AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

	March 31, 2010 (unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 28,620,027	$ 37,580,154
Accounts receivable, net of allowance for doubtful accounts of $498,612 and $415,765	22,999,966	14,397,793
Advances to suppliers	813,242	1,173,941
Other receivables	4,658,159	2,186,643
Inventory	25,649,502	23,835,412
Prepaid expenses	974,950	1,325,150
Debt issue costs	27,287	34,706
Total current assets	83,743,133	80,533,799
PROPERTY AND EQUIPMENT, net	27,508,016	26,991,851
CONSTRUCTION-IN-PROCESS	10,570,727	7,615,132
INTANGIBLE ASSETS, net	43,910,857	43,808,499
OTHER ASSETS	4,072,546	3,998,739
TOTAL ASSETS	$ 169,805,279	$ 162,948,020
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term loan	$ 4,401,000	$ 4,401,000
Accounts payable	10,070,537	6,162,385
Other payables	4,039,693	1,892,858
Unearned revenue	415,373	582,266
Accrued expenses	73,207	83,649
Accrued payroll	649,280	975,485
Tax and welfare payable	610,336	396,370
Interest payable	137,919	120,419
Total current liabilities	20,397,345	14,614,432
CONVERTIBLE NOTES, net of debt discount of $64,215 and $81,675	935,785	918,325
TOTAL LIABILITIES	21,333,130	15,532,757
COMMITMENTS AND CONTINGENCIES (Note 10)	-	-
EQUITY:		
AgFeed stockholders' equity:		
Common stock, $0.001 per share; 75,000,000 shares authorized; 45,270,558 issued and 44,903,263 outstanding at March 31, 2010 44,510,558 issued and 44,143,263 outstanding at December 31, 2009	45,271	44,511
Additional paid-in capital	112,828,305	109,281,086
Deferred compensation	(3,462,280)	-

Statutory reserve	4,984,833	4,685,115
Treasury stock (367,295 shares)	(1,811,746)	(1,811,746)
Retained earnings	31,978,263	31,210,563
Total AgFeed stockholders' equity	148,739,860	147,585,979
Noncontrolling interest (deficit)	(267,711)	(170,716)
Total equity	148,472,149	147,415,263
TOTAL LIABILITIES AND EQUITY	$ 169,805,279	$ 162,948,020

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

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

	Three Months Ended March 31, 2010 (unaudited)	Three Months Ended March 31, 2009 (unaudited)
Revenues	$ 52,859,067	$ 33,429,274
Cost of goods sold	46,539,785	27,625,869
Gross profit	6,319,282	5,803,405
Operating expenses		
Selling expenses	1,030,623	863,867
General and administrative expenses	3,664,385	1,757,172
Total operating expenses	4,695,008	2,621,039
Income from operations	1,624,274	3,182,366
Non-operating income (expense):		
Other expense	(96,373)	192,681
Interest income	48,011	60,562
Interest and financing costs	(124,911)	(152,914)
Foreign currency transaction gain (loss)	13,803	(1,831)
Total non-operating income (expense)	(159,470)	98,498
Income before provision for income taxes	1,464,804	3,280,864
Provision for income taxes	453,580	215,550
Net income including noncontrolling interest	1,011,224	3,065,314
Less: Net income (loss) attributed to noncontrolling interest	(56,194)	46,474
Net income attributed to AgFeed	1,067,418	3,018,840
Other comprehensive income		
Foreign currency translation gain (loss)	764	(153,854)
Comprehensive Income	$ 1,068,182	$ 2,864,986
Weighted average shares outstanding :		
Basic	44,869,485	37,933,141
Diluted	45,213,024	37,933,141
Earnings per share attributed to AgFeed common stockholders:		
Basic	$ 0.02	$ 0.08
Diluted	$ 0.02	$ 0.08

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

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2010 (unaudited)	2009 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income including noncontrolling interest	$ 1,011,224	$ 3,065,314
Adjustments to reconcile net income including noncontrolling interest to net cash used in operating activities:		
Depreciation	811,899	610,706
Amortization	23,191	12,779
Stock based compensation	75,281	138,531
Issuance of common stock for services	375,720	-
Amortization of debt issuance costs	7,419	28,193
Amortization of discount on convertible debt	17,460	66,349
(Increase) / decrease in assets:		
Accounts receivable	(8,599,242)	(2,523,056)
Other receivables	(2,466,242)	(623,691)
Inventory	(1,813,472)	985
Advances to suppliers	360,605	30,505
Prepaid expenses	350,014	301,104
Other assets	(73,782)	208,976
Increase / (decrease) in current liabilities:		
Accounts payable	3,906,822	1,202,475
Other payables	2,142,963	(3,866,938)
Unearned revenue	(166,837)	(204,837)
Accrued expenses	(12,304)	(306)
Accrued payroll	(326,087)	(173,358)
Tax and welfare payable	213,894	(229,655)
Interest payable	17,500	(74,628)
Net cash used in operating activities	(4,143,974)	(2,030,552)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,282,474)	(2,211,649)
Purchase of intangible assets	(125,514)	(35,294)
Net cash used in investing activities	(4,407,988)	(2,246,943)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Offering costs paid	-	(276,885)
Capital contributed by noncontrolling interest holders	-	118,664
Purchase of noncontrolling interest in majority owed hog farms	(406,103)	-
Net cash used in financing activities	(406,103)	(158,221)
Effect of exchange rate changes on cash and cash equivalents	(2,062)	(20,991)
NET DECREASE IN CASH & CASH EQUIVALENTS	(8,960,127)	(4,456,707)
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	37,580,154	24,839,378
CASH & CASH EQUIVALENTS, ENDING BALANCE	$ 28,620,027	$ 20,382,671
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		

Income taxes paid	$ 210,860	$ 176,640

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

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(unaudited)

Note 1 - Organization and Basis of Presentation

The unaudited consolidated financial statements were prepared by AgFeed Industries, Inc. pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America were omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The results for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the full year ending December 31, 2010.

Organization and Lines of Business

AgFeed Industries, Inc. formerly known as Wallace Mountain Resources Corp., (hereinafter referred to as the "Company" or "AgFeed") was incorporated in the State of Nevada on March 30, 2005.

The Company is engaged in the research and development, manufacturing, marketing, distribution and sale of pre-mix fodder blended feed and feed additives primarily for use in China's domestic pork husbandry market. The Company operates production plants in Nanchang, Shanghai, Nanning, Shandong, and Hainan provinces. The Company sells to distributors and large-scale swine farms. The Company is also engaged in the business of raising, breeding and selling hogs for use in China's pork production and hog breeding markets through two breeder farms and 29 meat hog producing farms located in Jiangxi, Shanghai, Hainan, Guangxi, and Fujian provinces.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of AgFeed Industries, Inc. and its wholly-owned and majority-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). The Company's functional currency is the Chinese Yuan Renminbi ("RMB"); however the accompanying consolidated financial statements have been translated and presented in United States Dollars ("USD").

Noncontrolling Interest

In 2008, the Company purchased interests in 29 producing hog farms and one feed company ranging from 55% to 100% (The Company subsequently purchased the noncontrolling interest in certain of these hog farms).

Certain amounts presented for prior periods previously designated as minority interest have been reclassified to conform to the current year presentation. Effective January 1, 2009, the Company adopted Financial Accounting Standards ("FASB") Accounting Standards Codification ("ASC") Topic 810, "Consolidation," which established new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability (as was previously the case), that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions rather than as step acquisitions or dilution gains or losses, and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also required changes to certain presentation and disclosure requirements. The provisions of the standard were applied to all NCIs prospectively, except for the presentation and disclosure requirements, which were applied retrospectively to all periods presented.

The net income (loss) attributed to the NCI has been separately designated in the accompanying statements of income and other comprehensive income. Losses attributable to the NCI in a subsidiary may exceed the NCI's interests in the subsidiary's equity. The excess attributable to the NCI is attributed to those interests. The NCI shall continue to be attributed its share of losses even if that attribution results in a deficit NCI balance.

Foreign Currency Translation

The accounts of the Company's Chinese subsidiaries are maintained in RMB and the accounts of the U.S. parent company are maintained in USD. The accounts of the Chinese subsidiaries were translated into USD in accordance with Accounting Standards Codification ("ASC") Topic 830 "Foreign Currency Matters," with the RMB as the functional currency for the Chinese subsidiaries. According to Topic 830, all assets and liabilities were translated at the exchange rate on the balance sheet date, stockholders' equity is translated at historical rates and statement of income items are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with ASC Topic 220, "Comprehensive Income." Gains and losses resulting from the translations of foreign currency transactions and balances are reflected in the statements of income.

Note 2 – Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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.

Reclassification

Certain prior period amounts were reclassified to conform to the current presentation.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves.

Advances to Suppliers

The Company makes advances to certain vendors for purchases of material. The advances to suppliers are interest free and unsecured.

Inventory

Inventory is stated at the lower of cost, as determined by weighted-average method, or market. Management compares the cost of inventories with the market value, and allowance is made for writing down the inventories to their market value, if lower. Costs of raised animals include proportionate costs of breeding, including depreciation of the breeding herd, plus the costs of maintenance through the balance sheet date. Purchased pigs are carried at purchase cost plus costs of maintenance through the balance sheet date.

Inventory consisted of the following at March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009 (audited)
Raw material	$ 8,001,734	$ 7,638,999
Work in Process	109,948	84,494
Finished Goods - feed	637,050	460,349
Finished Goods - hogs	17,015,106	15,703,127
	25,763,838	23,886,969
Less: reserve for obsolescence	(114,336)	(51,557)
	$ 25,649,502	$ 23,835,412

Property & Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are expensed as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives as follows:

Office equipment	5 years
Operating equipment	10 years
Vehicles	5 years
Swine for reproduction	3.5 years
Buildings	20 years

The following are the details of property and equipment at March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009 (audited)
Office equipment	$ 536,668	$ 525,991
Operating equipment	5,411,516	4,655,298
Vehicles	903,696	871,058
Swines for reproduction	12,548,736	13,432,353
Buildings	12,625,226	11,659,693
Total	32,025,842	31,144,393
Less accumulated depreciation	(4,517,826)	(4,152,542)
	$ 27,508,016	$ 26,991,851

Construction-in-Process

Construction-in-process consists of amounts expended for building construction. Once building construction is completed, the cost accumulated in construction-in-process is transferred to property and equipment.

Long-Lived Assets

The Company applies the provisions of ASC Topic 360, "Property, Plant, and Equipment," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. ASC 360 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair values are reduced for the cost of disposal. Based on its review, the Company believes that as of March 31, 2010 and December 31, 2009, there was no significant impairment of its long-lived assets.

Intangible Assets

The following are the details of intangible assets at March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009 (audited)
Right to use land	$ 913,484	$ 825,007
Customer list	293,400	293,400
Computer software	192,428	159,894
Intangible related to hog farm acquisitions	42,744,247	42,744,247
Total	44,143,559	44,022,548
Less Accumulated amortization	(232,702)	(214,049)
Intangibles, net	$ 43,910,857	$ 43,808,499

Per the People's Republic of China's ("PRC") governmental regulations, the PRC Government owns all land. The Company leases land per real estate contracts with the government of the PRC for periods ranging from 30 years to 50 years. Accordingly, the right to use land for these feed companies is amortized over 50 years or the lease term, if shorter, and the computer software is amortized over three to nine years. For hog farms, the Company generally signed land leases with original owners of the farms.

Revenue Recognition

The Company's revenue recognition policies are in compliance with SEC Staff Accounting Bulletin (SAB) 104. Revenue is recognized when services are rendered to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue. The Company is not subject to VAT withholdings. The Company gives volume rebates to certain customers based on volume achieved. The Company accrues sales rebates based on actual sales volume.

Advertising Costs

The Company expenses the cost of advertising as incurred or, as appropriate, the first time the advertising takes place. Advertising costs for the three months ended March 31, 2010 and 2009 were not significant.

Research and Development

The Company expenses its research and development costs as incurred. Research and development costs for the three months ended March 31, 2010 and 2009 were not significant.

Stock-Based Compensation

The Company records stock-based compensation in accordance with ASC Topic 718, "Compensation – Stock Compensation." ASC 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee's requisite service period. The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees. There were 210,000 options outstanding as of March 31, 2010.

Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, "Income Taxes." ASC 740 requires a company to use the asset and liability method of accounting for income taxes, whereby deferred tax assets are recognized for deductible temporary differences, 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 bases. 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.

Under ASC 740, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no effect on the Company's consolidated financial statements.

Foreign Currency Transactions and Comprehensive Income

US GAAP requires that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The functional currency of the Company's Chinese subsidiaries is the RMB. The unit of Renminbi is in Yuan. Translation gains are classified as an item of other comprehensive income in the stockholders' equity section of the consolidated balance sheet.

Basic and Diluted Earnings Per Share

Earnings per share is calculated in accordance with the ASC Topic 260, "Earnings Per Share." Basic earnings per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share is based on the assumption that all dilutive convertible shares and stock warrants were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

The following is a reconciliation of the number of shares (denominator) used in the basic and diluted earnings per share computations for the three months ended March 31, 2010 and 2009:

	2010			2009		
	Shares		Per Share Amount	Shares		Per Share Amount
Basic earnings per share	44,869,485	$	0.02	37,933,141	$	0.08
Effect of dilutive stock options and warrants	343,539		-	-		-
Diluted earnings per share	45,213,024	$	0.02	37,933,141	$	0.08

Statement of Cash Flows

In accordance ASC Topic 230, "Statement of Cash Flows," cash flows from the Company's operations are calculated based upon the local currencies using the average translation rates. As a result, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

Segment Reporting

ASC Topic 280, "Segment Report," requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. The Company determined it has two reportable segments (See Note 9). The Company had previously reported its feed operations as three separate segments since the three operations were located in different Provinces. The Company determined its feed operations should be reported as one segment.

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities and short-term debt, the carrying amounts approximate their fair values due to their short maturities. In addition, the Company has long-term debt with financial institutions. The carrying amounts of the line of credit and other long-term liabilities approximate their fair values based on current rates of interest for instruments with similar characteristics.

ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values 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 three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices 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 the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, "Distinguishing Liabilities from Equity," and ASC 815.

As of March 31, 2010, the Company did not identify any assets and liabilities that are required to be presented on the balance sheet at fair value.

Recent Accounting Pronouncements

On July 1, 2009, the Company adopted Accounting Standards Update ("ASU") No. 2009-01, "Topic 105 - Generally Accepted Accounting Principles - amendments based on Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles" ("ASU No. 2009-01"). ASU No. 2009-01 re-defines authoritative GAAP for nongovernmental entities to be only comprised of the FASB Accounting Standards Codification™ ("Codification") and, for SEC registrants, guidance issued by the SEC. The Codification is a reorganization and compilation of all then-existing authoritative GAAP for nongovernmental entities, except for guidance issued by the SEC. The Codification is amended to effect non-SEC changes to authoritative GAAP. Adoption of ASU No. 2009-01 only changed the referencing convention of GAAP in Notes to the Consolidated Financial Statements.

On February 25, 2010, the FASB issued ASU 2010-09 Subsequent Events Topic 855 "Amendments to Certain Recognition and Disclosure Requirements," effective immediately. The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated 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 US GAAP. The FASB believes these amendments remove potential conflicts with the SEC's literature. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

On March 5, 2010, the FASB issued ASU No. 2010-11 Derivatives and Hedging Topic 815 "Scope Exception Related to Embedded Credit Derivatives." This ASU clarifies the guidance within the derivative literature that exempts certain credit related features from analysis as potential embedded derivatives requiring separate accounting. The ASU specifies that an embedded credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to bifurcation from a host contract under ASC 815-15-25, Derivatives and Hedging — Embedded Derivatives — Recognition. All other embedded credit derivative features should be analyzed to determine whether their economic characteristics and risks are "clearly and closely related" to the economic characteristics and risks of the host contract and whether bifurcation is required. The ASU is effective for the Company on July 1, 2010. Early adoption is permitted. The adoption of this ASU will not have a material impact on the Company's consolidated financial statements.

Note 3 – Convertible Notes and Warrants

On February 25, 2008, the Company entered into a Securities Purchase Agreement with Apollo Asia Opportunity Master Fund, L.P., Jabcap Multi-Strategy Master Fund Limited, J-Invest Ltd., and Deutsche Bank AG London Branch (collectively the "Investors") in connection with a private placement transaction providing for, among other things, the issuance of senior convertible notes (the "Notes") for aggregate gross proceeds of $19 million and warrants (the "Warrants") to purchase up to an aggregate of 380,000 shares of the Company's common stock $0.001 par value per share. The Notes mature on February 25, 2011, bear interest at 7% per annum and are convertible into shares of the Company's common stock at an initial conversion price of $10.00 per share. The conversion price is subject to a "weighted average ratchet" anti-dilution adjustment. The conversion price is also subject to adjustment on a proportional basis, to the extent that the Company's audited net income for the fiscal years ending 2008 and 2009 is less than $30 million and $40 million, respectively; subject to a per share floor price of $5.00. Due to the Company not generating $30 million net income for the year ended December 31, 2008, the conversion price on the Notes was reduced to $5.00. Due to the re-pricing of the conversion price, the Company recorded financing cost of $267,748 during the year ended December 31, 2008 which represented the difference between the fair value of the conversion feature at a $5.00 conversion price and the original $10.00 conversion price. The fair value was determined by using the Black-Scholes pricing model with the following assumptions: expected life of 2.2 years, a risk free interest rate of 2.0%, a dividend yield of 0% and volatility of 102%.

The Notes impose penalties on the Company for any failure to timely deliver any shares of its common stock issuable upon conversion.

In connection with the issuance of the Notes and the Warrants issued to the Investors on February 25, 2008, the Company paid $1,716,666 in debt issuance cost which is amortized over the life of the Notes. For the three months ended March 31, 2010 and 2009, the Company amortized $7,419 and $28,193, respectively, of the aforesaid issuance costs as interest and financing costs in the accompanying consolidated statements of operations.

The Notes contain certain limitations on conversion. For example, they provide no conversion may be made if, after giving effect to the conversion, an Investor would own in excess of 9.99% of the Company's outstanding shares of common stock. In addition, the Notes provide no conversion may be made if the conversion would cause the Company to breach of its obligations under the rules and regulations of the Nasdaq Global Market, unless the Company obtains stockholder approval for such issuances as required by such rules and regulations.

The Warrants are immediately exercisable, expire on February 25, 2011 and entitle their holders, in the aggregate, to purchase up to $3,800,000 of shares of common stock at an initial exercise price of $10.00 per share.

The exercise price of the Warrants is subject to a "weighted average ratchet" anti-dilution adjustment. The exercise price is also subject to adjustment, on a proportional basis, to the extent that the Company's audited net income for the fiscal years ending 2008 and 2009 is less than $30 million and $40 million, respectively; subject to a per share floor price of $5.00. Due to the Company not generating $30 million net income for the year ended December 31, 2008, the exercise price on the Warrants was reduced to $5.00. Due to the re-pricing of the exercise price, the Company recorded financing cost of $22,782 in 2008 which represented the difference between the fair value of the $5.00 exercise price and the original $10.00 exercise price. The fair value was determined by using the Black-Scholes pricing model with the following assumptions: expected life of 2.2 years, a risk free interest rate of 2.0%, a dividend yield of 0% and volatility of 102%.

The Warrants contain certain limitations on exercise. For example, they provide that no exercise may be made if, after giving effect to the exercise, an Investor would own in excess of 9.99% of the Company's outstanding shares of common stock. In addition, the Warrants provide that no exercise may be made if it would cause the Company to be in breach of its obligations under the rules and regulations of the Nasdaq Global Market, unless the Company obtains stockholder approval for such issuances as required by such rules and regulations.

The Warrants granted to the Investor on February 25, 2008 and conversion feature in the above Notes are not considered derivative instruments that need to be bifurcated from the original security since the Warrants and the conversion price of the Notes have a floor of $5.00, which means the Company can determine the maximum shares that could be issued upon conversion. The Company determined the fair value of the detachable warrants issued in connection with the Notes to be $1,269,442, using the Black-Scholes option pricing model and the following assumptions: expected life of 1 year, a risk free interest rate of 2.10%, a dividend yield of 0% and volatility of 70%. In addition, the Company determined the value of the beneficial conversion feature to be $2,770,442. The combined total discount for the Notes is $4,039,885 and is being amortized over the term of the Notes. For the three months ended March 31, 2010 and 2009, the Company amortized $17,460 and $66,348, respectively, of the aforesaid discounts as interest and financing costs in the accompanying consolidated statements of operations.

During the years ended December 31, 2009 and 2008, $2,800,000 and $15,200,000, respectively, of the Notes were converted into 560,000 and 1,520,000, respectively, shares of common stock.

Note 4 – Short-Term Loans

Short term loans at March 31, 2010 and December 31, 2009 are follows:

	March 31, 2010	December 31, 2009 (audited)
Short term bank loan payable to Shanghai Pudong Development Bank. The loan accrues interest at 5.84% and is due May 24, 2010. The loan is collateralized by buildings and land use rights.	$ 4,401,000	$ 4,401,000

Note 5 – Stockholders' Equity

Common Stock

On January 4, 2010, the Company approved grants of 760,000 shares of restricted stock to certain officers, directors and key employees. The restricted stock awards have vesting schedules ranging from 1 to 3 years. The value of the awards granted was $3,838,000 which was calculated using the fair market value of the Company's stock price at the date of grant. This amount is being expensed over the vesting period as the restrictions lapse. The expense recognized during the three months ended March 31, 2010 was $375,720. The amount that has not been expensed is shown as deferred compensation as a contra-equity account in the accompanying consolidated balance sheet.

Equity Credit Agreement

On September 9, 2009, the Company entered into an Equity Credit Agreement with Southridge Partners II, LP ("Southridge"), which was amended and restated as of November 9, 2009, providing for, among other things, the issuance of shares of its common stock at any time and from time to time during the next two years for gross proceeds of up to $50,000,000. In connection with the closing of the transaction, the Company also issued Southridge a warrant to purchase an additional 400,000 shares of its common stock during a five year period at an exercise price of $5.75 per share. The fair value of the warrant was charged to additional paid in capital as it was issued in connection with an equity instrument. This transaction closed on September 9, 2009. No shares have been issued under the terms of the Equity Credit Agreement. See the discussion in Note 12 "Subsequent Events" for a description of the transaction relating to the surrender of Southridge's existing warrant to the Company.

Note 6 – Employee Common Welfare

The total expense for the employee common welfare was $101,530 and $117,065 for the three months ended March 31, 2010 and 2009, respectively. The Company recorded welfare payable of $544 and $1,940 at March 31, 2010 and December 31, 2009, respectively, which is included in tax and welfare payable in the accompanying consolidated balance sheet.

Note 7 – Statutory Common Welfare Fund

As stipulated by the Company Law of the PRC, net income after taxation can only be distributed as dividends after appropriation has been made for the following:

i. Making up cumulative prior years' losses, if any;

ii. Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital;

iii. Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund", which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and

iv. Allocations to the discretionary surplus reserve, if approved in the stockholders' general meeting.

Pursuant to the new Corporate Law effective on January 1, 2006, there is now only one "Statutory surplus reserve" requirement. The reserve is 10% of income after tax, not to exceed 50% of registered capital.

The Company appropriated $299,718 and $344,382 as reserve for the statutory surplus reserve and welfare fund for the three months ended March 31, 2010 and 2009, respectively.

Note 8 – Stock Options and Warrants

Stock Options

Following is a summary of stock option activity:

	Options outstanding	Weighted Average Exercise Price	Weighted average remaining contractual life	Aggregate Intrinsic Value
Outstanding, December 31, 2009	210,000	$ 8.42	3.74	$ 51,000
Granted	-	-		
Forfeited	-	-		
Exercised	-	-		
Outstanding, March 31, 2010	210,000	$ 8.42	3.49	$ 33,600
Exercisable, March 31, 2010	53,332	$ 9.20	3.29	$ -

The exercise price for options outstanding at March 31, 2010 is as follows:

Number of Options	Exercise Price
30,000	$ 3.30
20,000	$ 8.85
160,000	$ 9.32
210,000	

Warrants

Following is a summary of the warrant activity:

	Warrants outstanding	Weighted Average Exercise Price	Weighted average remaining contractual life	Aggregate Intrinsic Value
Outstanding, December 31, 2009	2,607,635	$ 4.72	3.61	$ 2,142,218
Granted	-	-		
Forfeited	-	-		
Exercised	-	-		
Outstanding, March 31, 2010	2,607,635	$ 4.72	3.37	$ 1,104,000
Exercisable, March 31, 2010	2,607,635	$ 4.72	3.37	$ 1,104,000

The exercise price for warrants outstanding at March 31, 2010 is as follows:

Number of Warrants	Exercise Price
575,000	$ 2.50
1,409,435	$ 4.50
3,200	$ 5.00
400,000	$ 5.75
220,000	$ 10.00
2,607,635	

Note 9 – Segment Information

The Company's predominant businesses are the research and development, manufacture, marketing, distribution, and sale of pre-mix, concentrates and complete feeds and feed additives primarily for use in China's domestic pork husbandry market and the raising, breeding, and selling of pigs. The Company operates in two segments: animal feed nutrition and hog production.

The Company's feed company in Shanghai is located in the Qingcun town, Fengxian district, Shanghai and sells its products to 661 customers, consisting of 435 distributors and 226 large scale pig farms. Its feed company in Guangxi is located in Coastal Industrial Park, Liangqin district, Nanning city, Guangxi Province and sells its products to 704 customers, consisting of 482 distributors and 222 large scale pig farms. Its feed company in Nanchang is located in Chang Bei District Industrial Park, in Nanchang, Jiangxi province and sells its products to 713 customers, consisting of 495 distributors and 218 large scale pig farms. The hog farms are engaged mainly in raising, breeding, and sale of pigs all over the country and are located in the PRC provinces of Jiangxi, Shanghai, Hainan, Guangxi and Fujian.

The following tables summarize segment information for the three months ended March 31, 2010 and 2009:

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(unaudited)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenues from unrelated entities		
Animal feed nutrition	$ 24,289,749	$ 10,113,256
Hog production	28,569,318	23,316,018
	$ 52,859,067	$ 33,429,274
Intersegment revenues		
Animal feed nutrition	$ 3,769,922	$ 2,670,406
Hog production	517,131	88,262
	$ 4,287,053	$ 2,758,668
Total Revenues		
Animal feed nutrition	$ 28,059,671	$ 12,783,662
Hog production	29,086,449	23,404,280
Less Intersegment revenues	(4,287,053)	(2,758,668)
	$ 52,859,067	$ 33,429,274
Gross profit		
Animal feed nutrition	$ 4,464,074	$ 2,584,943
Hog production	1,855,208	3,218,462
Holding Company	-	-
	$ 6,319,282	$ 5,803,405
Income from operations		
Animal feed nutrition	$ 2,667,353	$ 1,387,631
Hog production	225,810	2,159,629
Holding Company	(1,268,889)	(364,894)
	$ 1,624,274	$ 3,182,366
Interest income		
Animal feed nutrition	$ 33,443	$ 31,748
Hog production	6,590	5,036
Holding Company	7,978	23,778
	$ 48,011	$ 60,562
Interest and financing costs		
Animal feed nutrition	$ 82,532	$ -
Hog production	-	-
Holding Company	42,379	152,914
	$ 124,911	$ 152,914
Income tax expense		
Animal feed nutrition	$ 453,580	$ 215,550
Hog production	-	-
Holding Company	-	-

	$	453,580	$	215,550
Net Income				
Animal feed nutrition	$	2,173,643	$	1,482,400
Hog production		197,065		2,030,329
Holding Company		(1,303,290)		(493,889)
	$	1,067,418	$	3,018,840
Provision for depreciation				
Animal feed nutrition	$	107,042	$	36,261
Hog production		704,857		574,445
	$	811,899	$	610,706

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(unaudited)

	As of March 31, 2010	As of December 31, 2009
Total assets		(audited)
Animal feed nutrition	$ 40,786,115	$ 38,142,821
Hog production	117,597,757	110,718,199
Holding Company	11,421,407	14,087,000
	$ 169,805,279	$ 162,948,020
Intangible assets		
Animal feed nutrition	$ 3,369,777	$ 3,419,141
Hog production	40,541,080	40,389,358
Holding Company	-	-
	$ 43,910,857	$ 43,808,499

Note 10 – Commitments and Contingencies

At March 31, 2010, the Company had commitments to expend approximately $2,000,000 for construction in process.

Note 11 – Acquisition and Dispositions

During the three months ended March 31, 2010, the Company purchased the non-controlling interest of 10% and 20% in two hog farms for $230,063 and $176,040, respectively. As a result of the purchase of the non-controlling interest, the excess of the purchase price over the carrying value of the non-controlling interest of $219,158 and $146,144, respectively, was recorded against additional paid in capital.

Note 12 – Subsequent Events

On April 23, 2010, the Company issued and delivered 150,000 shares of its common stock to Southridge in exchange for Southridge's surrender of its existing warrant to purchase 400,000 shares of the Company's common stock. The warrant was subsequently cancelled by the Company.