

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

**AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2011 AND DECEMBER 31, 2010**

	<u>2011</u> (unaudited)	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,758,836	\$ 12,399,916
Accounts receivable, net of allowance for doubtful accounts of \$7,044,767 and \$707,968	13,230,158	21,841,442
Advances to suppliers	37,969	1,676,593
Inventory	87,942,225	81,379,649
Prepaid expenses and other current assets	3,275,227	2,242,807
Deferred tax asset	83,685	83,685
Assets of discontinued operations	-	6,293,524
Total current assets	115,328,100	125,917,616
PROPERTY AND EQUIPMENT, net	76,748,174	63,631,224
INTANGIBLE ASSETS, net	5,439,708	5,783,102
GOODWILL	22,801,262	22,365,414
DEFERRED TAX ASSET	2,502,836	2,329,548
OTHER ASSETS	2,114,750	3,467,758
TOTAL ASSETS	\$ 224,934,830	\$ 223,494,662
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES:		
Short-term loan	\$ -	\$ 4,551,000
Line of credit	48,535,609	-
Accounts payable	7,429,565	8,783,569
Other payables	3,146,624	3,736,931
Unearned revenue	15,602	489,241
Accrued expenses	11,311,639	6,142,747
Accrued payroll	1,154,654	1,163,504
Tax and welfare payable	1,078,320	1,893,727
Interest payable	18,408	121,392
Current portion of long-term debt	1,718,108	1,703,658
Convertible notes, net of discount of \$10,864	-	989,136
Liabilities of discontinued operations	97,446	1,595,805
Total current liabilities	74,505,975	31,170,710
ACQUISITION NOTE PAYABLE	9,621,434	9,621,434
LINE OF CREDIT	-	42,231,176
LONG-TERM DEBT	13,852,537	15,024,666
TOTAL LIABILITIES	97,979,946	98,047,986
COMMITMENTS AND CONTINGENCIES (Note 11)	-	-

EQUITY:

AgFeed stockholders' equity:		
Common stock, \$0.001 per share; 75,000,000 shares authorized;		
63,818,757 issued and 63,432,062 outstanding at June 30, 2011		
51,756,907 issued and 51,370,212 outstanding at December 31, 2010	63,819	51,758
Additional paid-in capital	142,581,263	125,788,151
Accumulated other comprehensive income	10,356,717	8,120,628
Statutory reserve	5,644,967	5,621,937
Treasury stock (386,695 shares)	(1,858,942)	(1,858,942)
Accumulated deficit	<u>(29,879,113)</u>	<u>(12,430,229)</u>
Total AgFeed stockholders' equity	126,908,711	125,293,303
Noncontrolling interest	<u>46,173</u>	<u>153,373</u>
Total equity	126,954,884	125,446,676
TOTAL LIABILITIES AND EQUITY	<u>\$ 224,934,830</u>	<u>\$ 223,494,662</u>

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)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	\$ 85,397,972	\$ 33,760,376	\$ 178,385,171	\$ 80,250,232
Cost of goods sold	<u>77,311,556</u>	<u>30,223,994</u>	<u>162,418,653</u>	<u>70,841,813</u>
Gross profit	8,086,416	3,536,382	15,966,518	9,408,419
Operating expenses				
Selling expenses	1,086,305	975,823	2,072,968	1,993,987
General and administrative expenses	6,187,232	3,642,078	11,343,437	7,085,249
Receivable credit and collection losses	<u>14,265,222</u>	<u>-</u>	<u>15,484,448</u>	<u>-</u>
Total operating expenses	<u>21,538,759</u>	<u>4,617,901</u>	<u>28,900,853</u>	<u>9,079,236</u>
Income (loss) from operations	(13,452,343)	(1,081,519)	(12,934,335)	329,183
Non-operating income (expense):				
Other income (expense)	(38,522)	177,453	(41,238)	252,611
Interest income	7,671	36,951	22,393	84,284
Interest and financing costs	(995,837)	(139,930)	(1,910,796)	(264,841)
Foreign currency transaction loss	(4,467)	(34,364)	(14,595)	(20,561)
Total non-operating income (expense)	<u>(1,031,155)</u>	<u>40,110</u>	<u>(1,944,236)</u>	<u>51,493</u>
Loss from operations before income taxes	(14,483,498)	(1,041,409)	(14,878,571)	380,676
Income tax expense (benefit)	(304,244)	641,139	234,495	1,094,719
Loss from continuing operations	<u>(14,179,254)</u>	<u>(1,682,548)</u>	<u>(15,113,066)</u>	<u>(714,043)</u>
Discontinued operations:				
Income (loss) from discontinued operations (including loss on disposal of \$830,200 in 2011)	(1,744,242)	(1,382,165)	(2,425,287)	(1,339,446)
Net loss	<u>(15,923,496)</u>	<u>(3,064,713)</u>	<u>(17,538,353)</u>	<u>(2,053,489)</u>
Less: Net loss attributed to noncontrolling interest	(48,466)	(109,961)	(112,499)	(166,155)
Net loss attributed to AgFeed	<u>\$ (15,875,030)</u>	<u>\$ (2,954,752)</u>	<u>\$ (17,425,854)</u>	<u>\$ (1,887,334)</u>
Comprehensive loss				
Net loss	\$ (15,923,496)	\$ (3,064,713)	\$ (17,538,353)	\$ (2,053,489)
Foreign currency translation gain	1,462,945	298,682	2,241,388	299,446
Comprehensive loss	<u>\$ (14,460,551)</u>	<u>\$ (2,766,031)</u>	<u>\$ (15,296,965)</u>	<u>\$ (1,754,043)</u>
Weighted average shares outstanding :				
Basic	60 500 355	45 015 351	56 964 030	44 942 821

Diluted	<u>60,500,355</u>	<u>45,015,351</u>	<u>56,964,030</u>	<u>44,942,821</u>
Basic loss per share attributed to AgFeed common stockholders:				
Continuing operations	\$ (0.23)	\$ (0.03)	\$ (0.27)	\$ (0.01)
Discontinued operations	<u>(0.03)</u>	<u>(0.03)</u>	<u>(0.04)</u>	<u>(0.03)</u>
	<u>\$ (0.26)</u>	<u>\$ (0.07)</u>	<u>\$ (0.31)</u>	<u>\$ (0.04)</u>
Diluted loss per share attributed to AgFeed common stockholders:				
Continuing operations	\$ (0.23)	\$ (0.03)	\$ (0.27)	\$ (0.01)
Discontinued operations	<u>(0.03)</u>	<u>(0.03)</u>	<u>(0.04)</u>	<u>(0.03)</u>
	<u>\$ (0.26)</u>	<u>\$ (0.07)</u>	<u>\$ (0.31)</u>	<u>\$ (0.04)</u>

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

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u> (unaudited)	<u>2010</u> (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (17,538,353)	\$ (2,053,489)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,743,997	1,575,933
Amortization of intangible assets	365,906	43,410
Loss on sale/disposal of assets	1,460,937	1,321,838
Receivable credit and collection losses	15,484,448	-
Stock based compensation	14,470	150,562
Issuance of common stock for services	770,986	751,440
Amortization of debt issuance costs	4,617	14,921
Amortization of discount on convertible debt	10,864	35,114
Change in working capital components		
Accounts receivable	(5,849,266)	(2,945,382)
Other receivables	-	618,255
Inventory	(2,972,764)	(3,340,955)
Advances to suppliers	1,713,581	885,238
Prepaid expenses	(246,045)	(59,691)
Deferred taxes	(173,288)	-
Other assets	1,821,147	-
Accounts payable	(2,281,079)	610,581
Other payables	(1,318,111)	(137,439)
Unearned revenue	(560,326)	(254,731)
Accrued expenses	3,997,211	58,106
Accrued payroll	(77,073)	(243,862)
Tax and welfare payable	(841,248)	74,277
Interest payable	(103,198)	35,195
Net cash used in operating activities	<u>(3,572,587)</u>	<u>(2,860,679)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(14,729,771)	(10,759,297)
Proceeds from the sale of assets	315,114	-
Net cash used in investing activities	<u>(14,414,657)</u>	<u>(10,759,297)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the sale of common stock	16,592,625	-
Borrowings under line of credit facility, net	6,304,433	-
Payment on convertible notes	(1,000,000)	-
Payment on note payable	(1,157,679)	-
Payment on short-term loan	(4,587,000)	-
Capital contributed by noncontrolling interest	-	401,282
Purchase of noncontrolling interest in majority owed hog farms	-	(406,103)
Net cash provided by (used in) financing activities	<u>16,152,379</u>	<u>(4,821)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>193,785</u>	<u>72,133</u>
NET DECREASE IN CASH & CASH EQUIVALENTS	<u>(1,641,080)</u>	<u>(13,552,664)</u>

CASH & CASH EQUIVALENTS, ENDING BALANCE	\$ 10,758,836	\$ 24,027,490
	<u><u> </u></u>	<u><u> </u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid, net of amounts capitalized	\$ 1,998,299	\$ 204,969
	<u><u> </u></u>	<u><u> </u></u>
Income taxes paid	\$ 1,136,283	\$ 492,843
	<u><u> </u></u>	<u><u> </u></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 SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(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, 2010. The results for the three and six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the full year ending December 31, 2011.

Organization and Lines of Business

AgFeed Industries, Inc. (the "Company" or "AgFeed") was incorporated in the State of Nevada on March 30, 2005. The Company is engaged in the animal nutrition 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 operates 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 21 meat hog producing farms in the Jiangxi, Shanghai, Hainan, Guangxi and Fujian provinces. The Company has almost finished construction of its western style hog farm in the Guangxi province and has just begun construction of another western style hog farm in the Jiangxi province.

The Company entered the hog breeding and production business in the United States in September 2010 with the acquisition of M2 P2, LLC ("M2P2"). M2P2 operates hog farms and facilities in Colorado, Oklahoma, North Carolina and Iowa.

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 ("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 USD.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010
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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.

Cash and Cash Equivalents

Cash and cash equivalents include cash on 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

Accounts receivable are carried at original invoice less an estimate for doubtful accounts. 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. Accounts receivable are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

The Company's accounts receivable and reserves for doubtful accounts are substantially representative of its credit dealings with animal nutrition customers. The Company ages its receivables into traditional 30-day buckets and monitors the customers and balances on a regular basis. Generally the Company uses a formula-based analysis to more broadly assign collection risk to its aging groups primarily over 90 days past due, subject to specific customer review. This formula-based approach applies a declining percentage of collectability to each bucket-aging category at least 90 days past due as the past due days increase. For the current quarter, however, the Company placed greater reliance on individual customer assessment and then applied an overall factor of collection as it believes the Company is experiencing a new set of market dynamics exacerbated by the reorganization of its animal feed nutrition segment, cash constraints of its long-standing customers related to increasing feed raw material costs and herd expansion initiatives. The below table analyzes the change in the Company's accounts receivable reserve from December 31, 2010 to June 30, 2011:

Balance, December 31, 2010	\$ 707,968
Additions	15,484,448
Write-offs of uncollectible accounts	(9,147,649)
Balance, June 30, 2011	<u>\$ 7,044,767</u>

The increase in the accounts receivable reserve includes approximately of \$9.2 million related to the collection of outstanding accounts receivable in the Company's Chinese animal nutrition business and an additional \$6.3 million of bad debt allowance. The operating pressures facing the Company's customers has led management increase accounts receivable reserves due to concerns regarding credit quality.

Advances to Suppliers

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

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(unaudited)

Inventory

Inventory is stated at the lower of cost, as determined primarily by the average cost 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 June 30, 2011 and December 31, 2010:

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Raw material	\$ 11,125,948	\$ 11,691,635
Work in process	149,341	160,007
Finished goods – feed	53,048	810,786
Hogs	76,613,888	68,717,221
Total	<u>\$ 87,942,225</u>	<u>\$ 81,379,649</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	1 to 5 years
Operating equipment	1 to 10 years
Vehicles	5 years
Swine for reproduction	2 to 3.5 years
Buildings	20 to 40 years

The following are the details of property and equipment at June 30, 2011 and December 31, 2010:

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Office equipment	\$ 1,020,845	\$ 983,992
Operating equipment	17,300,906	13,945,244
Vehicles	1,279,784	994,686
Swine for reproduction	19,857,311	10,830,812
Land	915,956	752,500
Buildings	40,497,522	29,165,246
Construction-in-process	4,373,390	11,888,319
Total	<u>85,245,714</u>	<u>68,560,799</u>
Less accumulated depreciation	<u>(8,497,540)</u>	<u>(4,929,575)</u>
	<u>\$ 76,748,174</u>	<u>\$ 63,631,224</u>

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

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(unaudited)

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, including intangible 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 determined that based on the criteria above, an impairment of certain assets was necessary and accordingly recorded an impairment of approximately \$9.0 million for the year ended December 31, 2010 and approximately \$0.9 million for the six months ended June 30, 2011.

Intangible Assets

The following are the details of intangible assets at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Right to use land	\$ 796,729	\$ 781,278
Customer relationships	4,679,158	4,835,195
Computer software	509,772	478,988
Total	5,985,659	6,095,461
Less Accumulated amortization	(545,951)	(312,359)
Intangibles, net	<u>\$ 5,439,708</u>	<u>\$ 5,783,102</u>

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. Customer relationships is amortized over five to twelve years 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.

The Company follows ASC Topic 350 in accounting for intangible assets, which requires impairment losses to be recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by the assets are less than the assets' carrying amounts. There were no impairment losses recorded on intangible assets for the six months ended June 30, 2011 and 2010.

Goodwill

Goodwill represents the excess of purchase price over the underlying net assets of businesses acquired. Under accounting requirements, goodwill is not amortized but is subject to annual impairment tests.

The extreme operating conditions that the Company experienced during 2010 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. In connection with the Company's annual review for the year ended December 31, 2010, management determined that a write down of goodwill of \$21,612,398 was necessary. The impairment was determined based on the fair value of the reporting units, which was estimated based on a discounted cash flow valuation model and the projected future cash flows of the underlying businesses. Management determined that there were no triggering events at June 30, 2011 and deemed no additional impairment was necessary.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
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(unaudited)

Summary of changes in goodwill by reporting segments is as follows:

	<u>Animal</u>	<u>Hog Production</u>		<u>Total</u>
	<u>Nutrition</u>	<u>China</u>	<u>U.S. (M2P2)</u>	
Balance, December 31, 2010	\$ 2,437,135	\$ 19,602,279	\$ 326,000	\$ 22,365,414
Foreign currency adjustment	48,197	387,651	-	435,848
Balance, June 30, 2011	<u>\$ 2,485,332</u>	<u>\$ 19,989,930</u>	<u>\$ 326,000</u>	<u>\$ 22,801,262</u>

Revenue Recognition

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.

Major Customer

The Company has one major customer that during the six months ended June 30, 2011 accounted for approximately \$104.7 million in revenues or 57.8% of total Company revenues. This customer also accounted for approximately 32% of the Company's accounts receivable at June 30, 2011. No one customer accounted for more than 10% of the Company's revenue for the six months ended June 30, 2010.

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 six months ended June 30, 2011 and 2010 were not significant.

Research and Development

The Company expenses its research and development costs as incurred. Research and development costs for the three and six months ended June 30, 2011 and 2010 were not significant.

Derivative Instruments

Under accounting requirements, all derivative instruments are recognized on the balance sheet at fair value. The accounting for changes in the fair value (gains or losses) depends on the nature of the derivative and hedging relationship.

M2P2 periodically utilizes derivative instruments in its risk management and commodity hedging activities. Derivative instruments primarily include futures and forward contracts which may be utilized to hedge price risk related to a portion of the Company's grain purchases. Although the derivatives are considered an economic hedge, they do not qualify for the defined hedge accounting and, accordingly, changes in fair value of the derivatives are recognized in net income. Gains or losses related to grain derivatives are classified in cost of goods sold on the consolidated statement of operations.

AGFEED INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(unaudited)

The Company's open derivative positions have been recorded at fair value (marked to market), resulting in a derivative asset and liability of approximately \$896,000 and \$0, and \$1,094,000 and \$980,000 at June 30, 2011 and December 31, 2010, respectively. Derivative assets are included in other current assets and derivative liabilities are included in accrued expenses on the consolidated balance sheet. Realized and unrealized derivative losses included in net loss during the six months ended June 30, 2011 totaled approximately \$1,467,000 and \$(195,000), respectively.

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.

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. As of June 30, 2011 the Company had China deferred tax assets of approximately \$2.7 million which were fully offset by a related valuation allowance.

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.

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 accumulated 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 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. At June 30, 2011, the Company had a total of 2,169,435 common stock equivalents outstanding, including options and warrants. All common stock equivalents for the six months ended June 30, 2011 are anti-dilutive due to the net loss incurred.

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The following is a reconciliation of the number of shares (denominator) used in the basic and diluted earnings per share computations for the three and six months ended June 30, 2011 and 2010:

Three months ended June 30:

	<u>2011</u>		<u>2010</u>	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share	60,500,355	\$ (0.26)	45,015,351	\$ (0.07)
Effect of dilutive stock options and warrants	-	-	-	-
Diluted earnings per share	<u>60,500,355</u>	<u>\$ (0.26)</u>	<u>45,015,351</u>	<u>\$ (0.07)</u>

Six months ended June 30:

	<u>2011</u>		<u>2010</u>	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share	56,964,030	\$ (0.31)	44,942,821	\$ (0.04)
Effect of dilutive stock options and warrants	-	-	-	-
Diluted earnings per share	<u>56,964,030</u>	<u>\$ (0.31)</u>	<u>44,942,821</u>	<u>\$ (0.04)</u>

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 Reporting," 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 10).

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, 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. Derivative financial instruments are recorded at fair value based on quoted market prices.

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Fair Value Measurements

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 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.

At June 30, 2011 and December 31, 2010, the Company's derivative instruments were reported at fair value using Level 1 and Level 2 inputs, as follows:

- derivative liability of \$896,000 and \$980,000 at June 30, 2011 and December 31, 2010, respectively, consisting of exchange traded commodity futures contracts valued using Level 1 inputs. The fair value measurements are determined by quoted market prices from the Chicago Board of Trade (CBOT).
- derivative asset of \$0 and \$1,094,000 at June 30, 2011 and December 31, 2010, respectively, consisting of fixed price forward purchase contracts valued using Level 2 inputs. The fair value measurements are based on observable data for similar assets as well as quoted market prices from the CBOT.

At December 31, 2010, the Company had approximately \$19.6 million of goodwill which was measured at fair value on a non-recurring basis, and was valued using Level 3 inputs.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the previously reported net income or stockholders' equity.

Note 3 – Short-Term Loan

Short term loan at June 30, 2011 and December 31, 2010 is as follows:

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
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 was paid off in full in May 2011). The loan is collateralized by buildings and land use rights.	<u>\$ -</u>	<u>\$ 4,551,000</u>

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Note 4 – 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 interest 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. 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.

Note 5 – 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 3.00% (3.25% at June 30, 2011). 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.

Note 6 – Long-Term Debt

Long- term loans at June 30, 2011 and December 31, 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Note payable, bearing interest at the prime rate plus 2% (5.25% at June 30, 2011) 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	\$ 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)	5,000,000	5,750,000
Senior term loan - \$7.6 million; \$5.8 million of the loan bears interest at 5.0% and the \$1.4 million remaining balance bears interest at the 3-month LIBOR plus 1.75% (2.05% at June 30, 2011); payments are due in monthly installments of approximately \$85,000. The remaining balance is due March 1, 2020. (A)	7,070,645	7,478,324
	<u>15,570,645</u>	<u>16,728,324</u>
Less current portion	<u>(1,718,108)</u>	<u>(1,703,658)</u>
	<u>\$ 13,852,537</u>	<u>\$ 15,024,666</u>

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- (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 7 – Stockholders’ Equity

Common Stock

The Company has granted a total of 2,025,000 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 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 six months ended June 30, 2011 and 2010 was \$433,795 and \$770,986, and \$375,720 and \$751,440, respectively. At June 30, 2011 there is \$3,575,745 of compensation expense that will be amortized over the remaining vesting periods.

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 year ended December 31, 2010, the Company issued 150,000 shares of its common stock to Southridge for the surrender of the existing warrant to purchase 400,000 shares of the Company’s common stock. The warrant was subsequently canceled by the Company. During the six months ended June 30, 2011, the Company issued 10,846,850 shares of its common stock for \$16,592,625 in connection with this Equity Credit Agreement.

Note 8 – 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 percent of income after tax, not to exceed 50 percent of registered capital.

The Company appropriated \$936,822, \$1,449,061 and \$2,483,829 as reserve for the statutory surplus reserve and welfare fund for the years ended December 31, 2010, 2009 and 2008, respectively.

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Note 9 – 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, 2010	185,000	\$ 8.96	2.71	\$ -
Granted	-	-		
Forfeited	-	-		
Exercised	-	-		
Outstanding, June 30, 2011	<u>185,000</u>	\$ 8.96	2.20	\$ -
Exercisable, June 30, 2011	175,000	\$ 8.94	2.20	\$ -

The exercise price for options outstanding at June 30, 2011 is as follows:

Number of Options	Exercise Price
10,000	\$ 3.30
15,000	\$ 8.85
<u>160,000</u>	<u>\$ 9.32</u>
<u>185,000</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, 2010	2,204,435	\$ 4.03	2.42	\$ 253,000
Granted	-	-		
Forfeited/canceled	(220,000)	\$ 5.00		
Exercised	-	-		
Outstanding, June 30, 2011	<u>1,984,435</u>	\$ 3.92	2.18	\$ -
Exercisable, June 30, 2011	1,984,435	\$ 3.92	2.18	\$ -

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The exercise price for warrants outstanding at June 30, 2011 is as follows:

Number of Warrants	Exercise Price
575,000	\$ 2.50
1,409,435	\$ 4.50
<u>1,984,435</u>	

Note 10 – 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: (1) animal feed nutrition, (2) hog production – United States, (3) hog production – China and (4) western style hog farms in China. Certain of the reportable segments include geographic units which are aggregated due to having substantially similar products, production processes, distribution systems, and economic characteristics. The Company does not allocate the holding company income and expenses to the other four segments, but rather presents them as part of the segment disclosures so that all the captions reconcile to the financial statements. The Company added the US hog production (as a result of the acquisition of M2P2) and western style hog farms segments in 2010.

The following tables summarize segment information (continuing operations) for the three and six months ended June 30, 2011 and 2010:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues from unrelated entities				
Animal feed nutrition	\$ 16,741,242	\$ 26,369,201	\$ 40,949,913	\$ 50,658,950
Hog production - United States	54,842,557	-	112,726,981	-
Hog production - China	13,814,173	7,391,175	24,708,277	29,591,282
Western style hog farms	-	-	-	-
Holding Company	-	-	-	-
	<u>\$ 85,397,972</u>	<u>\$ 33,760,376</u>	<u>\$ 178,385,171</u>	<u>\$ 80,250,232</u>
Intersegment revenues				
Animal feed nutrition	\$ 3,527,492	\$ 1,721,014	\$ 7,550,791	\$ 5,490,936
Hog production - United States	-	-	-	-
Hog production - China	665,116	1,267,008	1,222,267	1,784,139
Western style hog farms	-	-	-	-
Holding Company	-	-	-	-
	<u>\$ 4,192,608</u>	<u>\$ 2,988,022</u>	<u>\$ 8,773,058</u>	<u>\$ 7,275,075</u>

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Total revenues

Animal feed nutrition	\$ 20,268,734	\$ 28,090,215	\$ 48,500,704	\$ 56,149,886
Hog production - United States	54,842,557	-	112,726,981	-
Hog production - China	14,479,289	8,658,183	25,930,544	31,375,421
Western style hog farms	-	-	-	-
Holding Company	-	-	-	-
Less Intersegment revenues	(4,192,608)	(2,988,022)	(8,773,058)	(7,275,075)
	<u>\$ 85,397,972</u>	<u>\$ 33,760,376</u>	<u>\$ 178,385,171</u>	<u>\$ 80,250,232</u>

Gross profit

Animal feed nutrition	\$ 2,126,593	\$ 4,768,663	\$ 4,552,636	\$ 9,232,737
Hog production - United States	3,417,038	-	7,801,606	-
Hog production - China	2,542,785	(1,232,281)	3,612,276	175,682
Western style hog farms	-	-	-	-
Holding Company	-	-	-	-
	<u>\$ 8,086,416</u>	<u>\$ 3,536,382</u>	<u>\$ 15,966,518</u>	<u>\$ 9,408,419</u>

Income (loss) from operations

Animal feed nutrition	\$ (14,227,226)	\$ 2,962,810	\$ (15,062,722)	\$ 5,630,163
Hog production - United States	2,530,419	-	6,175,862	-
Hog production - China	1,309,764	(2,755,218)	1,170,518	(2,525,857)
Western style hog farms	(770,045)	(314,699)	(1,068,439)	(531,822)
Holding Company	(2,295,255)	(974,412)	(4,149,554)	(2,243,301)
	<u>\$ (13,452,343)</u>	<u>\$ (1,081,519)</u>	<u>\$ (12,934,335)</u>	<u>\$ 329,183</u>

Interest income

Animal feed nutrition	\$ 1,602	\$ 22,738	\$ 4,601	\$ 56,181
Hog production - United States	-	-	-	-
Hog production - China	5,439	8,187	16,442	14,099
Western style hog farms	-	1,382	-	1,382
Holding Company	630	4,644	1,350	12,622
	<u>\$ 7,671</u>	<u>\$ 36,951</u>	<u>\$ 22,393</u>	<u>\$ 84,284</u>

Interest and financing costs

Animal feed nutrition	\$ 25,536	\$ 97,079	\$ 96,240	\$ 179,611
Hog production - United States	760,292	-	1,384,970	-
Hog production - China	17,580	-	17,580	-
Western style hog farms	-	-	-	-
Holding Company	192,429	42,851	412,006	85,230
	<u>\$ 995,837</u>	<u>\$ 139,930</u>	<u>\$ 1,910,796</u>	<u>\$ 264,841</u>

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Income tax expense (benefit)				
Animal feed nutrition	\$ 82,523	\$ 641,139	\$ 217,377	\$ 1,094,719
Hog production - United States	-	-	-	-
Hog production - China	-	-	-	-
Western style hog farms	-	-	-	-
Holding Company	(386,767)	-	17,118	-
	<u>\$ (304,244)</u>	<u>\$ 641,139</u>	<u>\$ 234,495</u>	<u>\$ 1,094,719</u>

Net income (loss)				
Animal feed nutrition	\$ (14,375,746)	\$ 2,264,097	\$ (15,404,509)	\$ 4,437,740
Hog production - United States	1,770,127	-	4,790,892	-
Hog production - China	1,350,080	(2,592,928)	1,261,605	(2,275,618)
Western style hog farms	(770,045)	(231,137)	(1,061,239)	(394,101)
Holding Company	(2,105,204)	(1,012,619)	(4,587,316)	(2,315,909)
Discontinued operations	(1,744,242)	(1,382,165)	(2,425,287)	(1,339,446)
	<u>\$ (15,875,030)</u>	<u>\$ (2,954,752)</u>	<u>\$ (17,425,854)</u>	<u>\$ (1,887,334)</u>

Provision for depreciation				
Animal feed nutrition	\$ 215,394	\$ 112,394	\$ 457,125	\$ 219,436
Hog production - United States	435,968	-	927,317	-
Hog production - China	594,073	651,640	1,359,555	1,356,497
	<u>\$ 1,245,435</u>	<u>\$ 764,034</u>	<u>\$ 2,743,997</u>	<u>\$ 1,575,933</u>

	As of June 30, 2011	As of December 31, 2010
Total assets		
Animal feed nutrition	\$ 26,315,368	\$ 42,783,939
Hog production - United States	108,565,414	94,369,142
Hog production - China	63,295,409	58,918,591
Western style hog farms	22,676,520	15,162,473
Holding Company	4,082,119	5,966,993
Discontinued operations	-	6,293,524
	<u>\$ 224,934,830</u>	<u>\$ 223,494,662</u>

Goodwill		
Animal feed nutrition	\$ 2,485,332	\$ 2,437,135
Hog production - United States	326,000	326,000
Hog production - China	19,989,930	19,602,279
Western style hog farms	-	-
Holding Company	-	-
	<u>\$ 22,801,262</u>	<u>\$ 22,365,414</u>

Long-term asset by geographic region		
United States	\$ 33,163,638	\$ 29,581,577
China	76,443,092	67,995,469
	<u>\$ 109,606,730</u>	<u>\$ 97,577,046</u>

Note 11 – Commitments

At June 30, 2011, the Company had commitments to expend approximately \$2,129,000 for construction in process and growing breeder hogs.

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Note 12 – Discontinued Operations

During the six months ended June 30, 2011, the Company made the decision to dispose of all eight of our commercial hog farms in Jiangxi Province. All eight farms were included in our hog production – China segment. The closure of these farms is being accounted for as a discontinued operation. Operating results for hog farms in the Jiangxi Province have been presented in the accompanying consolidated statements of operations as discontinued operations for the six months ended June 30, 2011 and 2010. In addition, the assets and liabilities related to hog farms have been presented in the accompanying consolidated balance sheets as “Assets of discontinued operations” and “Liabilities of discontinued operations” at June 30, 2011 and December 31, 2010. Currently, the Company has executed settlement agreements for seven of the eight hog farms.

The operating results for the eight hog farms have been presented in the accompanying consolidated statement of operations for the three and six months ended June 30, 2011 and 2010 as discontinued operations and are summarized below:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues	\$ 660,619	\$ 3,901,579	\$ 2,791,028	\$ 10,270,790
Cost of goods sold	2,621,784	4,878,683	4,576,498	10,800,649
Gross profit	(1,961,165)	(977,104)	(1,785,470)	(529,859)
Operating expenses	257,884	307,966	887,003	640,756
Loss from operations	(2,219,049)	(1,285,070)	(2,672,473)	(1,170,615)
Non-operating income (expense)	474,807	(97,095)	247,186	(168,831)
Loss before taxes	(1,744,242)	(1,382,165)	(2,425,287)	(1,339,446)
Income tax expense	-	-	-	-
Net loss	<u>\$ (1,744,242)</u>	<u>\$ (1,382,165)</u>	<u>\$ (2,425,287)</u>	<u>\$ (1,339,446)</u>

The assets and liabilities of the discontinued operations at June 30, 2011 and December 31, 2010 are summarized below:

	<u>June 30,</u>	<u>December 31,</u>
	<u>2011</u>	<u>2010</u>
Current assets	\$ -	\$ 3,271,226
Long-term assets	-	3,022,298
	<u>\$ -</u>	<u>\$ 6,293,524</u>
Current liabilities	<u>\$ 97,446</u>	<u>\$ 1,595,805</u>

Note 12 – Subsequent Event

In July 2011, the Company entered into separate non-binding letters of intent to acquire Pine Ridge Farms, LLC and Kansas City Sausage Company, LLC.

On July 29, 2011, the Company entered into an Exchange Agreement with certain warrants holders whereby the Company issued an aggregate of 429,101 shares of its common stock in exchange for the warrant holders surrendering an aggregate of 776,548 warrant that were currently outstanding.