC.
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Note 8 – Common Stock Purchase Warrants (Continued)

The Company has determined the estimated value of warrants granted during the Twelve Months ending September 30, 2009 using the Black-Scholes pricing model with the following assumptions: expected life of 5 years; a risk free interest rate of 1.66%-2.71%; a dividend yield of 0% and volatility of 149.62%-172.61%.

Outstanding common stock purchase warrants as of September 30, 2010 are summarized below:

	Number of Warrants	Weighted Average Exercise Price
Warrants Outstanding, October 1, 2007	-	$ -
Warrants Granted	184,120	$ 2.00
Warrants Exercised	-	$ -
Warrants Canceled	-	$ -
Warrants Outstanding and Exercisable, September 30, 2008	184,120	$ 2.00
Warrants Granted	2,736,800	$ 1.00
Warrants Exercised	-	$ -
Warrants Canceled	-	$ -
Warrants Outstanding and Exercisable, September 30, 2009	2,920,920	$ 1.06
Warrants Granted	-	$ -
Warrants Exercised	-	$ -
Warrants Canceled	-	$ -
Warrants Outstanding and Exercisable, September 30, 2010	2,920,920	$ 1.06

The following table summarizes the changes in warrants outstanding and the related prices for the shares of the Company's common stock issued to the note holders referenced above.

		Warrants Outstanding		Warrants Exercisable	
Year	Exercise Price	Number Shares Outstanding	Weighted Average Contractual Life (Years)	Number Exercisable	Weighted Average Exercise Price
Jun-08	$ 2.00	184,120	1.75	184,120	$ 2.00
Oct-08	$ 1.00	40,000	3.08	40,000	$ 1.00
Nov-08	$ 1.00	1,400,000	3.17	1,400,000	$ 1.00
Feb-09	$ 1.00	666,667	3.41	666,667	$ 1.00
Mar-09	$ 1.00	630,133	3.50	630,133	$ 1.00
		2,920,920		2,920,920	

The aggregate intrinsic value of stock warrants outstanding and exercisable at September 30, 2010 and 2009 totaled $-0- and $-0- and $-0- and $-0-, respectively. The weighted average grant date fair value of stock warrants granted during the period ended September 30, 2010 and 2009 is $0 and $0.35, respectively. The fair value of stock warrants vested during the period ended September 30, 2010 and 2009 totaled $0 and $766,304, respectively.

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Note 9 – Line of Credit

In August 2006, the Company entered into a Line of Credit / Overdraft Protection Agreement ("LOC Agreement") with a financial institution to borrow up to $75,000. Interest accrues at the Wall Street Journal Prime Rate ("WSJ Prime Rate") less 1% for the first six months and at the WSJ Prime Rate, thereafter. All amounts due on the line of credit are due on demand. The balance outstanding at September 30, 2010 and September 30, 2009 was $67,387 and $72,054 respectively. Accrued interest payable at September 30, 2010 and September 30, 2009 was $180 and $322, respectively. The LOC Agreement is guaranteed by an officer of the Company and is secured by all assets of the Company.

Note 10 – Equity Transactions

On December 16, 2009, the Company commenced a private stock offering, whereby it authorized the issuance of 3,333,334 shares of its common stock for a total raise of $500,000. The offering was closed on March 31, 2010 and $37,097 of the $500,000 was raised and 247,317 shares of common stock were issued.

On January 21, 2010, the Board of Directors approved the issuance of 1,773,333 shares of common stock in satisfaction of $260,000 in related party notes payable and $6,000 in accrued interest to a director of the Company. As part of the agreement, the remaining balance of the related party note of $100,000 (See Note 11) will be due and payable over the next 7 years at an interest rate of 8% per annum.

On January 21, 2010, the Board of Directors approved the issuance of 680,000 shares of common stock in satisfaction of $90,000 in related party notes payable and $12,000 in accrued interest to a director of the Company. As part of the agreement, the remaining balance of the related party note of $14,000 (See Note 11) will be due and payable over the next 2 years at an interest rate of 8% per annum.

On May 1, 2010 the Company commenced a private stock offering, whereby it authorized the issuance of 5,000,000 shares of its common stock for a total raise of $500,000. As of September 30, 2010 $92,005 of the $500,000 was raised and 920,050 shares of common stock were issued.

Note 11 – Notes Payable- Related Parties

Through September 30, 2007, a director of the company loaned the Company a total of $32,026 at an interest rate of 6% per annum. During the fiscal year ended September 30, 2008 the Company issued 30,779 shares of common stock in relief of $30,779 in debt. This director advanced $75,000 during fiscal year 2008. During the fiscal year ended September 30, 2009, the director advanced the Company an additional $27,499, bringing the total principal balance due as of January 20, 2010 to $103,747. This note was payable monthly in the amount of $1,000 plus interest, however, no scheduled payments were made through January 20, 2010 by the Company. On January 21, 2010, the Company's Board authorized the conversion of $102,000 of principal and accrued interest to common stock and issued a new promissory note for balance in the amount of $14,197. The new promissory note of $14,197 carries an interest rate of 8% per annum, is payable monthly at $1,000 per month beginning February 21, 2010, matures March, 2012 and is unsecured. Total principal payments during the period were $300. Monthly payments on the note were not made through September 30, 2010 and the note was considered in default. As of September

30, 2010, accrued interest owed on the new promissory note was $510.

ORGANIC SALES AND MARKETING, INC.
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Note 11 – Notes Payable- Related Parties (Continued)

Through September 30, 2007, the CEO and Chairman of the Board of the Company advanced the Company $20,000. During the fiscal year ended September 30, 2008 the Company issued a total of 20,000 shares of common stock in satisfaction of $20,000 in debt. As of January 20, 2010 total principal owed on the note was $356,068. Monthly payments were not required and interest accrued at 6% per annum. On January 21, 2010, the Company's Board authorized the conversion of $266,000 of principal and accrued interest to common stock and issued a new promissory note for the balance in the amount of $97,356. The new promissory note of $97,356 carries an interest rate of 8% per annum, is payable monthly at $1,558 per month beginning February 21, 2010, matures January, 2017 and is unsecured. Scheduled payments were made on the new note through September 30, 2010, including principal payments of $4,694. Since January 21, 2010, additional funds of $136,800 have been advanced by the CEO to the Company and added to the promissory note. As of September 30, 2010 total principal owed on the note was $239,582 and accrued interest owed was $6,854.

Through September 30, 2008, a director of the company advanced a total of $12,772 in the form of a demand note dated March 15, 2008. During the 2008 fiscal year end 1,917 shares of common stock were issued in satisfaction of $1,917 in debt, resulting in a principal balance due as of September 30, 2010 and 2009, of $10,855. This note is payable monthly by the Company in the amount of $1,020 with interest at the rate of 6% per annum. During the Twelve Months ending September 30, 2010, no scheduled payments were made and the note was considered in default. As of September 30, 2010, accrued interest owed on the Note was $1,503.

Through September 30, 2008, a director of the company, advanced $175,000 to the Company. Interest accrues at 12% per annum. Accrued interest and principal was due at maturity, December 1, 2008, however, the note holder agreed to extend the maturity date for an additional twelve months given the same terms and conditions as the original note. Through the period September 30, 2010, no payments were made and the note was considered in default. As of September 30, 2010, accrued interest owed on the Note was $68,426.

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Note 11 – Notes Payable- Related Parties (Continued)

Notes payable-related parties consisted of the following at:

	September 30, 2010	September 30, 2009
Note payable with a director of the Company, interest at 8% per annum, payments of $1,000 is due monthly beginning February 21, 2010, matures January, 2012, unsecured	$ 13,897	$ 103,747
Note payable with a director of the Company, interest at 8% per annum, payments of $1,558.62 is due monthly beginning January 21, 2010, matures January, 2017, unsecured	239,582	206,134
Note payable with a director of the Company, interest at 6% per annum, payments of $1,020 due monthly beginning April 15, 2008, matures April, 2009, unsecured, in default	10,855	10,855
Note payable with a director of the Company, interest at 12% per annum. No monthly payments are required. All accrued interest and principal was due at maturity, December 1, 2009, in default	175,000	175,000
Total Notes Payable - Related Parties	$ 439,334	$ 495,736
Less: Current Portion	(439,334)	(495,736)
Long-Term Notes Payable - Related Parties	$ -	$ -

Total accrued interest at September 30, 2010 and September 30, 2009 was $73,813 and $61,620, respectively.

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Note 12 – Commitments and Contingencies

Leases

The Company leases facilities for its corporate offices at $600 per month. The lease expired in fiscal 2007 and was then converted to a month-to-month basis. Rental expense for fiscal 2010 and 2009 was $7,200 and $9,087, respectively. The Company also has a 60 month equipment lease on its office copier machine that costs $240 per month and expires on August 30, 2011 and rents a small storage unit on a month to month basis for $147 per month.

The future minimum annual lease commitments as of September 30, 2010 are as follows:

Years Ending September 30,	Amount
2011	2,640
2012	-
2013	-
2014	-
2015	-
Thereafter	-

Agreements

As of September 30, 2010, the Company had one active radio station syndication agreement under which the company owed $4,700. The agreement expires in one year and the Company intends to renew it at the end of the term. As of September 30, 2010, the monthly cost of our radio show is $5,500 a month.

On May 3, 2008, the Company entered into a ten year licensing agreement with Microbial Technologies Ltd. (“MTL”) for the purposes of obtaining the right to use the proprietary formulations owned by MTL. The cost of the licensing agreement will be $100,000 per year, which will be billed quarterly to the Company, and a 5% royalty on net sales of any MTL product formulations sold. If the Company does not use MTL formulations, the licensing fee and royalties are not required to be paid. The total amount owed under this agreement at September 30, 2010, is $142,905 from the use of the MTL technology, and has been included in accounts payable.

Note 12 – Commitments and Contingencies (Continued)

The future minimum annual contractual obligations as of September 30, 2010 are as follows:

Years Ending September 30,	Amount
2011	16,500
2012	-
2013	-
2014	-

2015		-
Thereafter		-
	$	16,500

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Note 13 – Concentration of Credit Risk

Major Customers

The Company had one customer who represented 10% or more of total sales for the year ended September 30, 2010 at 19.1% of total sales.

As of September 30, 2010 the Company's accounts receivable was due from this customer was $2,798. The loss of this customer, although not anticipated, could have a material impact on the Company's present and future operations.

Major Suppliers

The Company had two vendors who represented 10% or more of the total material purchases for the year ended September 30, 2010 at 64.7% and 13.1% respectively.

Due to capabilities, pricing and geographic location, these vendors are considered sole source vendors by the Company. The loss of these sole source vendors could have a temporary impact on operations; however, alternate suppliers are readily available that the Company feels could quickly fill the void, should it ever need to.

Note 14 – Going Concern

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

Note 15 – Subsequent Events

Subsequent to September 30, 2010 and through the date its financial statements were issued, the Company issued an additional 130,000 shares of common stock as part of the ongoing private stock offering, for an additional $13,000 of the $500,000 discussed in Note 10.

Organic Sales and Marketing, Inc. has evaluated subsequent events for the period September 30, 2010 through the date its financial statements were issued, and concluded there were no other events or transactions occurring during this period that required recognition of disclosure in its financial statements.

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