MACH ONE CORP
Form 10-Q
November 23, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

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

For the Quarterly period ended September 30, 2009

¨ 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: 333-146744

MACH ONE CORPORATION
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of Incorporation or organization)	88-0338837 (I.R.S. Employer Identification No.)

974 Silver Beach Road, Belgium, WI 53004
(Address of principal executive offices)

(888) 400-7179
(Issuer's telephone number)

6430 Congress Drive, West Bend, WI 53095
(Former name, former address and former fiscal year, if applicable)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

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

As of November 17, 2009, 172,021,946 shares of common stock were outstanding.

MACH ONE CORPORATION

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MACH ONE CORPORATION
CONSOLIDATED BALANCE SHEETS (unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash	$79,332	$635,334
Accounts receivable	849,578	44,603
Accounts receivable pledged as collateral	170,954	-
Marketable securities	68,391	483,900
Inventory	1,372,892	520,020
Other current assets	84,490	43,395
Total Current Assets	2,625,637	1,727,252
Property and equipment, net	1,080,187	771,030
Goodwill	280,232	3,438,466
Intangible assets, net	2,772,060	80,000
Prepaid management fees	157,500	180,000
TOTAL ASSETS	$6,915,616	$6,196,748
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$2,760,137	$7,577
Accrued expenses	707,726	401,327
Short-term notes payable and other debt	519,218	815,000
Deferred revenue	51,921	-
Current portion of long-term debt obligations	21,806	-
Total Current Liabilities	4,060,808	1,223,904
Long-term debt, net of current portion	3,408,482	3,164,268
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, $.05 par value, 10,500,000 shares authorized, 8,500,000 and 5,420,000 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively, liquidation preference of $4,500,000 and $0 at September 30, 2009 and December 31, 2008, respectively	425,000	271,000
Common stock, $.001 par value, 239,500,000 shares authorized, 172,021,946 and	172,021	111,093

111,094,054 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively		
Treasury stock	(283,425)	(143,456)
Additional paid-in capital	10,756,771	5,314,699
Accumulated deficit	(11,308,068)	(3,744,760)
Accumulated other comprehensive loss	(237,271)	-
Total Mach One Corporation Stockholders' Equity (Deficit)	(474,972)	1,808,576
Non-controlling interest in variable interest entity	(78,702)	-
Total Stockholders' Equity (Deficit)	(553,674)	1,808,576
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$6,915,616	$6,196,748

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

MACH ONE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Sales, net	$1,579,693	$1,646	$4,074,297	$84,073
Cost of goods sold	1,529,223	4,737	3,696,030	42,862
Gross profit	50,470	(3,091)	378,267	41,211
Operating expenses	1,398,375	162,138	3,971,865	840,557
Goodwill impairment	-	-	3,438,466	-
Loss from operations	(1,347,905)	(165,229)	(7,032,064)	(799,346)
Other expense:				
Realized gain (loss) on sale of marketable securities	33,438	-	(33,662)	-
Interest expense	(139,672)	-	(576,284)	(52,882)
Total other expense	(106,234)	-	(609,946)	(52,882)
Loss before provision for income taxes	(1,454,139)	(165,229)	(7,642,010)	(852,228)
Income tax provision	-	-	-	-
Net loss	(1,454,139)	(165,229)	(7,642,010)	(852,228)
Less: Net loss attributable to non-controlling interest in variable interest entity	4,127	-	78,702	-
Net loss attributable to Mach One Corporation	$(1,450,012)	$(165,229)	$(7,563,308)	$(852,228)
Net loss per common share (basic and diluted)	$(0.01)	$(0.00)	$(0.06)	$(0.01)
Weighted average shares outstanding:				
Basic and diluted	163,986,263	78,633,909	136,244,588	77,239,613

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

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MACH ONE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30, 2009	2008
Cash flows from operating activities:		
Net loss	$ (7,642,010)	$ (852,228)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	246,663	55,750
Amortization of deferred financing costs	200,500	-
Amortization of prepaid management fees	22,500	-
Loss on sale of marketable securities	33,662	
Goodwill impairment	3,438,466	-
Common stock issued for services	521,792	282,500
(Increase) decrease in operating assets (net of acquisitions):		-
Accounts receivable	(372,602)	(31,570)
Inventory	306,832	-
Other current assets	(33,455)	-
Increase in operating liabilities (net of acquisitions):		
Accounts payable and accrued expenses	1,414,073	34,764
Deferred revenue	46,722	-
Total adjustments	$ 5,825,153	$ 341,444
Net cash used in operating activities	$ (1,816,857)	$ (510,784)
Cash flows from investing activities:		
Proceeds from the sale of marketable securities	144,576	-
Acquisitions, net of cash acquired	30,674	-
Purchase of property and equipment, net	(331,636)	(172,880)
Net cash used in investing activities	$ (156,386)	$ (172,880)
Cash flows from financing activities:		
Proceeds from short term notes payable	1,640,403	681,671
Payments on short term notes payable	(52,000)	-
Payments on long-term debt	(17,948)	-
Proceeds from the sale of treasury stock	148,909	-
Purchase of treasury stock	(302,123)	-
Net cash provided by financing activities	$ 1,417,241	$ 681,671
Net decrease in cash	$ (556,002)	$ (1,993)
Cash, beginning of period	635,334	6,928

Cash, end of period	$	79,332	$	4,935
Supplemental cash and non-cash flow information				
Common stock issued for conversion of short term notes payable and related accrued interest	$	2,224,485	$	-
Conversion of preferred stock into common stock	$	271,000	$	-
Unrealized loss on marketable securities	$	237,271	$	-
Cash paid for interest	$	37,410	$	-
Common stock issued for payment of long-term debt	$	23,467	$	50,000
Loss on sale of treasury stock	$	13,245	$	-
Liability for license agreement	$	243,700	$	-

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

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Note 1. Basis of Presentation and Nature of Operations

Basis of Presentation: The interim Consolidated Financial Statements of Mach One Corporation (Mach One, the Company, we, us or our) are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair statement of financial position, results of operations and cash flows for the periods presented. Except as otherwise disclosed herein, these adjustments consist of normal, recurring items. The results of operations for any interim period are not necessarily indicative of full year results. The Consolidated Financial Statements and Notes are presented in accordance with the requirements for Quarterly Reports on Form 10-Q and do not contain certain information included in our annual Consolidated Financial Statements and Notes.

The preparation of the interim Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim Consolidated Financial Statements and the reported amounts of revenue and expenses for the reporting periods. Despite our intention to establish accurate estimates and use reasonable assumptions, actual results may differ from our estimates.

The December 31, 2008 Consolidated Balance Sheet data was derived from the audited Consolidated Financial Statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. This Form 10-Q should be read in conjunction with our Consolidated Financial Statements and Notes included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Nature of Business: Mach One Corporation is a global wellness solutions company with operations in Animal Wellness; Organics & Sustainables; and BioPharm Process Systems. Through its Animal Wellness Group, the Company focuses on major opportunities for positive, long-term health and longevity benefits for disease-threatened animals in the commercial livestock and poultry industries, especially the beef and dairy sectors. The Organics & Sustainables Group, through its flagship company Ceres Organic Harvest, Inc. (Ceres), addresses the growing needs of food manufacturers in the organic foods market which are challenged to increase production capacity for organic raw commodities and feed stocks that go into the finished products. The BioPharm Process Systems Group provides documentation, process modules, process skids, custom tanks and vessels and custom stainless steel fabrication to the biopharmaceutical industry, and also will be integral in setting up and servicing the projected three U.S.-based laboratories for production of Mach One's Animal Wellness Group Bridge™ product line.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The wholly owned subsidiaries include Ceres, Pacific Rim Foods, Ltd. (Pacific Rim) and Modular Process Constructors, LLC (MPS). All inter-company transactions and balances have been eliminated in the consolidation.

The Company includes in its consolidated financial results entities determined to be variable interest entities (VIEs), for which the Company is deemed to be the VIE's primary beneficiary.

Variable Interest Entity: During the nine months ended September 30, 2009, the Company was considered the primary beneficiary of Progressive Formulations, Inc. (PFI). PFI is an importer and distributor of soy-based organic food products whose initial capitalization was provided in the form of loans and inventory by the Company. PFI is wholly-owned by a shareholder of the Company. Refer to Note 4. Consolidation of Variable Interest Entity for further information on our consolidated VIE.

Management Estimates: The preparation of consolidated financial statements in conformity with US generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company regularly evaluates estimates and assumptions related to the realizability of accounts receivable, inventory valuation, impairment of long-lived assets, and deferred income tax asset valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company’s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

Cash and Cash Equivalents: For purposes of reporting cash flows, the Company considers all cash accounts which are not subject to withdrawal restrictions or penalties, and certificates of deposit with original maturities of 90 days or less to be cash or cash equivalents.

Marketable Securities: Marketable securities consist of equity securities, are classified as available for sale and are expected to be redeemed within one year.

Available for sale securities are stated at fair value, with unrealized gains and losses reported as accumulated other comprehensive income (loss), a separate component of stockholders' equity, until realized. These fair values are primarily determined using quoted market prices. The carrying amount of securities, for the purpose of computing unrealized gains and losses, are determined by specific identification. The cost of securities sold is determined by specific identification.

Customer Concentrations and Accounts Receivable: Accounts receivable arise in the normal course of business in selling products to customers. Concentrations of credit risk with respect to accounts receivable arise because the Company grants unsecured credit in the form of trade accounts receivable to its customers.

Accounts are written off as they are deemed uncollectible based upon a periodic review of the accounts. As of September 30, 2009 and December 31, 2008, management has estimated that accounts receivable are fully collectible, and thus, has established no allowance for doubtful accounts.

Inventory: The Company maintains its inventory on a perpetual basis utilizing the first-in first-out (FIFO) method. Inventories have been valued at the lower of cost or market. As of September 30, 2009 and December 31, 2008, management has not established an obsolescence reserve for inventory, as we believe that all inventory is usable and that market values of all inventories exceed cost.

Property and Equipment: Property and equipment is reported at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred. The cost of property and equipment is depreciated over the following estimated useful lives of the related assets:

Building	39 years
Furniture & Fixtures	7 years
Machinery & Equipment	5 years

Long-Lived Assets: The Company periodically evaluates the carrying value of long-lived assets to be held and used, including but not limited to, capital assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair values are reduced for the cost to dispose. The Company has reviewed long-lived assets and certain intangible assets with estimable useful lives and determined that the carrying value is recoverable in future periods.

Revenue Recognition: The Company recognizes revenue when persuasive evidence of an arrangement exists, transfer of title has occurred, the selling price is fixed or determinable, collection is reasonably assured and delivery has occurred per the contract terms. For certain contracts of MPS, the Company recognizes revenue based on the percentage of completion method. Revenue is deferred when customer billings exceed revenue earned.

Segment Reporting: The Company operates and manages the business under one reporting segment. Currently, neither Animal Wellness nor BioPharm Process Systems has generated significant revenues or acquired significant assets. As such, the Company operates and manages the business under one reporting segment.

Goodwill: Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill is not amortized. We evaluate the carrying value of goodwill annually during the quarter ending December 31, and between such annual evaluations if events occur or circumstances change that would indicate a possible impairment. We use a discounted cash flow model based on management's judgment and assumptions to determine the estimated fair value of the Company. An impairment loss generally would be recognized when the carrying amount of the Company's net assets exceeds the estimated fair value of the reporting unit.

Fair Value of Financial Instruments: The respective carrying value of certain on-balance sheet financial instruments approximates their fair values. These financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, and notes payable. Fair values were assumed to approximate cost or carrying values as most of the debt was incurred recently and the assets were acquired within one year. Management is of the opinion that the Company is not exposed to significant interest, credit or currency risks arising from these financial instruments.

Income Taxes: The Company provides for income taxes using an asset and liability approach. Deferred tax assets and liabilities are recorded based on the differences between the financial statement and tax bases of assets and liabilities and the tax rates in effect when these differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. For all periods presented, the Company has recorded a full valuation allowance against its deferred tax assets.

The Company recognizes a financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Comprehensive Income (Loss): Comprehensive Income (Loss) includes net loss and items defined as other comprehensive income. Items defined as other comprehensive income include unrealized gains (losses) on marketable securities. The Company had $(237,271) of other comprehensive income (loss) for the nine months ended September 30, 2009. There were no other comprehensive income (loss) items for the nine months ended September 30, 2008.

Recent Accounting Developments: In June 2009, the FASB issued guidance to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and require ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This guidance is effective for fiscal years beginning after November 15, 2009. The Company does not expect the adoption of this standard to have any current impact on the Company's financial statements.

Note 3. Going Concern Uncertainty

The accompanying financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes the realization of assets and the satisfaction of liabilities in the normal course of business. Since inception, until the acquisition of Ceres and MPS in February of 2009, the Company had primarily been engaged in product development and pre-operational activities. Minimal revenue has been generated to date and the Company has accumulated losses totaling $11,308,068 from inception through September 30, 2009, and a net working capital deficit of $1,435,171. The uncertainty related to these conditions raises substantial doubt about the Company’s ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Although we recently completed a convertible debt financing with gross proceeds of approximately $2,250,000 in November 2008 and January 2009, we will eventually require significant additional funding in order to achieve our business plan. Over the next 18 months, in order to have the capability of achieving our business plan, we believe that we will require at least $3,000,000 in additional funding to pay down certain payables and accruals and to provide working capital. Should we be unable to obtain additional funding in the next 3 months, we would be required to further cut expenses in our Organics and Sustainables group and temporarily halt operations in our Animal Wellness group until such funding is obtained. We are currently attempting to raise these funds by means of one or more public or private offerings of debt or equity securities or both.

However, at this point, we have not specifically identified the type or sources of this funding. We also are exploring commercial and joint venture financing opportunities.

Note 4. Consolidation of Variable Interest Entity

The Company identifies variable interest entities and determines when we should include the assets, liabilities, non-controlling interests and results of activities of a VIE in its consolidated financial statement.

In general, a VIE is a corporation, partnership, limited liability company, trust, or any other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

The Company determined they are required to consolidate PFI as a VIE. Therefore, as of and for the three and nine months ended September 30, 2009, the consolidated balance sheet, consolidated statements of operations and cash flows, and the related footnotes of the Company have been presented on a consolidated basis to include its variable interest in PFI. More specifically, as of and for the three and nine months ended September 30, 2009, PFI amounts included in the consolidated financial statements of the Company consist of; total assets of $50,886, total liabilities of $21,728 and selling, general and administrative expenses of $4,127 and $78,702, respectively. PFI had no sales during this period. All significant intercompany accounts and transactions have been eliminated in consolidation. No amounts from PFI are included in the consolidated balance sheet as of December 31, 2008 or the consolidated statements of operations and cash flows for the nine months ended September 30, 2008 as PFI is a VIE of Ceres, which was not then acquired by the Company.

Note 5. Product License and Asset Purchase

On August 11, 2009, the Company entered into an exclusive license and distribution agreement to acquire the formulations and worldwide marketing rights to a suite of products that promote joint and bone health in horses, dogs and humans. These formulas and related rights are being acquired from Platte Valley State Bank (Platte Valley), who currently owns all rights pertaining to these products. The products were previously developed, manufactured and distributed by Clark Biotechnology, Inc. (CBI). CBI discontinued operations in 2008 due to the death of its founder.

The agreement calls for minimum royalties totaling $350,000 to be paid as follows:

$30,000	September 11, 2010
$80,000	September 11, 2011
$80,000	September 11, 2012
$80,000	September 11, 2013
$80,000	September 11, 2014

The Company has imputed interest on these installments at a rate of 12%, which is equivalent to the Company's estimated borrowing rate as of the date of the agreement. The discounted value of the licensed asset totals $243,700 and has been included in intangible assets on our consolidated balance sheet and a corresponding liability included in current portion of long-term debt and long-term debt (See Note 12) as of September 30, 2009.

The Company is treating these minimum royalty payments as a purchase of the related formulations and marketing rights as once these minimum royalty payments are made, the Company will have sole title to the formulations and marketing rights.

In addition, the Company is required to pay additional royalties of 4% of net sales of the products that exceed $2,000,000 in each year of the agreement. These royalties will be recorded as incurred.

On August 11, 2009, the Company also purchased certain related equipment from Platte Valley for $50,000. We allocated $29,589 to assets that we intend to sell, which is included in other current assets as of September 30, 2009. The remaining $20,411 is included in property and equipment as of September 30, 2009. On November 9, 2009, the Company sold all of the assets held for sale for $50,000, resulting in a gain of $20,411.

Note 6. Acquisitions

On December 31, 2008, pursuant to a Plan and Agreement of Reorganization between the Company, Pacific Rim Foods, Ltd. (Pacific Rim) and certain shareholders of Pacific Rim, the Company issued 28,000,000 shares of its common stock, valued at $3,500,000, and Five Year Zero Coupon Convertible Promissory Notes in the aggregate amount of $1,500,000 (collectively the "Exchange Securities") in exchange for of all of the issued and outstanding capital stock of Pacific Rim. Pacific Rim is a development stage company with interests in the food and energy sector in China and Australia. These interests include equity, debt, options, insurance and intellectual property. The underlying commodities represented by these interests include corn and oil and gas. The development stage of Pacific Rim reflects its early interests in acquiring and controlling a number of shelf stable food processing facilities in China with the intent of growing and processing a broad range of commodities. Its initial interests have focused on sweet corn and its platform interests include Jilin Jimei Foods Ltd, which is the oldest sweet corn joint venture in China. The interests in Jilin Jimei Foods Ltd include options, debt instruments (inventory loans) and intellectual property (trademark and brands). For reasons noted further below in this footnote, the Company intends to liquidate the assets of Pacific Rim to obtain cash for financing other operations of the Company. We are, however, undecided as to the ultimate disposition of the brand trademark as we believe that it is either salable or licensable. We intend to fully liquidate all other assets by December 31, 2010.

On February 18, 2009, the Company consummated the acquisition and purchase from Thomsen Group, LLC (Thomsen) of all of the assets of Modular Process Constructors, LLC (MPS). Pursuant to the Agreement for Purchase and Sale of Business, in exchange for the MPS assets the Company issued to Thomsen 500,000 shares of restricted Series B Convertible Preferred Stock (Series B Preferred Stock), valued at $150,000. Each share of Series B Preferred Stock is convertible into two shares of the Company's common stock. In addition to the issuance of Series B Preferred Stock, the Company executed an Earn-Out Agreement with Thomsen for the issuance of up to 35% of the Company's issued and outstanding common stock based upon the percentage of MPS net income to total consolidated net income of the Company for the three year period ending December 31, 2011. Under current accounting guidance, contingent consideration arrangements such as these are to be recorded as a liability or equity at its estimated fair value at the time of the acquisition. As of September 30, 2009, the Company has not yet determined if the contingent consideration is probable or reasonably estimable. In the event the Company is not able to determine if the contingent consideration is probable and reasonably estimable by the end of the measurement period (i.e. December 31, 2009), the fair value of the contingent consideration will be recognized in a subsequent reporting period when and if the issuance of additional shares of common stock to the sellers is probable and reasonably estimable. MPS designs and builds process equipment used by the biopharmaceutical industry. MPS's skid based solutions offer componentized fabrication for small and large projects reducing lead time, transport cost, and installation time. MPS provides entire project solutions including documentation, process modules, custom stainless steel fabrication, and electronic controls to the biopharmaceutical markets.

On February 20, 2009, pursuant to a Plan and Agreement of Reorganization between the Company and Ceres Organic Harvest, Inc. (Ceres), the Company completed the acquisition of all of the issued and outstanding capital stock of Ceres in exchange for 8,000,000 shares of the Company's common stock and 8,000,000 shares of Series C Convertible Preferred Stock (Series C Preferred Stock), valued at $2,500,000. Each share of Series C Preferred Stock is convertible into one share of Mach One common stock. Ceres and its subsidiary Organic Grain and Milling, Inc. supply organic grain and grain-based ingredients to the food, feed and dairy industries, including varieties of wheat, flour, oats, corn, flax, barley and other products.

Due to the nature and timing of these transactions, as of March 31, 2009, the Company made a good-faith estimate as to the value of the consideration paid for Pacific Rim, MPS and Ceres and the fair value of acquired assets and assumed liabilities, including identifiable intangibles, and recorded a preliminary purchase price allocation, which was further refined in the quarter ended June 30, 2009. The Company finalized these estimates, with the exception of the MPS Earn-Out agreement, and the purchase price allocation during the quarter ended September 30, 2009, noting only minor adjustments.

As of December 31, 2008, the Company expected to exploit the assets that Pacific Rim holds in China, such as the brand trademark and options to acquire joint ventures. As of June 30, 2009, the Company had reconsidered these options and is focusing its efforts on the Company's mission to develop bio-solutions to provide and promote human and animal wellness. As such, the Company determined the goodwill initially recorded of approximately $3.4 million was impaired and was charged to operating expenses in the Company's consolidated statement of operations.

The following table summarizes the final allocation of the purchase price to the fair values of the assets acquired and liabilities assumed at the date of acquisition, in accordance with the purchase method of accounting, as of September 30, 2009:

	Ceres	MPS	Pacific Rim	Total
Current assets	$1,950,349	$3,015	$1,514,834	$3,468,198
Identifiable intangible assets	2,490,000	100,000	80,000	2,670,000
Goodwill subsequently impaired	-	-	3,438,466	3,438,466
Goodwill	178,048	102,184	-	280,232
Other long-term assets	82,544	-	180,000	262,544
Total assets acquired	4,700,941	205,199	5,213,300	10,119,440
Current liabilities	2,137,207	55,199	213,300	2,405,706
Long-term liabilities	63,734	-	-	63,734
Total liabilities assumed	2,200,941	55,199	213,300	2,469,440
Total purchase consideration	$2,500,000	$150,000	$5,000,000	$7,650,000

Identifiable intangible assets acquired in the acquisition of Ceres is comprised of; a proprietary product license, an exclusive import supplier relationship and a customer list, valued at $980,000, $660,000 and $850,000, respectively and estimated to have useful lives of 15, 5 and 5 years, respectively. The Company amortizes these intangible assets using a method that reflects the pattern in which the assets are expected to be consumed.

Identifiable intangible assets acquired in the acquisition of MPS are comprised of engineering methodology and a customer list that the Company estimates has a useful life of 5 years. The Company amortizes these intangible assets using a method that reflects the pattern in which the assets are expected to be consumed.

Identifiable intangible assets acquired in the acquisition of Pacific Rim are comprised of a brand trademark that the Company estimates has a useful life of 15 years. While the trademark is currently in use, we have not currently determined the ultimate disposition and have recorded no amortization as of September 30, 2009.

The Company has recorded the results of the operations of Pacific Rim, Ceres and MPS in the Company's consolidated statement of operations beginning with the effective date of each respective acquisition.

Note 7. Intangible Assets and Goodwill

Intangible assets at September 30, 2009 and December 31, 2008 consisted of the following:

	September 30, 2009	December 31, 2008
Brand trademark	$80,000	$80,000
Proprietary product license	980,000	-
Supplier relationship	660,000	-
Customer list	850,000	-
Engineering methodology and customer list	100,000	-
Licensed assets (See Note 5)	243,700	-
	2,913,700	80,000
Less: accumulated amortization	(141,640)	-
	$2,772,060	$80,000

Amortization of $60,702 and $141,640 was recorded for the three and nine months ended September 30, 2009, respectively.

We periodically reassess the carrying value, useful lives and classification of identifiable intangible assets. Estimated aggregate amortization expense based on current intangibles for the next five years is expected to be as follows: $60,700 for the remainder of 2009, $390,100 in 2010 and $510,300 in 2011, $560,900 in 2012 and 690,500 in 2013.

Note 8. Inventories

Inventory at September 30, 2009 and December 31, 2008 consisted of the following:

	September 30, 2009	December 31, 2008
Raw materials	$22,747	$-
Finished goods	1,350,145	520,000
	$1,372,892	$520,020

Note 9. Composition of Certain Financial Statement Captions

Other current assets at September 30, 2009 and December 31, 2008 consisted of the following:

	September 30, 2009	December 31, 2008
Loans receivable	$-	$4,000
Assets held for sale (See Note 5)	29,589	-
Prepaid expenses and other	54,901	39,395
	$84,490	43,395

Note 10. Property and Equipment

Property and equipment at September 30, 2009 and December 31, 2008 consisted of the following:

	September 30 2009	December 31, 2008
Machinery & equipment	$1,016,600	$821,879
Building	94,355	-
Leasehold improvements	99,507	21,790
Computer equipment	53,706	10,322
Furniture & fixtures	10,517	5,287
Vehicles	3,606	-
Land	1,536	-
Livestock	48,871	55,240
Less: accumulated depreciation	1,328,698	914,518
	(48,511)	(43,488)
	$1,080,187	$771,030

Depreciation expense related to property and equipment was $45,187 and $105,023 for the three and nine months ended September 30, 2009, respectively and $14,263 and $55,750 for the three and nine months ended September 30, 2008, respectively.

Note 11. Short-term Notes Payable and Other Debt

Short-term notes payable and other debt at September 30, 2009 and December 31, 2008 consisted of the following:

	September 30, 2009	December 31, 2008
Short-term convertible notes payable	$267,500	$715,000
Transfac Financing Agreement	130,630	-
Note payable at 10%, due 12/31/2009	100,000	100,000
Short-term loans and lines of credit	21,088	-
	$519,218	$815,000

Short-term Convertible Notes Payable

The Company entered into two rounds of financing through Commonwealth Capital during the quarters ended December 31, 2008 and March 31, 2009.

The first round (Commonwealth One) was closed in the quarter ended December 31, 2008. Proceeds from the notes were $550,000. Interest at 12.0% is due with the principal on various dates in June 2009. The notes are unsecured and are convertible into shares of the Company's common stock at $0.045 per share at any time during the term of the notes.

The second round (Commonwealth Two) was closed partially in December 2008, and the remainder in the quarter ended March 31, 2009. Proceeds from the notes were $95,000 and $1,602,984 during the quarters ended December 31, 2008 and March 31, 2009, respectively. Interest at 12.0% is due with the principal on various dates in June 2009. The notes are unsecured and are convertible into shares of the Company's common stock at $0.075 per share at any time during the term of the notes.

During the three months ended September 30, 2009, $350,000 of the Commonwealth One and $1,575,484 of the Commonwealth Two notes were converted into 7,777,778 and 21,006,453 shares of the Company's common stock, respectively. During the three months ended June 30, 2009, $100,000 of the Commonwealth One and $60,000 of the Commonwealth Two notes were converted into 2,222,222 and 800,000 shares of the Company's common stock, respectively. Subsequent to September 30, 2009, and as of the date of this report, all notes have either been converted or verbally extended until further notice by the note holders.

The Company also entered into loan agreements with an unrelated individual (Plant Notes). Proceeds from the agreements were $70,000 and $35,000 during the quarters ended December 31, 2008 and March 31, 2009, respectively. Interest at 5.0% is due with the principal on demand. The notes are unsecured and are convertible into shares of the Company's common stock at $0.50 per share at any time during the term of the notes.