MACH ONE CORP
Form 10-Q
May 24, 2010

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 March 31, 2010

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

For the transition period from _______________ to _______________

Commission file number: 333-146744

MACH ONE CORPORATION
(Exact name of small business issuer as specified in its charter)

Nevada	88-0338837
(State or other jurisdiction of Incorporation or organization)	(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 ¨
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 April 17, 2010, 375,919,689 shares of common stock were outstanding.

MACH ONE CORPORATION

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MACH ONE CORPORATION
CONSOLIDATED BALANCE SHEETS (unaudited)

	March 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash	$ 25,432	$ 61,979
Accounts receivable, net	73,845	156,682
Accounts receivable pledged as collateral	105,155	95,309
Marketable securities	-	4,223
Inventory	38,686	140,828
Current assets of discontinued operation	86,806	428,172
Other current assets	475,096	480,956
Total Current Assets	805,020	1,368,149
Property and equipment, net	508,074	555,196
Goodwill	280,232	280,232
Intangible assets, net	1,013,533	1,034,533
Other assets	25,000	25,000
TOTAL ASSETS	$ 2,631,859	$ 3,263,110
CURRENT LIABILITIES		
Accounts payable	$ 820,959	$ 991,540
Accrued compensation	611,981	487,508
Accrued interest	72,215	58,623
Current liabilities of discontinued operation	338,466	615,501
Short-term notes payable and other debt	1,122,618	969,438
Deferred revenue	23,725	23,725
Current portion of long-term debt obligations	156,912	33,183
Total Current Liabilities	3,146,876	3,179,518
Long-term debt, net of current portion	3,422,180	3,504,130
STOCKHOLDERS' DEFICIT		
Preferred stock, $.05 par value, 10,500,000 shares authorized, 740,000 and 2,500,000 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively, liquidation preference of $620,000 and $1,500,000 at March 31, 2010 and December 31, 2009, respectively	37,000	125,000
Common stock, $.001 par value, 500,000,000 shares authorized, 188,556,279 and 181,346,946 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	188,555	181,346
Treasury stock	(297,175)	(327,175)
Additional paid-in capital	11,682,456	11,248,980
Accumulated deficit	(15,548,033)	(14,636,624)

Accumulated other comprehensive loss		-		(12,065)
Total Stockholders' Deficit		(3,937,197)		(3,420,538)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	2,631,859	$	3,263,110

The accompaying notes are an integral part of these consolidated financial statements
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MACH ONE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three months ended March 31, 2010		2009	
Sales, net	$	371,566	$	327,513
Cost of goods sold		353,735		297,387
Gross profit		17,831		30,126
Operating expenses		757,994		719,543
Loss from continuing operations		(740,163)		(689,417)
Other expense:				
Realized loss on sale of marketable securities		(12,844)		-
Interest expense		(104,323)		(281,856)
Total other expense		(117,167)		(281,856)
Loss fom continuing operations before provision for income taxes		(857,330)		(971,273)
Income tax provision		-		-
Net loss from continuing operations		(857,330)		(971,273)
Less: Net loss attributable to non-controlling interest in variable interest entity		-		46,888
Net loss from continuing operations attributable to Mach One Corporation		(857,330)		(924,385)
Loss from discontinued operations, net of income tax benefit of $0 and $0, respectively		(54,079)		(30,146)
Net loss attributable to Mach One Corporation	$	(911,409)	$	(954,531)
Net loss from continuing operations attributable to Mach One Corporation per common share (basic and diluted)	$	-	$	(0.01)
Net loss from discontinued operations per common share (basic and diluted)	$	-	$	-
Net loss from attributable to Mach One Corporation per common share (basic and diluted)	$	-	$	(0.01)
Weighted average shares outstanding:				
Basic and diluted		183,057,564		115,094,054

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

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MACH ONE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three months ended March 31, 2010		Three months ended March 31, 2009	
Cash flows from operating activities:				
Net loss from continuing operations	$	(857,330)	$	(924,385)
Adjustments to reconcile net loss to net cash used in operating activities:				
Net loss attributable to non-controlling interest in variable interest entity		-		(46,888)
Depreciation and amortization		54,005		27,915
Amortization of deferred financing costs		6,090		170,500
Amortization of debt discount, relating to a beneficial conversion feature		17,708		-
Amortization of prepaid management fees		26,250		7,500
Accretion of interest on long-term debt		46,454		-
Loss on sale of marketable securities		12,844		-
Loss on disposal of equipment		14,118		-
Common stock issued for services		100,090		-
(Increase) decrease in operating assets:				
Accounts receivable		72,991		(253,519)
Inventory		102,142		(350,245)
Other current assets		29,520		(571,038)
Increase in operating liabilities:				
Accounts payable and accrued expenses		147,358		348,949
Deferred revenue		-		60,725
Total adjustments	$	629,570	$	(606,101)
Net cash used in operating activities	$	(227,760)	$	(1,530,486)
Cash flows from investing activities:				
Proceeds from the sale of marketable securities		3,444		-
Purchases of marketable securities		-		(2,437)
Acquisitions, net of cash acquired		-		26,294
Purchase of property and equipment, net		-		(179,962)
Net cash provided by (used in) investing activities	$	3,444	$	(156,105)
Cash flows from financing activities:				
Proceeds from short term notes payable		108,156		1,883,523
Payments on short term notes payable		(52,558)		-
Proceeds from long-term debt		-		5,198
Payments on long-term debt		(4,675)		(2,185)
Proceeds from the sale of common stock		116,500		
Proceeds from the sale of treasury stock		10,095		-
Purchase of treasury stock		-		(302,123)
Net cash provided by financing activities	$	177,518	$	1,584,413

Cash flows from discontinued operations:				
Net cash used in operating activities		(20,749)		(3,368)
Net cash provided by investing activities		31,000		3,687
Net cash provided by financing activities		-		-
Net cash provided by discontinued operations	$	10,251	$	319
Net decrease in cash	$	(36,547)	$	(101,859)
Cash, beginning of period		61,979		635,334
Cash, end of period	$	25,432	$	533,475
Supplemental cash and non-cash flow information				
Unrealized gain (loss) on marketable securities	$	(12,065)	$	101,534
Cash paid for interest	$	9,308	$	630
Loss on sale of treasury stock	$	(19,905)	$	-
Common stock issued for prepaid marketing fees	$	56,000	$	-
Conversion of preferred stock into common stock	$	88,000	$	-
Beneficial conversion feature related to short-term debt	$	(100,000)	$	-
Accounts payable converted to note payable	$	179,874	$	-

The accompaying 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, 2009 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, 2009.

Nature of Operations: 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 addresses the growing needs of food manufacturers in the organic foods market who 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.

Note 2. Summary of Significant Accounting Policies

Variable Interest Entity: During the quarter ended March 31, 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.

Inventory: Inventory consists of finished goods only as of March 31, 2010 and December 31, 2009. 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 March 31, 2010 and December 31, 2009, 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 and Amortizable Intangible Assets: The Company periodically evaluates the carrying value of long-lived and amortizable intangible assets to be held and used, including but not limited to, property and equipment and intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived or amortizable intangible 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 and amortizable intangible 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 and amortizable intangible assets with estimable useful lives and determined that the remaining net carrying value, after impairing certain assets in 2010, 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 $12,065 and $(101,534) of other comprehensive income (loss) for the quarters ended March 31, 2010 and 2009, respectively.

Reclassifications: Certain reclassifications have been made to the 2009 financial statement presentation to correspond to the current year's format. Total 2009 equity and net loss are unchanged due to these reclassifications.

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's adoption of this guidance as of January 1, 2010 did not have any impact on the Company's financial statements.

In January 2010, the FASB issued ASU 2010-06, "Improving Disclosures about Fair Value Measurements." This update requires additional disclosure within the roll forward of activity for assets and liabilities measured at fair value on a recurring basis, including transfers of assets and liabilities within Level 3 of the fair value hierarchy. In addition, the update requires enhanced disclosures of the valuation techniques and inputs used in the fair value measurements within Levels 2 and 3. The new disclosure requirements are effective for interim and annual periods beginning after December 15, 2009, except for the disclosure of purchases, sales issuances and settlements of Level 3 measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010. As ASU 2010-6 only requires enhanced disclosures, the Company does not expect that the adoption of this update will have a material effect on its 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 2009, the Company had primarily been engaged in product development and pre-operational activities. The Company has accumulated losses totaling $15,548,033 from inception through March 31, 2010, and a net working capital deficit of $2,341,856 as of March 31, 2010. 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.

Over the next 18 months, in order to have the capability of achieving our business plan, we believe that we will require at least $5,000,000 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.

In 2009, the Company determined they were required to consolidate PFI as a VIE in our consolidated statement of operations due to us determining we were the primary beneficiary of PFI. Therefore, for the quarter ended March 31, 2009, the consolidated statements of operations have been presented on a consolidated basis to include the variable interest in PFI. More specifically, for the quarter ended March 31, 2009, PFI amounts included in the consolidated statement of operations of the Company consist of; selling, general and administrative expenses of $46,888. 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, 2009 as PFI had reimbursed all advances from Ceres as of December 31, 2009 and PFI was no longer considered a VIE. No amounts from PFI are included in the consolidated balance sheet as of March 31, 2010 or the consolidated statements of operations and cash flows for the quarter ended March 31, 2010 as PFI was no loner considered a VIE of the Company.

Note 5. Discontinued Operations

On March 31, 2010, Ceres adopted a plan to close the business of its wholly-owned subsidiary, Organic Grain and Milling, Inc. (OGM). As of March 31, 2010, substantially all operational activities of OGM were discontinued. As a result, effective in its first quarter of fiscal 2010, the Company classified OGM as discontinued operations separate from the continuing operations of the Company for all the periods presented in the financial statements.

The following table summarizes results of OGM classified as discontinued operations in the Company’s condensed, consolidated statements of operations for the quarters ended March 31, 2010 and 2009:

	March 31, 2010	March 31, 2009
Sales, net	$ 127,224	$ 483,935
Cost of goods sold	121,271	422,225
Gross profit	5,953	61,710
Operating expenses	56,059	91,856
Loss from discontinued operations	(50,106)	(30,146)
Other expense	(3,973)	-
Loss from discontinued operations before taxes	(54,079)	(30,146)
	-	-

Income tax expense (benefit) from discontinued operations				
Loss from discontinued operations	$	(54,079)	$	(30,146)

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The following table summarizes the major classes of assets and liabilities in OGM's balance sheet as of March 31, 2010 and December 31, 2009:

		March 31, 2010		December 31, 2009
Cash	$	388	$	17,923
Accounts receivable		10,950		133,803
Inventory		17,115		182,230
Property and equipment, net (planned to be sold within 12 months)		58,353		94,216
Current assets of discontinued operations	$	86,806	$	428,172
Accounts payable	$	276,251	$	518,583
Accrued liabilities		62,215		2,100
Short-term note payable		-		94,818
Current liabilities of discontinued operations	$	338,466	$	615,501

Note 6. 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 (refer to Note 11. Long-term debt) as of March 31, 2010.

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. There were no sales of this product during the period from August 11, 2009 to March 31, 2010.

Note 7. Intangible Assets

Intangible assets, net at March 31, 2010 and December 31, 2009 consisted of the following:

	March 31, 2010	December 31, 2009
Proprietary product license	$ 680,000	$ 680,000
Supplier relationship	80,000	80,000
Engineering methodology and customer list	100,000	100,000
Licensed assets (See Note 6)	243,700	243,700
	1,103,700	