

Edgar Filing: Masterbeat Corp - Form 10-Q

Masterbeat Corp
Form 10-Q
November 22, 2010

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

Quarterly report under Section 13 or 15 (d) of the Securities Exchange

Act of 1934

For the quarter ended September 30, 2010

Transition report under Section 13 or 15 (d) of the Securities Exchange

Act of 1934

For the transition period from _____ to _____

Commission file number 333-144982

MASTERBEAT CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction of
Incorporation or Organization)

26-0252191
(IRS Employer
Identification No.)

222 East 31st Street - Main Level, New York, New York 10016
(Address of Principal Executive Office) (Zip Code)

(212) 532-1813
(Registrant's Telephone Number, Including Area Code)

N/A
(Former name, former address and former fiscal year,
if changed since last report)

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act:

Common Stock par value \$.001 per share

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

Edgar Filing: Masterbeat Corp - Form 10-Q

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in

Rule 12b-2 of the Act) Yes No

State the number of shares of outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 19,643,815 shares of Common Stock as of November 19, 2010.

MASTERBEAT CORPORATION
TABLE OF CONTENTS

PART I

Item 1.	Financial Statements	3
	Condensed Balance Sheet at September 30, 2010 (unaudited) and December 31, 2009	3
	Condensed Statements of Operations for the three and nine months ended September 30, 2010 and 2009 (unaudited)	4
	Condensed Statement of Stockholders' Equity/(Deficiency) for the nine months ended September 30, 2010 (unaudited)	5
	Condensed Statements of Cash Flows for the nine months ended September 30, 2010 and 2009 (unaudited)	6
	Notes to Condensed Financial Statements (unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 4.	Controls and Procedures	18
PART II		18
Item 1.	Legal Proceedings	18
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	18
Item 3.	Defaults Upon Senior Securities	18
Item 4.	(Removed and Reserved)	18
Item 5.	Other Information	18
Item 6.	Exhibits	18
	Signatures	19

PART I

Item 1. Financial Statements

MASTERBEAT CORPORATION
CONDENSED BALANCE SHEETS

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash	\$78,316	\$157,906
Accounts receivable – net of allowance of \$14,873 and \$318	-	81,524
Prepaid expenses	-	25,000
Total current assets	78,316	264,430
FIXED ASSETS, net	77,601	95,848
INTANGIBLE ASSETS, net	208,179	237,539
OTHER ASSETS	15,000	15,000
TOTAL ASSETS	379,096	\$612,817
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	477,523	\$256,134
Notes payable, net of discount of \$131,212	118,788	
Notes payable - related party – net of discount of \$25,000	100,000	200,000
Total current liabilities	696,311	456,134
LONG TERM LIABILITIES		
Liability for unissued shares	41,500	-
STOCKHOLDERS' EQUITY (DEFICIENCY)		
Preferred stock: \$.0001 par value; 20,000,000 shares authorized; no shares issued or outstanding		
Common stock: \$.0001 par value; 80,000,000 shares authorized; 19,643,815 (2010) and 10,000,000 (2009) shares issued and outstanding	1,964	1,000
Subscriptions receivable	-	75,000
Additional paid-in capital	4,172,291	2,636,342
Accumulated deficit	(4,532,970)	(2,555,659)
Total Stockholders' Equity (Deficiency)	(358,715)	156,683
Total Liabilities and Stockholders' Equity (Deficiency)	\$379,096	\$612,817

See notes to condensed financial statements

MASTERBEAT CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenues	243,397	\$195,488	\$648,301	\$623,934
Cost Of Sales	262,095	132,713	606,282	306,672
Gross Profit	(18,698)	62,775	42,019	317,262
Operating Expenses				
Depreciation and amortization	19,390	19,741	58,099	61,438
Selling, general and administrative	350,258	362,899	1,796,570	1,010,605
Total Operating Expenses	(369,648)	382,640	1,854,669	1072,043
Loss from operations	(388,346)	(319,865)	(1,812,650)	(754,781)
Finance and interest expense	(123,158)	(16,204)	(164,661)	(49,104)
Net loss	\$(511,504)	(336,069)	\$(1,977,311)	\$(803,885)
Loss per share – basic and dilutive	\$(0.03)	\$(0.05)	\$(0.16)	\$(0.11)
Weighted average shares outstanding	15,844,685	7,500,000	12,511,337	7,500,000

See notes to condensed financial statements

MASTERBEAT CORPORATION
 CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)
 (Unaudited)

	Common Stock \$.0001 Par value		Additional paid-in	Subscriptions	Accumulated	Total Stockholders' Equity (Deficiency)
	Share	Amount	capital	Receivable	Deficit	
Balance as of December 31, 2009	10,000,000	\$ 1,000	\$ 2,636,342	\$ 75,000	\$ (2,555,659)	\$ 156,683
Common stock issuances:						
Subscription agreement	135,135	14	\$ 74,986	\$ (75,000)		-
Services	3,038,500	303	857,497			857,800
Notes payable	1,200,000	120	199,880			200,000
Conversion of indebtedness	5,270,180	527	403,586			404,113
Net loss for the period					(1,977,311)	(1,977,311)
Balance as of September 30, 2010	19,643,815	\$ 1,964	\$ 4,172,291	-	\$ (4,532,970)	(358,715)

See notes to condensed financial statements

MASTERBEAT CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2010	2009
	(Unaudited)	
OPERATING ACTIVITIES		
Net loss	\$(1,977,311)	\$ (803,885)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization and depreciation	58,099	61,438
Noncash compensation	857,800	-
Amortization of debt discount	81,288	-
Changes in operating assets and liabilities:		
Decrease in accounts receivable	81,524	56,694
Decrease in prepaid expenses	25,000	-
Increase (decrease)in accounts payable and accrued liabilities	245,502	(116,231)
NET CASH USED IN OPERATING ACTIVITIES	(628,098)	(801,984)
INVESTING ACTIVITIES		
Acquisition of fixed assets	(10,492)	(16,770)
NET CASH USED IN INVESTING	(10,492)	(16,770)
FINANCING ACTIVITIES		
Members' contributions in recapitalization	-	866,617
Proceeds from convertible note payable	280,000	-
Proceeds from private placement of debt and common stock	204,000	-
Proceeds from issuance of note payable	50,000	-
Proceeds from related party indebtedness	25,000	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	559,000	866,617
NET (DECREASE) INCREASE IN CASH DURING PERIOD	(79,590)	47,863
CASH - BEGINNING OF PERIOD	157,906	(13,503)
CASH - END OF PERIOD	\$ 78,316	\$ 34,360
SUPPLEMENTAL DISCLOSURES		
Non-cash investing and financing activities		
Common stock issued in connection with:		
Services	\$ 857,800	
Conversion of indebtedness – including accrued interest	404,113	

See notes to condensed financial statements

MASTERBEAT CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2010

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

Masterbeat Corporation (“Masterbeat or the “Company”) was incorporated in the state of Delaware on May 17, 2007 as Green Mountain Recovery, Inc. On December 18, 2009, Masterbeat entered into a Share Exchange Agreement (the “Exchange Agreement”) with Masterbeat, LLC, formerly a California Limited Liability company. Pursuant to the terms of the Share Exchange Agreement, the members of Masterbeat, LLC agreed to transfer all of the issued and outstanding limited units in Masterbeat, LLC to the Company in exchange for the issuance of an aggregate of 8,500,000 shares of the Company’s common stock, thereby causing Masterbeat, LLC to become a wholly-owned subsidiary of the Company.

The stock exchange transaction has been accounted for as a reverse acquisition and recapitalization of Masterbeat Corporation whereby Masterbeat, LLC is deemed to be the accounting acquirer (legal acquiree) and Masterbeat Corporation to be the accounting acquire (legal acquirer). The accompanying consolidated financial statements are in substance those of Masterbeat, LLC with the assets and liabilities, and revenues and expenses, of Masterbeat Corporation being included effective from the date of stock exchange transaction. Masterbeat Corporation is deemed to be a continuation of the business of Masterbeat, LLC. Accordingly, the accompanying consolidated financial statements include the following:

- (1) the balance sheet consists of the net assets of the accounting acquirer at historical cost;
- (2) the financial position, results of operations, and cash flows of the acquirer for all periods presented as if the recapitalization had occurred at the beginning of the earliest period presented.

Immediately following the closing of the Share Exchange Agreement, the Company changed its name to Masterbeat Corporation. The Masterbeat, LLC was dissolved but its business will carry on through its operating units, Masterbeat.com, posterprintshop.com and circuitticket.com.

Masterbeat.com is an online digital music store specializing in "Hip-Hop", dance and electronica music. The website features hard-to-obtain remixes from major record labels as well as music from independent labels worldwide. Masterbeat.com also produces large scale dance events under its “powered by Masterbeat.com” name. Posterprintshop.com is a quick-turnaround online printing store that provides photo enlargement services and the printing of posters, signs and banners. Circuitticket.com is a full service ticketing site capable of sequencing, tracking, printing and delivering high quality ticket stubs for a wide array of events, parties, festivals, concerts and other gatherings.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The accompanying unaudited financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, these financial statements do not include all disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements and the notes thereto included on Form 10-K for the period ended December 31, 2009. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of

Edgar Filing: Masterbeat Corp - Form 10-Q

which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for a full year.

The condensed consolidated balance sheet at December 31, 2009 has been derived from the audited consolidated financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

Going Concern:

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course of business. The Company has not as yet attained a level of operations which allows it to meet its current overhead and may not attain profitable operations within the next few operating cycles, nor is there any assurance that such an operating level can ever be achieved. As reflected in the accompanying financial statements, the Company cash flows used in operations was \$628,000 and \$1.3 million for the nine months ended September 30, 2010 and for the year ended December 31, 2009, respectively. For the nine months ended September 30, 2010 and for the year ended December 31, 2009, the Company incurred net losses of \$2.0 million and \$1.3 million, respectively. The Company is dependent upon obtaining additional financing adequate to fund its operations. While the Company has funded its initial operations with private placements and secured loans from related parties and others, there can be no assurance that adequate financing will continue to be available to the Company and, if available, on terms that are favorable to the Company. The Company's ability to continue as a going concern is also dependent on many events outside of its direct control, including, among other things improvement in the economic climate. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Use of Estimates:

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

Web Site Development Costs:

The Company has incurred internal web site development costs during the development, implementation and operational stages of its web site. Specific activities include initial planning and research, coordination of design, engineering, integration and design modifications, web site customizing and revisions, etc. These costs were expensed or capitalized in accordance with ASC350-40 and ASC 350-50. The useful life assigned to the Company's internal-use website was based on management's assessment regarding the technology, obsolescence and the ability of standard maintenance and software updates to enable the website to perform at a level consistent with market expectations and competitor's offerings.

Revenue Recognition:

The Company recognizes revenue based on Account Standards Codification ("ASC") 605 "Revenue Recognition" which contains Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" and No. 104, "Revenue Recognition". In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured. Revenues transacted from on-line platforms relating to audio download and poster printing services are recognized at the point of sale.

Agent revenues are recognized in accordance with ASC 605-45. Agent revenues are derived from ticket sales where we are not the merchant of record and where the prices of our services are fixed at the point of sale. Agent revenue is comprised of service fees and customer processing fees and is reported at the net amounts received, without any

associated cost of revenue.

Amounts billed to customers in sales transactions related to shipping and handling are classified as revenue in accordance with ASC 605-45. The actual cost to the Company is recognized as an operating expense.

Fair Value Measurements

Accounting principles generally accepted in the United States define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1. We value assets and liabilities included in this level using dealer and broker quotations, bid prices, quoted prices for similar assets and liabilities in active markets, or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Recurring Fair Value Measurements

In accordance with accounting principles generally accepted in the United States, certain assets and liabilities are required to be recorded at fair value on a recurring basis. For our Company, the only assets and liabilities that are adjusted to fair value on a recurring basis are derivative instruments which the Company values using Level 2 inputs (see Note 4).

Fair Value of Financial Instruments:

The carrying value of cash and cash equivalent, accounts receivable, other assets, accounts payable and other liabilities approximate their fair value due to the relatively short period to maturity of these instruments.

Advertising Costs:

Advertising costs are generally expensed as incurred and are included in selling and marketing expenses in the accompanying statement of operations.

Income Taxes:

The Company accounts for income taxes based on ASC 740 Income Taxes. Under ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

NOTE 3 – RECENTLY ISSUED ACCOUNTING PRONOUCEMENTS

In June 2009, the Financial Accounting Standards Board (“FASB”) issued guidance under Accounting Standards Codification (“ASC”) 860 (Prior authoritative literature: SFAS No. 166, “Accounting for Transfers of Financial Assets”), which will require more information about transfer of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity”, changes the requirements for derecognizing financial assets and requires additional disclosures. This ASC will be effective for fiscal years beginning after November 15, 2009. The adoption of this ASC effective January 1, 2010 did not have a material impact on the Company’s financial statements.

In January 2010, the FASB issued Accounting Standards Update (“ASU”) No. 2010-06 to amend ASC 820, Fair Value Measurements and Disclosures to improve disclosures about fair value measurements. This ASU provides amendments that require new disclosures regarding transfers in and out of Levels 1 and 2 and with respect to various activities in Level 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this portion of the ASU effective January 1, 2010 did not have a material impact to the Company’s financial statements. The disclosures with respect to purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010. The Company does not anticipate that the adoption of these provisions of the ASU will have a material effect on the financial statements.

In February 2010, the FASB issue ASU No. 2010-09 to amend ASC 855, Subsequent Events with respect to certain recognition and disclosure requirements. The amendments in this ASU are effective upon issuance. The adoption of this ASU effective the current quarter ended September 30, 2010 did not have a material impact on the Company’s financial statements.

NOTE 4 – COMMON STOCK

On March 23, 2010, the Company issued an aggregate of 135,135 shares of common stock for cash totaling \$75,000 (\$0.555 per share) pursuant to the terms of two Stock Subscription Agreements executed on December 16, 2009.

On March 23, 2010, the Company issued 93,500 shares of common stock in exchange for services valued at \$121,550 (\$1.30 per share), which was expensed in the quarter ended March 31, 2010.

On March 23, 2010, the Company issued 180,180 shares of common stock to convert \$100,000 in principal and accrued interest due under a short-term note payable to a related party.

In May 2010, the Company issued an aggregate of 2,600,000 shares of common stock in exchange for services valued at \$650,000, which was expensed in the quarter ended June 30, 2010.

In May and August 2010, the Company borrowed from a lender an aggregate of \$54,000 and as additional consideration for one of the loans agreed to issue the lender 25,000 shares of common stock as additional consideration. The notes were recorded net of the value attributed to the consideration and the obligation was recorded as "liability for shares to be issued" in the accompanying condensed balance sheet as of September 30, 2010. The discount will be amortized as finance cost over the period the loan is outstanding. The Company has granted the lender a security interest in the Company's intangibles including its website and related software.

In June 2010, the Company borrowed an aggregate of \$100,000 and as additional consideration for the loans agreed to issue the lenders an aggregate of 700,000 shares of common stock. The notes are repayable in November 2010 with interest at 12 % per annum. If the Company defaults in these obligations it is required to issue to the lenders shares of the common stock equivalent to 101% of the outstanding equity interests then outstanding. The notes were recorded net of the value attributed to the consideration. This discount will be amortized as finance cost over the period the loans are outstanding. As of November 30, 2010 the loans were not repaid in accordance with the terms of the loans.

In August 2010, the Company issued 5,090,000 shares of common stock in connection with the conversion of the convertible debenture (see Note 5 below) including accrued and unpaid interest of \$24,113.

In September 2010, the Company borrowed \$100,000 and as additional consideration for the loan agreed to issue the lender 500,000 shares of common stock. The notes are repayable in January 2011 with interest at 18 % per annum. In addition, the Company must pay the lender a finance charge of \$18,000 when the principal is due. The notes were recorded net of the value attributed to the consideration. This discount will be amortized as finance cost over the period the loans are outstanding.

Amortization of the loan discounts during the three and nine months ended September 30, 2010 amounted to \$68,788.

NOTE 5 – CONVERTIBLE DEBENTURE

On January 1, 2010, the Company issued a convertible promissory note in the amount of \$280,000 bearing interest at 14% per year. The principal amount along with any unpaid interest is due on August 1, 2011. The principal amount of the note is convertible to the Company's common stock on the basis of one share of such stock for each \$0.45 in principal amount. Interest expense under the note for the nine months ended September 30, 2010 was \$24,113. In August 2010, the Company redeemed the debentures and the unpaid interest for 5,090,000 shares of common stock (see Note 4).

NOTE 6 – NOTES PAYABLE – RELATED PARTY

On August 4, 2010, the Company renegotiated the then outstanding amount (\$100,000) due to a shareholder/Board Member. In addition, lender loaned the Company an additional \$25,000. The new note matures February 1, 2011 with \$1,000 for interest. In the event that the note is not paid in full on or before the maturity date, interest will continue to accrue at the rate of 15% per annum. Additionally a late charge of 5% of the overdue payment shall be

paid. As additional consideration for the new loan and terms the Company will issue 150,000 shares of its common stock. The notes were recorded net of the value attributed to the consideration and the obligation was recorded as “liability for shares to be issued” in the accompanying condensed balance sheet as of September 30, 2010. The discount will be amortized as finance cost over the period the loan is outstanding. Amortization of the loan discount during the three and nine months ended September 30, 2010 amounted to \$12,500.

NOTE 7 – PLANNED ACQUISITION

On May 4, 2010, the Company entered into a non-binding letter of intent to acquire AudioStreet Incorporated for 20 million shares of the Company’s common stock. The transaction is subject to certain conditions, agreements and undertakings including satisfactory results of due diligence and appropriate consents of the Boards of Directors of both companies.

AudioStreet owns a community of media websites focused on music-based content including AudioStreet.net; MixStreet.com and LiveMansion.com.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and related notes appearing elsewhere in this quarterly report on Form 10-Q. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under 'Risk Factors' in our annual report on Form 10-K, filed with SEC April 23, 2010.

OVERVIEW

Masterbeat Corporation ("Masterbeat or the "Company") was incorporated in the state of Delaware on May 17, 2007 as Green Mountain Recovery, Inc. On December 18, 2009, Masterbeat entered into a Share Exchange Agreement (the "Exchange Agreement") with Masterbeat, LLC, formerly a California Limited Liability company. Pursuant to the terms of the Share Exchange Agreement, the members of Masterbeat, LLC agreed to transfer all of the issued and outstanding limited units in Masterbeat, LLC to the Company in exchange for the issuance of an aggregate of 8,500,000 shares of the Company's common stock, thereby causing Masterbeat, LLC to become a wholly-owned subsidiary of the Company.

The stock exchange transaction has been accounted for as a reverse acquisition and recapitalization of Masterbeat Corporation whereby Masterbeat, LLC is deemed to be the accounting acquirer (legal acquiree) and Masterbeat Corporation to be the accounting acquire (legal acquirer). The accompanying consolidated financial statements are in substance those of Masterbeat, LLC with the assets and liabilities, and revenues and expenses, of Masterbeat Corporation being included effective from the date of stock exchange transaction. Masterbeat Corporation is deemed to be a continuation of the business of Masterbeat, LLC. Accordingly, the accompanying consolidated financial statements include the following:

- (1) the balance sheet consists of the net assets of the accounting acquirer at historical cost;
- (2) the financial position, results of operations, and cash flows of the acquirer for all periods presented as if the recapitalization had occurred at the beginning of the earliest period presented.

Immediately following the closing of the Share Exchange Agreement, the Company changed its name to Masterbeat Corporation. The Masterbeat, LLC was dissolved but its business will carry on through its operating units, Masterbeat.com, posterprintshop.com and circuitticket.com.

Masterbeat.com is an online digital music store specializing in "Hip-Hop", dance and electronica music. The website features hard-to-obtain remixes from major record labels as well as music from independent labels worldwide. Masterbeat.com also produces large scale dance events under its "powered by Masterbeat.com" name. Posterprintshop.com is a quick-turnaround online printing store that provides photo enlargement services and the printing of posters, signs and banners. Circuitticket.com is a full service ticketing site capable of sequencing, tracking, printing and delivering high quality ticket stubs for a wide array of events, parties, festivals, concerts and other gatherings.

GOING CONCERN

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of liabilities in the normal course of

business. The Company has not as yet attained a level of operations which allows it to meet its current overhead and may not attain profitable operations within the next few operating cycles, nor is there any assurance that such an operating level can ever be achieved. As reflected in the accompanying financial statements, the Company cash flows used in operations was \$628,000 and \$1.3 million for the nine months ended September 30, 2010 and for the year ended December 31, 2009, respectively. For the nine months ended September 30, 2010 and for the year ended December 31, 2009, the Company incurred net losses of \$2.0 million and \$1.3 million, respectively. The Company is dependent upon obtaining additional financing adequate to fund its operations. While the Company has funded its initial operations with private placements and secured loans from related parties and others, there can be no assurance that adequate financing will continue to be available to the Company and, if available, on terms that are favorable to the Company. The report of our auditors on our financial statements for the year ended December 31, 2009 includes a reference to going concern risks. The Company's ability to continue as a going concern is also dependent on many events outside of its direct control, including, among other things improvement in the economic climate. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

RESULTS OF OPERATION

RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO SEPTEMBER 30, 2009

REVENUES

Our revenues for the three months ended September 30, 2010 and 2009 were as follows:

	2010	2009	2009 to 2010 % Change
Revenues	\$ 243,397	\$ 195,488	24.53)%

Our revenue is derived primarily from online music download services specializing in "Hip-Hop", dance and electronic music. The Company also hosts parties and events, provides disc jockey services, acts as ticket agent for events hosted by others and operates a website that provides photo enlargement services and the printing of posters, signs and banners. Total revenues increased in comparison to the same period last year principally as a result of an increase in music download services in the 2010 period.

COST OF SALES

Our cost of sales for the three months ended September 30, 2010 and September 30, 2009 were as follows:

	2010	2009	2009 to 2010 % Change
Cost of Sales	\$ 262,095	\$ 132,713	97.49)%

Cost of Sales for the three months ended September 30, 2010 increased 97.49 % compared to September 30, 2009. The increase the cost of sales was primarily due to signing agreements with the major music labels which require minimum revenue guarantees.

GROSS PROFIT

Gross profit is defined as revenues less cost of sales. Cost of sales consists of product costs, cost of commissions and cost of services.

The following table presents net sales, cost of sales and gross profit for the three months ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010		2009		\$ Change
	Amount	% of Net Sales	Amount	% of Net Sales	
Revenues	\$243,397	100.0 %	\$195,488	100.0 %	\$47,939
Cost of sales	262,095	107.7	132,713	67.9	129,382
Gross profit	\$18,698	(7.7) %	\$62,775	32.1	\$(81,443)

Edgar Filing: Masterbeat Corp - Form 10-Q

Operating expenses for the three months ended September 30, 2010 and 2009 were as follows:

	For the Three Months Ended March 31, 2010		2009		\$ Change
	Amount	% of Net Sales	Amount	% of Net Sales	
Depreciation and amortization	\$ 19,390	8.0 %	\$ 19,741	10.1 %	\$(351)
General and administrative	350,258	143.9 %	362,899	185.7 %	(12,641)
Total operating expenses	\$ 369,648	151.9 %	\$ 382,640	195.8 %	\$(12,992)

General and administrative expenses consist primarily of salaries and benefits for our executive and administrative personnel, facilities costs, advertising expense and fees for outside consulting services

RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO SEPTEMBER 30, 2009

REVENUES

Our revenues for the nine months ended September 30, 2010 and 2009 were as follows:

	2010	2009	2009 to 2010 % Change
Revenues	\$ 648,301	\$ 623,934	3.91%

Our revenue is derived primarily from online music download services specializing in "Hip-Hop", dance and electronic music. The Company also hosts parties and events, provides disc jockey services, acts as ticket agent for events hosted by others and operates a website that provides photo enlargement services and the printing of posters, signs and banners. Total revenue increased in comparison to the same period last year principally as a result of a increase in music download revenues in the 2010 period.

COST OF SALES

Our cost of sales for the nine months ended September 30, 2010 and September 30, 2009 were as follows:

	2010	2009	2009 to 2010 % Change
Cost of Sales	\$ 606,282	\$ 306,672	97.70%

Cost of Sales for the nine months ended September 30, 2010 increased 97.70 % compared to September 30, 2009. The increase the cost of sales was primarily due to signing agreements with the major music labels which require minimum revenue guarantees.

GROSS PROFIT

Gross profit is defined as revenues less cost of sales. Cost of sales consists of product costs, cost of commissions and cost of services.

Edgar Filing: Masterbeat Corp - Form 10-Q

The following table presents net sales, cost of sales and gross profit for the three months ended September 30, 2010 and 2009:

	For the Nine Months Ended September 30, 2010		2009		\$ Change
	Amount	% of	Amount	% of	
		Net Sales		Net Sales	
Net sales	\$648,301	100.0 %	\$623,934	100.0 %	\$24,367
Cost of sales	606,282	93.52	306,672	49.15	299,610
Gross profit	\$42,019	6.48 %	\$317,262	50.85 %	\$(275,243)

Operating expenses for the nine months ended September 30, 2010 and 2009 were as follows:

	For the Nine Months Ended September 30, 2010		2009		\$ Change
	Amount	% of	Amount	% of	
		Net Sales		Net Sales	
Depreciation and amortization	\$58,099	8.96 %	\$61,438	9.85 %	\$(3,339)
General and administrative	1,796,570	277.12	1,010,605	161.97	785,965
Total operating expenses	\$1,854,669	286.08 %	\$1,072,043	171.82 %	\$782,626

General and administrative expenses consist primarily of salaries and benefits for our executive and administrative personnel, facilities costs, advertising expense and fees for outside consulting services. In the 2010 period noncash compensation charges for stock issuances for services amounted to \$858,000 which was the principal reason for the increase in general and administrative expenses offset by a decrease in expenses related to events as a result of the decrease in this activity.

LIQUIDITY AND CAPITAL RESOURCES

Since Masterbeat's inception the Company has financed operations primarily through the sale of equity and through short term borrowings. During the nine months ended September 30, 2010, the Company raised an aggregate of \$559,000 through debt financings which included equity enhancements.

As of September 30, 2010, Masterbeat cash balance of \$78,000 versus \$158,000 at December 31, 2009. The Company has a deficiency in working capital and a stockholders' deficiency of \$618,000 and \$359,000, respectively, at September 30, 2010. The Company has not as yet attained a level of operations which allows it to meet its current overhead and may not attain profitable operations within its first few business operating cycles, nor is there any assurance that such an operating level can ever be achieved. As reflected in the accompanying financial statements, the Company cash flows used in operations in the amount of \$628,000 and \$1.3 million for the nine months ended September 30, 2010 and for the year ended December 31, 2009, respectively. For the nine months ended September 30, 2010 and for the year ended December 31, 2009, the Company incurred net losses of \$2.0 million and \$1.3 million, respectively. The Company is dependent upon obtaining additional financing adequate to fund its operations. While the Company has funded its initial operations with private placements and secured loans from related parties and others, there can be no assurance that adequate financing will continue to be available to the Company and, if available, on terms that are favorable to the Company.

OFF-BALANCE SHEET ARRANGEMENTS

None

Related Parties

Information concerning related party transactions is included in the financial statements and related notes, appearing elsewhere in this quarterly report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES

Basis of Presentation:

The accompanying unaudited financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, these financial statements do not include all disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements and the notes thereto included on Form 10-K for the period ended December 31, 2009. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for a full year

Use of Estimates:

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

Web Site Development Costs:

The Company has incurred internal web site development costs during the development, implementation and operational stages of its web site. Specific activities include initial planning and research, coordination of design, engineering, integration and design modifications, web site customizing and revisions, etc. These costs were expensed or capitalized in accordance with ASC350-40 and ASC 350-50. The useful life assigned to the Company's internal-use website was based on management's assessment regarding the technology, obsolescence and the ability of standard maintenance and software updates to enable the website to perform at a level consistent with market expectations and competitor's offerings.

Revenue Recognition:

The Company recognizes revenue based on Account Standards Codification ("ASC") 605 "Revenue Recognition" which contains Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" and No. 104, "Revenue Recognition". In all cases, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured. Revenues transacted from on-line platforms relating to audio download and

poster printing services are recognized at the point of sale.

Agent revenues are recognized in accordance with ASC 605-45. Agent revenues are derived from ticket sales where we are not the merchant of record and where the prices of our services are fixed at the point of sale. Agent revenue is comprised of service fees and customer processing fees and is reported at the net amounts received, without any associated cost of revenue.

Amounts billed to customers in sales transactions related to shipping and handling are classified as revenue in accordance with ASC 605-45. The actual cost to the Company is recognized as an operating expense.

Fair Value Measurements

Accounting principles generally accepted in the United States define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1. We value assets and liabilities included in this level using dealer and broker quotations, bid prices, quoted prices for similar assets and liabilities in active markets, or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Recurring Fair Value Measurements

In accordance with accounting principles generally accepted in the United States, certain assets and liabilities are required to be recorded at fair value on a recurring basis. For our Company, the only assets and liabilities that are adjusted to fair value on a recurring basis are derivative instruments which the Company values using Level 2 inputs (see Note 4).

Fair Value of Financial Instruments:

The carrying value of cash and cash equivalent, accounts receivable, other assets, accounts payable and other liabilities approximate their fair value due to the relatively short period to maturity of these instruments.

Advertising Costs:

Advertising costs are generally expensed as incurred and are included in selling and marketing expenses in the accompanying statement of operations.

Income Taxes:

The Company accounts for income taxes based on ASC 740 Income Taxes. Under ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements

carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

RECENT AUTHORITATIVE ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (“FASB”) issued guidance under Accounting Standards Codification (“ASC”) 860 (Prior authoritative literature: SFAS No. 166, “Accounting for Transfers of Financial Assets”), which will require more information about transfer of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a “qualifying special-purpose entity”, changes the requirements for derecognizing financial assets and requires additional disclosures. This ASC will be effective for fiscal years beginning after November 15, 2009. The adoption of this ASC effective January 1, 2010 did not have a material impact on the Company’s financial statements.

In January 2010, the FASB issued Accounting Standards Update (“ASU”) No. 2010-06 to amend ASC 820, Fair Value Measurements and Disclosures to improve disclosures about fair value measurements. This ASU provides amendments that require new disclosures regarding transfers in and out of Levels 1 and 2 and with respect to various activities in Level 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this portion of the ASU effective January 1, 2010 did not have a material impact to the Company’s financial statements. The disclosures with respect to purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010. The Company does not anticipate that the adoption of these provisions of the ASU will have a material effect on the financial statements.

In February 2010, the FASB issue ASU No. 2010-09 to amend ASC 855, Subsequent Events with respect to certain recognition and disclosure requirements. The amendments in this ASU are effective upon issuance. The adoption of this ASU effective the current quarter ended June 30, 2010 did not have a material impact on the Company’s financial statements.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer ("Certifying Officer"), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, the Certifying Officer have concluded that, as of the end of such period, September 30, 2010, the Company's disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to management, including our Certifying Officer, to allow timely decisions regarding such disclosure.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in Masterbeat Corporations internal controls over financial reporting during the quarter ended September 30, 2010, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting subsequent to the date of management's last evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The Company is not currently involved in any legal proceedings and we are not aware of any pending or potential legal actions.

ITEM 1A. RISK FACTORS.

NOT APPLICABLE

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

In August and September 2010, the Company borrowed \$4,000 and \$100,000 and as additional consideration for the loans agreed to issue the lenders an aggregate of 504,000 shares of common stock. In addition, the Company renegotiated amounts due one of its Board members and in consideration of extension of the due date as well as an increase in the indebtedness by \$25,000, the Company agreed to issue 150,000 shares of its common stock to the related party lender. These transactions were exempt from registration pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended, as open to "accredited investors" as that term is defined in Rule 501 of Regulation D.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

31.1 Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.

31.2 See Exhibit 31.1

32.1 Certification pursuant to 18U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 See Exhibit 32.2

18

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MASTERBEAT CORPORATION

November 22, 2010

By: /s/ Brett Henrichsen
Brett Henrichsen
Chief Executive Officer and
Chief Financial Officer