

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**AGFEED INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**

	<u>September 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	(unaudited)	
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 19,100,754	\$ 37,580,154
Accounts receivable, net of allowance for doubtful accounts of \$536,110 and \$415,765	19,928,454	14,397,793
Advances to suppliers	3,162,906	1,173,941
Other receivables	2,997,889	2,186,643
Inventory	85,479,143	23,835,412
Prepaid expenses	3,466,898	1,325,150
Debt issue costs	12,201	34,706
Total current assets	<u>134,148,245</u>	<u>80,533,799</u>
PROPERTY AND EQUIPMENT, net	59,772,190	26,991,851
CONSTRUCTION-IN-PROCESS	3,885,369	7,615,132
INTANGIBLE ASSETS, net	33,369,685	43,808,499
OTHER ASSETS	9,649,949	3,998,739
<b>TOTAL ASSETS</b>	<b><u>\$ 240,825,438</u></b>	<b><u>\$ 162,948,020</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Short-term loan	\$ 4,491,000	\$ 4,401,000
Accounts payable	10,874,229	6,162,385
Other payables	10,197,392	1,892,858
Unearned revenue	225,970	582,266
Accrued expenses	2,757,467	83,649
Accrued payroll	1,628,990	975,485
Tax and welfare payable	1,926,760	396,370
Interest payable	409,391	120,419
Current portion of long-term debt	1,400,000	-
Convertible notes, net of discount of \$28,713	971,287	-
Total current liabilities	<u>34,882,486</u>	<u>14,614,432</u>
CONVERTIBLE NOTES, net of debt discount of \$81,675	-	918,325
ACQUISITION NOTE PAYABLE	9,621,434	-
LINE OF CREDIT	36,007,752	-
LONG-TERM DEBT	15,749,697	-
TOTAL LIABILITIES	<u>96,261,369</u>	<u>15,532,757</u>
COMMITMENTS AND CONTINGENCIES (Note 14)	-	-
<b>EQUITY:</b>		
AgFeed stockholders' equity:		
Common stock, \$0.001 per share; 75,000,000 shares authorized; 51,736,908 issued and 51,350,213 outstanding at September 30, 2010 44,510,558 issued and 44,142,263 outstanding at December 31, 2009	51,738	44,511

Additional paid-in capital	128,774,415	109,281,086
Deferred compensation	(2,710,840)	-
Other comprehensive income	6,758,081	4,176,450
Statutory reserve	5,477,401	4,685,115
Treasury stock (386,695 shares)	(1,858,942)	(1,811,746)
Retained earnings	7,895,078	31,210,563
Total AgFeed stockholders' equity	144,386,931	147,585,979
Noncontrolling interest (deficit)	177,138	(170,716)
Total equity	144,564,069	147,415,263
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 240,825,438</b>	<b>\$ 162,948,020</b>

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

**AGFEED INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Revenues</b>	\$ 53,606,079	\$ 45,115,442	\$ 144,127,101	\$ 117,072,486
<b>Cost of goods sold</b>	<u>49,284,430</u>	<u>37,554,278</u>	<u>130,926,892</u>	<u>98,486,258</u>
<b>Gross profit</b>	4,321,649	7,561,164	13,200,209	18,586,228
<b>Operating expenses</b>				
Selling expenses	1,062,866	960,574	3,076,806	2,823,783
General and administrative expenses	5,020,641	2,888,845	12,193,722	6,606,537
Impairment of intangible assets	16,752,201	-	16,752,201	-
Total operating expenses	<u>22,835,708</u>	<u>3,849,419</u>	<u>32,022,729</u>	<u>9,430,320</u>
<b>Income (loss) from operations</b>	<u>(18,514,059)</u>	<u>3,711,745</u>	<u>(18,822,520)</u>	<u>9,155,908</u>
<b>Non-operating income (expense):</b>				
Other expense	(192,828)	(387,979)	(643,735)	(384,503)
Interest income	54,903	75,344	140,976	188,460
Interest and financing costs	(290,911)	(192,963)	(555,752)	(970,391)
Foreign currency transaction gain (loss)	(35,380)	(18,121)	(56,014)	(14,819)
Total non-operating expense	<u>(464,216)</u>	<u>(523,719)</u>	<u>(1,114,525)</u>	<u>(1,181,253)</u>
<b>Income (loss) before provision for income taxes</b>	(18,978,275)	3,188,026	(19,937,045)	7,974,655
<b>Provision for income taxes</b>	1,758,556	292,647	2,853,275	794,155
<b>Net income (loss) including noncontrolling interest</b>	<u>(20,736,831)</u>	<u>2,895,379</u>	<u>(22,790,320)</u>	<u>7,180,500</u>
Less: Net income (loss) attributed to noncontrolling interest	(100,966)	(962)	(267,121)	39,067
<b>Net income (loss) attributed to AgFeed</b>	<u>(20,635,865)</u>	<u>2,896,341</u>	<u>(22,523,199)</u>	<u>7,141,433</u>
<b>Other comprehensive income</b>				
Foreign currency translation gain	2,282,185	168,640	2,581,631	20,739
<b>Comprehensive Income (loss)</b>	<u>\$ (18,353,680)</u>	<u>\$ 3,064,981</u>	<u>\$ (19,941,568)</u>	<u>\$ 7,162,172</u>
<b>Weighted average shares outstanding :</b>				
Basic	<u>48,486,839</u>	<u>42,420,914</u>	<u>46,137,142</u>	<u>39,984,438</u>
Diluted	<u>48,486,839</u>	<u>43,329,228</u>	<u>46,137,142</u>	<u>40,641,679</u>
<b>Earnings (loss) per share attributed to AgFeed common stockholders:</b>				
Basic	<u>\$ (0.43)</u>	<u>\$ 0.07</u>	<u>\$ (0.49)</u>	<u>\$ 0.18</u>
Diluted	<u>\$ (0.43)</u>	<u>\$ 0.07</u>	<u>\$ (0.49)</u>	<u>\$ 0.18</u>

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

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

	<b>Nine Months Ended September</b>	
	<b>30,</b>	
	<b>2010</b>	<b>2009</b>
	(unaudited)	(unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss) including noncontrolling interest	\$ (22,790,320)	\$ 7,180,500
Adjustments to reconcile net income (loss) including noncontrolling interest to net cash provided by (used in) operating activities:		
Depreciation	2,310,313	1,952,213
Amortization	98,604	49,286
Loss on disposal of assets	1,345,688	882,854
Impairment of intangible asset	16,752,201	-
Stock based compensation	225,844	427,551
Issuance of common stock for services	1,127,160	-
Amortization of debt issuance costs	22,505	203,932
Amortization of discount on convertible debt	52,962	479,920
(Increase) / decrease in assets:		
Accounts receivable	(1,315,378)	(6,759,546)
Other receivables	(978,420)	1,201,329
Inventory	289,980	(1,777,302)
Advances to suppliers	(1,931,073)	(716,870)
Prepaid expenses	(516,064)	(340,333)
Other assets	-	(244,980)
Increase / (decrease) in current liabilities:		
Accounts payable	329,240	1,624,279
Other payables	(1,747,900)	(2,347,476)
Unearned revenue	(361,807)	43,465
Accrued expenses	1,128,689	287,838
Accrued payroll	(198,908)	(132,716)
Tax and welfare payable	1,518,678	(80,312)
Interest payable	155,375	(18,608)
Net cash provided by (used in) operating activities	<u>(4,482,631)</u>	<u>1,915,024</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases/deposits for property and equipment	(15,226,109)	(7,486,470)
Purchase of intangible assets	(117,854)	(35,314)
Cash paid for purchase of subsidiaries	(11,322,824)	(2,518,089)
Cash acquired with acquisition of subsidiary	211,124	-
Cash from the sale of subsidiary	-	835,770
Net cash used in investing activities	<u>(26,455,663)</u>	<u>(9,204,103)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from the sale of common stock	13,000,000	10,000,000
Offering costs paid	-	(1,740,072)
Purchase of treasury stock	(47,196)	-
Repayment of borrowings under line of credit facility, net	(767,669)	-
Proceeds from short-term loans	-	4,541,500
Proceeds from exercise of warrants	-	6,580,010
Capital contributed by noncontrolling interest holders	401,282	118,664
Repayment of contribution of noncontrolling interest holders	-	(586,800)
Purchase of noncontrolling interest in majority owed hog farms	(406,103)	-
Net cash provided by financing activities	<u>12,180,314</u>	<u>18,913,302</u>
Effect of exchange rate changes on cash and cash equivalents	279,500	16,650

<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	(18,479,400)	11,640,875
<b>CASH &amp; CASH EQUIVALENTS, BEGINNING BALANCE</b>	<u>37,580,154</u>	<u>24,839,378</u>
<b>CASH &amp; CASH EQUIVALENTS, ENDING BALANCE</b>	<u>\$ 19,100,754</u>	<u>\$ 36,480,253</u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Interest paid	<u>\$ 214,609</u>	<u>\$ 212,414</u>
Income taxes paid	<u>\$ 1,483,837</u>	<u>\$ 616,693</u>

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

**AGFEED INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 (“US GAAP”) 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 nine months ended September 30, 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 animal nutrition premix, concentrate and complete feeds business and commercial hog production business in the United States and China through its operating subsidiaries.

The Company’s animal nutrition business consists of the manufacture, marketing and sale of premix, concentrate and complete feed for use in the Chinese animal husbandry markets almost exclusively for hog production. Premix is an animal feed additive that is used in commercial animal production worldwide. The Company has been almost exclusively in the premix feed business since 1995 and now operate five premix, concentrate and complete feed manufacturing facilities located in the cities of Nanchang, Shandong, Shanghai, Nanning, and Hainan. The Company is expanding its concentrate and complete feed lines to meet the growing demand of commercial producers as they modernize their production technology and focus on the requirements of the food safety laws.

The Company entered the hog breeding and production business in China in November 2007. In this business, the Company mainly produces hogs for processing and sell breeding stock. The Company currently has two breeder farms and 29 meat hog producing farms in the Jiangxi, Shanghai, Hainan, Guangxi and Fujian provinces.

The Company entered the hog breeding and production business in the United States in September 2010 with the acquisition of M2 P2, LLC (“M2P2”) (see Note 3). The purchase of M2P2 allowed the Company to establish hog farm operations in the United States and obtain a breadth and depth of human resources that it expects to be instrumental in the development of the Company’s western-style hog farms in China. M2P2 operates hog farms and facilities in Colorado, Oklahoma, North Carolina and Iowa. The operating results of M2P2 are included in the accompanying consolidated statements of operations from the acquisition date.

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 US GAAP. The Company’s Chinese subsidiaries’ functional currency is the Chinese Yuan Renminbi (“RMB”) and the Company’s United States subsidiaries’ functional currency is the United States Dollar (“USD”). The accompanying consolidated financial statements have been translated and presented in United States Dollars (“USD”).

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Non-controlling 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 non-controlling interest in certain of these hog farms.

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 non-controlling 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 was separately designated in the accompanying statements of operations and other comprehensive income (loss). 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 and U.S. subsidiaries 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 ASC Topic 830, all assets and liabilities were translated at the exchange rate on the balance sheet dates, 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.

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**(unaudited)**

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 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 their market value, and an 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 September 30, 2010 and December 31, 2009:

	<u>September 30, 2010</u>	<u>December 31, 2009</u> (audited)
Raw material	\$ 11,263,848	\$ 7,638,999
Work in Process	89,936	84,494
Finished Goods - feed	1,792,906	460,349
Finished Goods - hogs	72,435,937	15,703,127
	<u>85,582,627</u>	<u>23,886,969</u>
Less: reserve for obsolescence	(103,484)	(51,557)
	<u>\$ 85,479,143</u>	<u>\$ 23,835,412</u>

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 September 30, 2010 and December 31, 2009:

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**(unaudited)**

	September 30, 2010	December 31, 2009 (audited)
Office equipment	\$ 1,441,868	\$ 525,991
Operating equipment	14,286,263	4,655,298
Vehicles	1,004,350	871,058
Swine for reproduction	17,530,019	13,432,353
Land	752,500	-
Buildings	30,871,841	11,659,693
<b>Total</b>	<b>65,886,841</b>	<b>31,144,393</b>
<b>Less accumulated depreciation</b>	<b>(6,114,651)</b>	<b>(4,152,542)</b>
	<b>\$ 59,772,190</b>	<b>\$ 26,991,851</b>

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 Topic 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. The Company assesses goodwill for impairment annually, or more frequently if circumstances warrant a review. An impairment loss is recognized when the carrying amount of the reporting unit exceeds the fair value of the reporting unit, with the fair value of the reporting unit determined using a discounted cash flow (DCF) analysis. The extreme operating conditions that the Company has experienced during 2010 has lead to a full review of its established Chinese production system (the farms acquired during 2007 and 2008). This review has resulted in a change in the management of this farm system and an assessment that while the system can be operated profitably it cannot sustain a high enough level of profitability to support the original acquisition values and resulting goodwill. As a result of this review, management determined that a write down of intangible assets of \$16,752,201 was necessary.

Intangible Assets

The following are the details of intangible assets at September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009 (audited)
Right to use land	\$ 772,563	\$ 825,007
Customer list	5,699,400	293,400
Computer software	312,901	159,894
Intangible related to hog farm acquisitions	26,866,161	42,744,247
<b>Total</b>	<b>33,651,025</b>	<b>44,022,548</b>
<b>Less Accumulated amortization</b>	<b>(281,340)</b>	<b>(214,049)</b>
<b>Intangibles, net</b>	<b>\$ 33,369,685</b>	<b>\$ 43,808,499</b>



**AGFEED INDUSTRIES, INC. AND SUBSIDIARIES**  
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**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009**  
**(unaudited)**

Per the People's Republic of China's ("PRC") governmental regulations, the PRC Government owns all Chinese land. Generally, the Company leases, through its PRC subsidiaries, land pursuant to land use contracts with the PRC government for periods of 30 to 50 years. Accordingly, the right to use land for these 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 and nine months ended September 30, 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 and nine months ended September 30, 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 Topic 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 September 30, 2010.

Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, "Income Taxes." ASC Topic 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 Topic 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 (Loss) 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

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 (loss) per share computations for the three and nine months ended September 30, 2010 and 2009:

<b>Three months ended September 30,</b>	2010		2009	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings (loss) per share	48,486,839	\$ (0.43)	42,420,914	\$ 0.07
Effect of dilutive stock options and warrants	-	-	908,314	-
Diluted earnings (loss) per share	48,486,839	\$ (0.43)	43,329,228	\$ 0.07

<b>Nine months ended September 30,</b>	2010		2009	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings (loss) per share	46,137,142	\$ (0.49)	39,984,438	\$ 0.18
Effect of dilutive stock options and warrants	-	-	657,241	-
Diluted earnings (loss) per share	46,137,142	\$ (0.49)	40,641,679	\$ 0.18

#### 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.

**AGFEED INDUSTRIES, INC. AND SUBSIDIARIES**  
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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 four reportable segments (See Note 13). 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, advances to suppliers, 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 Topic 480, "Distinguishing Liabilities from Equity," and ASC Topic 825.

As of September 30, 2010 and December 31, 2009, 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.

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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 Topic 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. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In April 2010, the FASB codified the consensus reached in Emerging Issues Task Force Issue No. 08-09, “Milestone Method of Revenue Recognition.” FASB ASU No. 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. FASB ASU No. 2010-17 is effective for fiscal years beginning on or after June 15, 2010, and is effective on a prospective basis for milestones achieved after the adoption date. The Company does not expect this ASU will have a material impact on its financial position or results of operations when it adopts this update on January 1, 2011.

**Note 3 – Purchase of M2P2, LLC**

On September 13, 2010, pursuant to a Membership Purchase Agreement (the “Purchase Agreement”), the Company acquired all of the outstanding equity interests of M2P2 from AF Sellco, LLC. In connection with closing, the Company delivered to AF Sellco, LLC (i) an amount in cash equal to approximately \$11,323,000, (ii) 1,194,641 shares of common stock, and (iii) a promissory note in the amount of approximately \$8,877,000. Concurrently, the Company deposited in an escrow account (i) an amount in cash equal to approximately \$1,258,000, (ii) 137,737 shares of common stock, and (iii) a promissory note in the amount of approximately \$986,000. Consideration equal to approximately \$1,834,000 will be released from the escrow account to AF Sellco, LLC. The shares of common stock issued pursuant to the Purchase Agreement are subject to a lock-up period ending on March 13, 2012. However, during this lock-up period, one-third of the common stock shall be released from the lock-up restriction on each 6-month anniversary of the closing of the transaction. The Company granted AF Sellco, LLC a perfected first-priority lien on, and security interest in, all of the outstanding equity interests of M2P2 as collateral security for the Company’s obligations on the promissory notes.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the date of acquisition.

Cash	\$ 211,124
Accounts receivable	3,879,200
Inventories	61,424,320
Prepaid assets	1,556,438
Other assets	89,611
Property and equipment	22,095,924
Customer list	5,400,000
Accounts payable	(4,266,714)
Other payables	(9,009,231)
Accrued expenses	(1,619,912)
Accrued payroll	(837,744)
Interest payable	(133,597)
Line of credit	(36,775,421)
Notes payable	(17,149,697)
Purchase price	<u>\$ 24,864,301</u>



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The customer list purchased in the transaction is being amortized over 5-7 years.

The purchase of M2P2 allowed the Company to establish hog farm operations in the United States and obtain a breadth and depth of human capital that we expect to be instrumental in the development of our western-style hog farms in China as well as our future harvest strategy. Furthermore, we believe that M2P2 provides the Company with a platform from which growth opportunities in the U.S. can be pursued. The operating results of M2P2 are included in the accompanying consolidated statements of operations from the acquisition date. M2P2's operating results from the acquisition date to September 30, 2010 are as follows:

Revenue	\$ 10,254,534
Cost of goods sold	9,746,489
Gross profit	508,045
Operating expenses	265,272
Income from operations	242,773
Net income	140,482

The pro forma financial information that the consolidated operations of the Company as if the M2P2 acquisition had occurred as of January 1, 2010 is presented below.

	<b>Nine Months ended September 30, 2010</b>			
	<b>AgFeed</b>	<b>M2P2(4)</b>	<b>Adjustments</b>	<b>Pro forma</b>
Revenues	\$ 144,127,101	\$ 125,661,531	\$ -	\$ 269,788,632
Cost of goods sold	130,926,892	119,209,926	-	250,136,818
Gross profit	13,200,209	6,451,605	-	19,651,814
Operating expenses	15,270,528	1,702,859	578,571 (1)	17,551,958
Impairment of intangible assets	16,752,201	-	-	16,752,201
Income from operations	(18,822,520)	4,748,746	(578,571)	(14,652,345)
Non-operating expense	(1,114,525)	(1,776,739)	(577,286) (2)	(3,468,550)
Income before provision for income taxes	(19,937,045)	2,972,007	(1,155,857)	(18,120,895)
Provision for income taxes	2,853,275	-	726,460 (3)	3,579,735
Net income including non-controlling interest	(22,790,320)	2,972,007	(1,882,317)	(21,700,630)
Net loss attributed to non-controlling interest	(267,121)	-	-	(267,121)
Net income (loss) attributed to AgFeed	\$ (22,523,199)	2,972,007	(1,882,317)	\$ (21,433,509)
Basic (loss) per share	\$ (0.49)	-	-	\$ (0.45)

(1) To record amortization of purchased intangibles.

(2) To record interest on \$9.6 million promissory note in connection with the acquisition of M2P2.

(3) To record tax provision of 40% (combined US federal and state income tax rate) since M2P2 as a limited liability company did not provide for income taxes; and to record tax effects of other pro forma adjustments.

(4) Results of M2P2 are from January 1, 2010 to the date of acquisition.

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The pro forma financial information that the consolidated operations of the Company as if the M2P2 acquisition had occurred as of January 1, 2009 is presented below.

	<b>Nine Months ended September 30, 2009</b>			
	<b>AgFeed</b>	<b>M2P2</b>	<b>Adjustments</b>	<b>Pro forma</b>
Revenues	\$ 117,072,486	\$ 131,660,641	\$	\$ 248,733,127
Cost of goods sold	98,486,258	125,852,208		224,338,466
Gross profit	18,586,228	5,808,433	-	24,394,661
Operating expenses	9,430,320	1,849,925	578,571 (1)	11,858,816
Income from operations	9,155,908	3,958,508	(578,571)	12,535,845
Non-operating expense	(1,181,253)	(2,470,181)	(577,286) (2)	(4,228,720)
Income before provision for income taxes	7,974,655	1,488,327	(1,155,857)	8,307,125
Provision for income taxes	794,155		132,988 (3)	927,143
Net income including non-controlling interest	7,180,500	1,488,327	(1,288,845)	7,379,982
Net income attributed to non-controlling interest	39,067			39,067
Net income (loss) attributed to AgFeed	<u>\$ 7,141,433</u>	<u>1,488,327</u>	<u>(1,288,845)</u>	<u>\$ 7,340,915</u>
Basic earnings per share	<u>\$ 0.18</u>			<u>\$ 0.18</u>

(1) To record amortization of purchased intangibles.

(2) To record interest on \$9.6 million promissory note in connection with the acquisition of M2P2.

(3) To record tax provision of 40% (combined US federal and state income tax rate) since M2P2 as a limited liability company did not provide for income taxes; and to record tax effects of other pro forma adjustments.

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**Note 4 – 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 providing for, among other things, the issuance of senior convertible notes (the “Notes”) for \$19 million and warrants (the “Warrants”) to purchase up to 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% 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 and nine months ended September 30, 2010 and 2009, the Company amortized \$7,584 and \$22,505 and \$7,584 and \$203,932, 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 over 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 entitled their holders 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 over 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.

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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 was \$4,039,885 and is being amortized over the term of the Notes. For the three and nine months ended September 30, 2010 and 2009, the Company amortized \$17,848 and \$52,962 and \$17,848 and \$479,921, 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 5 – Short-Term Loans**

Short-term loans at September 30, 2010 and December 31, 2009 are follows:

	<u>September 30, 2010</u>	<u>December 31, 2009</u> (audited)
Short-term bank loan payable to Shanghai Pudong Development Bank. The loan accrues interest at 5.84%. The note was renewed in May 2010 and is due May 4, 2011. The loan is collateralized by buildings and land use	<u>\$ 4,491,000</u>	<u>\$ 4,401,000</u>

**Note 6 – Acquisition Note Payable**

In connection with the acquisition of M2P2, the Company issued a promissory note payable in the amount of \$9,621,434. The note bears interest at a rate of 8.0% per year, with payable quarterly in cash on March 31, June 30, September 30 and December 31 of each year, beginning on December 31, 2010. The Company will make interest only payments until June 30, 2012 and thereafter it will make amortizing principal and interest payments with the last payment due on September 30, 2020.

**Note 7 – Line of Credit**

The Company's wholly-owned subsidiary, M2P2 has a \$65 million senior revolving loan facility that expires on June 1, 2012. The first \$25 million borrowed under the facility bears interest at 3.95%; and the remaining amount borrowed under the facility bears interest at the 1-month LIBOR plus 3.25% (3.50% at September 30, 2010). \$300,000 of the facility is being used for a letter of credit bearing a variable rate with the State of Colorado and is not accessible for borrowing until the letter of credit is released. Borrowings are limited to the lesser of \$64.7 million or a defined borrowing base (approximately \$55.3 million at September 30, 2010) based primarily on inventory and receivables. This facility is collateralized by substantially all of the assets of M2P2 and has various restrictive covenants, including, but not limited to, certain restrictions on distributions, maintenance of a minimum net worth and other financial covenant requirements.

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**Note 8 – Long-Term Debt**

Long- term loans at September 30, 2010 and December 31, 2009 are follows:

	September 30, 2010	December 31, 2009 (audited)
Note payable, bearing interest at the prime rate plus 2% (5.25% at September 30, 2010) and payable on November 25, 2018. The note is secured by the M2P2's 100% interest in Heritage Farms LLC and is subordinated to certain senior debt.	\$ 3,500,000	\$ -
Senior term loan - \$6 million; bears interest at 5.0%; quarterly installments of \$250,000 plus interest with remaining balance is due April 1, 2013. (A)	6,000,000	-
Senior term loan - \$7.6 million; \$6.1 million of the loan bears interest at 5.0% and the \$1.5 million remaining balance bears interest at the 3-month LIBOR plus 1.75% (2.05% at September 30, 2010); payments are due in monthly installments of approximately \$85,000. The remaining balance is due March 1, 2020. (A)	7,649,697	-
	17,149,697	-
Less current portion	(1,400,000)	-
	<u>\$ 15,749,697</u>	<u>\$ -</u>

- (A) These borrowings are collateralized by substantially all of the assets of M2P2 and have various restrictive covenants, including, but not limited to, certain restrictions on distributions, maintenance of a minimum net worth and other financial covenant requirements.

**Note 9 – Stockholders' Equity**

Treasury Stock

During the quarter ended September 30, 2010, the Company purchased 19,400 shares of its common stock on the open market (treasury shares) for \$47,196. The Company accounted for the purchase of these treasury shares using the cost method.

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 and nine months ended September 30, 2010 was \$375,720 and \$1,127,160, respectively. The amount not expensed is shown as deferred compensation as a contra-equity account in the accompanying consolidated balance sheet.

On April 23, 2010, the Company issued 150,000 shares of its common stock to Southridge 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. The warrant and common stock issued to Southridge were related to equity financing; therefore the charge related to the value of these equity instruments was recorded to additional paid-in capital.

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Equity Credit Agreement

On September 9, 2009, the Company entered into an Equity Credit Agreement with Southridge Partners II, LP (“Southridge”), 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. During the quarter ended September 30, 2010, the Company issued 5,029,762 shares of its common stock for \$13,000,000 in connection with this Equity Credit Agreement.

**Note 10 – Employee Common Welfare**

The total expense for the employee common welfare was \$147,664 and \$44,548 for the three months ended September 30, 2010 and 2009, respectively, and was \$308,917 and \$259,747 for the nine months ended September 30, 2010 and 2009, respectively. The Company recorded welfare payable of \$0 and \$1,940 at September 30, 2010 and December 31, 2009, respectively, which is included in tax and welfare payable in the accompanying consolidated balance sheet.

**Note 11 – 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 \$269,404 and \$392,074 as reserve for the statutory surplus reserve and welfare fund for the three months ended September 30, 2010 and 2009, respectively and \$792,286 and \$994,462 as reserve for the statutory surplus reserve and welfare fund for the nine months ended September 30, 2010 and 2009, respectively.

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**Note 12 – 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, September 30, 2010	<u>210,000</u>	\$ 8.42	2.99	\$ -
Exercisable, September 30, 2010	129,999	\$ 9.27	2.91	\$ -

The exercise price for options outstanding at September 30, 2010 is as follows:

Number of Options	Exercise Price
30,000	\$3.30
20,000	\$8.85
160,000	\$9.32
<u>210,000</u>	

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/canceled	(403,200)	\$ 5.74		
Exercised	-	-		
Outstanding, September 30, 2010	<u>2,204,435</u>	\$ 4.53	2.67	\$ 46,000
Exercisable, September 30, 2010	2,204,435	\$ 4.53	2.67	\$ 46,000

The exercise price for warrants outstanding at September 30, 2010 is as follows:

Number of Warrants	Exercise Price
575,000	\$2.50
1,409,435	\$4.50
220,000	\$10.00
<u>2,204,435</u>	



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**Note 13 – 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 four segments: animal feed nutrition, hog production – United States and hog production – China and Western style hog farms in China.

The following tables summarize segment information for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September		Nine Months Ended September	
	30, 2010	2009	30, 2010	2009
<b>Revenues from unrelated entities</b>				
Animal feed nutrition	\$ 27,276,285	\$ 17,150,476	\$ 77,935,235	\$ 38,400,249
Hog production - United States	10,254,534	-	10,254,534	-
Hog production - China	16,075,260	27,964,966	55,937,332	78,672,237
	<u>\$ 53,606,079</u>	<u>\$ 45,115,442</u>	<u>\$ 144,127,101</u>	<u>\$ 117,072,486</u>
<b>Intersegment revenues</b>				
Animal feed nutrition	\$ 2,749,286	\$ 3,343,116	\$ 8,240,222	\$ 9,789,287
Hog production - United States	-	-	-	-
Hog production - China	724,445	232,027	2,508,584	550,882
	<u>\$ 3,473,731</u>	<u>\$ 3,575,143</u>	<u>\$ 10,748,806</u>	<u>\$ 10,340,169</u>
<b>Total revenues</b>				
Animal feed nutrition	\$ 30,025,571	\$ 20,493,592	\$ 86,175,457	\$ 48,189,536
Hog production - United States	10,254,534	-	10,254,534	-
Hog production - China	16,799,705	28,196,993	58,445,916	79,223,119
Less Intersegment revenues	(3,473,731)	(3,575,143)	(10,748,806)	(10,340,169)
	<u>\$ 53,606,079</u>	<u>\$ 45,115,442</u>	<u>\$ 144,127,101</u>	<u>\$ 117,072,486</u>
<b>Gross profit (loss)</b>				
Animal feed nutrition	\$ 4,831,278	\$ 3,865,007	\$ 14,064,015	\$ 9,552,365
Hog production - United States	508,045	-	508,045	-
Hog production - China	(1,017,674)	3,696,157	(1,371,851)	9,033,863
Western style hog farms	-	-	-	-
Holding Company	-	-	-	-
	<u>\$ 4,321,649</u>	<u>\$ 7,561,164</u>	<u>\$ 13,200,209</u>	<u>\$ 18,586,228</u>
<b>Income (loss) from operations</b>				
Animal feed nutrition	\$ 2,877,192	\$ 2,105,772	\$ 8,507,355	\$ 5,231,919
Hog production - United States	242,773	-	242,773	-
Hog production - China	(19,550,342)	2,265,649	(22,840,159)	5,452,101
Western style hog farms	(222,957)	-	(628,463)	-
Holding Company	(1,860,725)	(659,676)	(4,104,026)	(1,528,112)
	<u>\$ (18,514,059)</u>	<u>\$ 3,711,745</u>	<u>\$ (18,822,520)</u>	<u>\$ 9,155,908</u>

**AGFEED INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009**  
**(unaudited)**

	Three Months Ended September		Nine Months Ended September	
	30, 2010	2009	30, 2010	2009
<b>Interest income</b>				
Animal feed nutrition	\$ 29,364	\$ 19,911	\$ 85,545	\$ 68,770
Hog production - United States	-	-	-	-
Hog production - China	18,110	8,780	35,380	19,093
Western style hog farms	-	-	-	-
Holding Company	7,429	46,653	20,051	100,597
	<u>\$ 54,903</u>	<u>\$ 75,344</u>	<u>\$ 140,976</u>	<u>\$ 188,460</u>
<b>Interest and financing costs</b>				
Animal feed nutrition	\$ 110,249	\$ 85,632	\$ 289,860	\$ 100,991
Hog production - United States	102,291	-	102,291	-
Hog production - China	-	64,011	-	71,156
Western style hog farms	-	-	-	-
Holding Company	78,371	43,320	163,601	798,244
	<u>\$ 290,911</u>	<u>\$ 192,963</u>	<u>\$ 555,752</u>	<u>\$ 970,391</u>
<b>Income tax expense (benefit)</b>				
Animal feed nutrition	\$ 443,904	\$ 292,647	\$ 1,538,623	\$ 794,155
Hog production - United States	-	-	-	-
Hog production - China	-	-	-	-
Western style hog farms	-	-	-	-
Holding Company	1,314,652	-	1,314,652	-
	<u>\$ 1,758,556</u>	<u>\$ 292,647</u>	<u>\$ 2,853,275</u>	<u>\$ 794,155</u>
<b>Net income (loss)</b>				
Animal feed nutrition	\$ 2,633,390	\$ 1,756,494	\$ 7,071,130	\$ 4,689,193
Hog production - United States	140,482	-	140,482	-
Hog production - China	(20,070,651)	1,802,712	(23,816,237)	4,677,829
Western style hog farms	(144,922)	-	(408,501)	-
Holding Company	(3,194,164)	(662,865)	(5,510,073)	(2,225,589)
	<u>\$ (20,635,865)</u>	<u>\$ 2,896,341</u>	<u>\$ (22,523,199)</u>	<u>\$ 7,141,433</u>
<b>Provision for depreciation</b>				
Animal feed nutrition	\$ 90,254	\$ 33,626	\$ 309,690	\$ 202,685
Hog production - United States	98,240	-	98,240	-
Hog production - China	545,886	635,628	1,902,383	1,749,528
	<u>\$ 734,380</u>	<u>\$ 669,254</u>	<u>\$ 2,310,313</u>	<u>\$ 1,952,213</u>

**AGFEED INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009**  
**(unaudited)**

	<b>As of September 30, 2010</b>	<b>As of December 31, 2009</b>
<b>Total assets</b>		(audited)
Animal feed nutrition	\$ 41,753,390	\$ 38,142,821
Hog production - United States	92,916,878	-
Hog production - China	98,446,811	110,718,199
Western style hog farms	125,605	-
Holding Company	7,582,754	14,087,000
	<u>\$ 240,825,438</u>	<u>\$ 162,948,020</u>
<b>Intangible assets</b>		
Animal feed nutrition	\$ 3,384,947	\$ 3,419,141
Hog production - United States	5,400,000	-
Hog production - China	24,466,884	40,389,358
Western style hog farms	-	-
Holding Company	117,854	-
	<u>\$ 33,369,685</u>	<u>\$ 43,808,499</u>

Net Income

Net income for the nine months ended September 30, 2010 was reduced by \$2,764,133 for one-time non-recurring charges. These include professional fees and expenses associated with the proposed “carve-out” of the animal nutrition business of \$393,638 and a PRC tax payment associated with the corporate reorganization necessary to facilitate the animal nutrition “carve-out” of \$1,314,652. In addition the Company incurred one-time professional fees and expenses of \$1,055,833 in connection with the acquisition of M2P2.

**Note 14 – Commitments**

At September 30, 2010, the Company had commitments to expend approximately \$1,285,000 for construction in process and growing breeder hogs.

**Note 15 – Acquisition and Dispositions**

During the nine months ended September 30, 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. In addition during the nine months ended September 30, 2010, in connection with the Company’s purchase of M2P2, the Company indirectly acquired an additional 20% ownership in a joint venture that had negative equity. As a result the Company has recorded \$246,559 against additional paid in capital.

**Note 16 – Subsequent Events**

On October 8, 2010, AgFeed Animal Nutrition Holdings, Inc. (“AANI”) filed a registration statement on Form F-1 with the Securities and Exchange Commission in connection with the initial public offering of its Class A ordinary shares. AANI is the Company’s wholly-owned subsidiary formed to operate the Company’s animal nutrition business in the PRC.

Effective November 9, 2010, Edward Pazdro became Acting Chief Financial Officer of AgFeed Industries, Inc. and assumed the responsibilities of serving as its Principal Financial Officer and Principal Accounting Officer.