

Edgar Filing: Masterbeat Corp - Form 10-Q

Masterbeat Corp  
Form 10-Q  
May 17, 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 March 31, 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 CORPORAITON  
(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

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:

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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: 10,408,815 shares of Common Stock as of May 14, 2010.

### ITEM 1. FINANCIAL STATEMENTS.

The un-audited quarterly financial statements for the period ended March 31, 2010 immediately follow.

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MASTERBEAT CORPORATION  
 BALANCE SHEETS  
 As of March 31, 2010 and December 31, 2009

|   | (Unaudited)<br>March 31,<br>2010<br>----- | (A<br>Dec<br>----- |
|---|---|--------------------|
| <b>ASSETS</b>                               |   |                    |
| <b>CURRENT ASSETS</b>                       |   |                    |
| Cash  | \$ 6,261                                  | \$                 |
| Accounts receivable, net                    | 4,751                                     |                    |
| Prepaid expenses                            | 65,000                                    |                    |
|   | -----                                     | -----              |
| Total current assets                        | 76,012                                    |                    |
| Fixed assets, net                           | 86,318                                    |                    |
| Intangible asset, net                       | 227,752                                   |                    |
| <b>OTHER ASSETS</b>                         |   |                    |
| Security deposit                            | 15,000                                    |                    |
|   | -----                                     | -----              |
| Total Assets                                | \$ 405,082                                | \$                 |
|   | =====                                     | =====              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |   |                    |
| <b>CURRENT LIABILITIES</b>                  |   |                    |
| Accounts payable and accrued liabilities    | \$ 230,411                                | \$                 |
| Short-term notes payable - related party    | 100,000                                   |                    |
|   | -----                                     | -----              |
| Total current liabilities                   | 330,411                                   |                    |
| <b>LONG TERM LIABILITIES</b>                |   |                    |
| Convertible notes payable                   | 280,000                                   |                    |
|   | -----                                     | -----              |

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|   |             |       |
|---|-------------|-------|
| Total Liabilities   | 610,411     |       |
|   | -----       | ----- |
| STOCKHOLDERS' EQUITY (DEFICIT)  |             |       |
| 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; 10,408,815 and 10,000,000 shares issued and outstanding as of March 31, 2010 and December 31, 2009 | 1,041       |       |
| Subscriptions receivable  | 0           |       |
| Additional paid-in capital  | 2,935,818   |       |
| Accumulated deficit   | (3,142,188) | (     |
|   | -----       | ----- |
| Total Stockholders' Equity (Deficit)  | (205,329)   | ----- |
|   | -----       | ----- |
| Total Liabilities and Stockholders' Equity (Deficit)  | \$ 405,082  | \$    |
|   | =====       | ===== |

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

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MASTERBEAT CORPORATION  
STATEMENTS OF OPERATIONS AND DEFICIT  
For the Three Months Ended March 31, 2010 and 2009 (Unaudited)

|  | 2010           | 2009        |
|--|----------------|-------------|
|  | -----          | -----       |
| REVENUE                                  | \$ 203,425     | \$ 204,517  |
| COST OF SALES                            | 172,600        | 69,374      |
|  | -----          | -----       |
| GROSS PROFIT                             | 30,825         | 135,143     |
|  | -----          | -----       |
| OPERATING EXPENSES                       |                |             |
| Depreciation and amortization            | 19,317         | 20,402      |
| General and administrative               | 595,403        | 353,128     |
|  | -----          | -----       |
| Total Operating Expenses                 | 614,720        | 373,530     |
|  | -----          | -----       |
| Net loss before income taxes             | (583,895)      | (238,387)   |
| Income taxes                             | (2,634)        | --          |
|  | -----          | -----       |
| Net Loss                                 | (586,529)      | (238,387)   |
| Accumulated deficit, beginning of period | (2,555,659)    | 212,597     |
|  | -----          | -----       |
| Accumulated deficit, end of period       | \$ (3,142,188) | \$ (25,790) |
|  | =====          | =====       |

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

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MASTERBEAT CORPORATION  
 STATEMENTS OF CASH FLOWS  
 For the Three Months Ended March 31, 2010 and 2009 (Unaudited)

|   | 2010         |
|---|--------------|
|   | -----        |
| OPERATING ACTIVITIES  |              |
| Net loss  | \$ (586,529) |
| Adjustments to reconcile net loss to net cash provided by operating activities: |              |
| Amortization and depreciation   | 19,317       |
| Bad debt expense  | 2,967        |
| Stock issued for services   | 121,550      |
| Changes in operating assets and liabilities:                                    |              |
| Decrease (increase) in accounts receivable                                      | 76,773       |
| Decrease (increase) in prepaid expenses   | (40,000)     |
| Increase (decrease) in accounts payable and accrued liabilities                 | (25,723)     |
|   | -----        |
| NET CASH USED BY OPERATING ACTIVITIES   | (431,645)    |
|   | -----        |
| INVESTING ACTIVITIES  |              |
| Acquisition of fixed assets   | --           |
|   | -----        |
| NET CASH USED BY INVESTING ACTIVITIES   | --           |
|   | -----        |
| FINANCING ACTIVITIES  |              |
| Members' contributions  | --           |
| Proceeds from convertible note payable  | 280,000      |
|   | -----        |
| NET CASH PROVIDED BY FINANCING ACTIVITIES                                       | 280,000      |
|   | -----        |
| NET INCREASE (DECREASE) IN CASH DURING PERIOD                                   | (151,645)    |
| CASH (OVERDRAFT), BEGINNING OF PERIOD   | 157,906      |
|   | -----        |
| CASH, END OF PERIOD   | \$ 6,261     |
|   | =====        |
| SUPPLEMENTAL DISCLOSURES  |              |
| Interest paid   | \$ --        |
|   | =====        |

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

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MASTERBEAT CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 March 31, 2010

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

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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 combined 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.

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### MASTERBEAT CORPORATION NOTES TO FINANCIAL STATEMENTS March 31, 2010

#### NOTE 2 - 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. The results of

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the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the full year ending December 31, 2010.

### NOTE 3 - GOING CONCERN

Our financial statements have been prepared on the basis of accounting principles applicable to a going concern. As a result, they do not include adjustments that would be necessary if we were unable to continue as a going concern and would therefore be obligated to realize assets and discharge our liabilities other than in the normal course of operations. As reflected in the accompanying financial statements, the Company has used cash flows in operations of \$431,645 and \$297,502 for the three months ended March 31, 2010 and March 31, 2009. For the three months ended March 31, 2010 and 2009, the Company incurred net losses of \$586,529 and \$238,387, respectively. This raises substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional capital and implement its business plan. Management believes that actions presently being taken to raise capital will provide the opportunity for the Company to continue as a going concern.

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MASTERBEAT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2010

### NOTE 4 - RECENTLY ISSUED 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 March 31, 2010 did not have a material impact on the Company's financial statements.

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MASTERBEAT CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2010

### NOTE 5 - 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 current quarter ended March 31, 2010.

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

### NOTE 6 - 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 three months ended March 31, 2010 was \$9800.

### NOTE 7 - SUBSEQUENT EVENT

The Company has evaluated subsequent events through May 6, 2010, the date its financial statements were issued, and concluded there were no other events or transactions occurring during this period that required recognition or disclosure in its financial statements.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by, our financial statements and notes related thereto, and other more detailed financial information appearing elsewhere in this Quarterly Report on Form 10-Q. Consequently, you should read the following discussion and analysis of our financial condition and results of operations together with such financial statements and other financial data included elsewhere in this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business and includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section of this Quarterly Report on Form 10-Q for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.

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### 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, the Company entered into the Exchange Agreement with Masterbeat, LLC and its members. Pursuant to the terms of the Exchange Agreement, the members agreed to transfer all of the issued and outstanding limited liability company units in Masterbeat, LLC to the Company in exchange for the issuance of an aggregate of 8,500,000 shares of the Registrant's common stock to the members, thereby causing Masterbeat, LLC to become wholly-owned subsidiary of the Company. Pursuant to the provisions of the Share Exchange, the principals of Company cancelled 1,000,000 shares of common stock owned by them and executed a lock-up leak-out agreement with respect to their remaining shares which agreement provides for the release of an aggregate of 100,000 shares per month commencing 90 days from the closing date. Upon the closing of the Share Exchange on December 29, 2009, the Members of Masterbeat, LLC delivered all of their membership interests in Masterbeat, LLC to the Registrant in exchange for 8,500,000 shares of common stock of the Registrant. The Share Exchange resulted in Masterbeat, LLC, becoming a wholly-owned subsidiary of the Company. The transactions contemplated by the Exchange Agreement are being accounted for as a "reverse acquisition," whereby Masterbeat, LLC is deemed to be the accounting acquirer (legal acquiree) and Masterbeat Corporation to be the accounting acquiree (legal acquirer).

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

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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

Our financial statements have been prepared on the basis of accounting principles applicable to a going concern. As a result, they do not include adjustments that would be necessary if we were unable to continue as a going concern and would therefore be obligated to realize assets and discharge our liabilities other than in the normal course of operations. As reflected in the accompanying financial statements, the Company has used cash flows in operations of \$431,645 and \$297,502 for the three months ended March 31, 2010 and March 31, 2009 respectively and has an accumulated deficit of \$3,142,188 as of March 31, 2010. For the three months ended March 31, 2010 and March 31, 2009, the Company incurred net losses of \$586,529 and \$238,987, respectively. This raises substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company's ability to raise additional capital and implement its business plan. Management believes that actions presently being taken to raise capital will provide the opportunity for the Company to continue as a going concern.

### RESULTS OF OPERATION

RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2010 COMPARED TO MARCH 31, 2009



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### REVENUE

Our revenues for the three months ended March 31, 2010 and March 31, 2009 were as follows:

|         | Period Ended<br>March 31,<br>2010<br>----- | Period Ended<br>March 31,<br>2009<br>----- | 2009 to 2010<br>% Change<br>----- |
|---------|--|--|-----------------------------------|
| Revenue | \$203,425                                  | \$204,517                                  | (0.5)%                            |

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. Revenues for the three months ended March 31, 2010 were \$203,425. In total, revenue is unchanged in comparison to the same period last year though we have realized increased ticket agent revenue and revenue from card printing. Sponsorship revenues have almost

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doubled the total compared to all of 2009. Management expects revenue to improve in the subsequent quarters of 2010 as it continues to implement its business strategy and operational plans.

### COST OF SALES

Our cost of sales for the three months ended March 31, 2010 and March 31, 2009 were as follows:

|               | Period Ended<br>March 31,<br>2010<br>----- | Period Ended<br>March 31,<br>2009<br>----- | 2009 to 2010<br>% Change<br>----- |
|---------------|--|--|-----------------------------------|
| Cost of Sales | \$172,600                                  | \$ 69,374                                  | 148.8%                            |

Cost of Sales for the three months ended March 31, 2010 increased 148.8% compared to March 31, 2009. The increase the cost of sales was primarily due to several recording label MRG (minimum revenue guarantee) contracts which were paid during the first quarter.

### GROSS PROFIT

Gross profit is defined as net sales 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 March 31, 2010 and March 31, 2009:

| For the Three Months Ended March 31, |                   |                        |                   |        |        |
|--------------------------------------|-------------------|------------------------|-------------------|--------|--------|
| -----<br>2010<br>-----               |                   | -----<br>2009<br>----- |                   | \$     | %      |
| Amount                               | % of<br>Net Sales | Amount                 | % of<br>Net Sales | Change | Change |
| -----                                | -----             | -----                  | -----             | -----  | -----  |

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|               |           |        |           |        |              |         |
|---------------|-----------|--------|-----------|--------|--------------|---------|
| Net sales     | \$203,425 | 100.0% | \$204,517 | 100.0% | \$ (1,092)   | (.5)%   |
| Cost of sales | 172,600   | 84.9%  | 69,374    | 33.9%  | 103,226      | 148.8%  |
|               | -----     | -----  | -----     | -----  | -----        | -----   |
| Gross profit  | \$ 30,825 | 15.1%  | \$135,143 | 66.1%  | \$ (104,318) | (77.2)% |
|               | =====     | =====  | =====     | =====  | =====        | =====   |

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Gross profit for the three months ended March 31, 2010 decreased \$104,318 compared to the three months ended March 31, 2009 and gross profit as a percentage of revenue decreased 77.2% for the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Gross profit for the quarter decreased significantly due to the cost of several recording label MRG contracts incurred during the period.

### OPERATING EXPENSES

Operating expenses for the three months ended March 31, 2010 and March 31, 2009 were as follows:

|                               | For the Three Months Ended March 31, |                   |           |                   |              |
|-------------------------------|--------------------------------------|-------------------|-----------|-------------------|--------------|
|                               | 2010                                 |                   | 2009      |                   | \$<br>Change |
|                               | Amount                               | % of<br>Net Sales | Amount    | % of<br>Net Sales |              |
|                               | -----                                | -----             | -----     | -----             | -----        |
| Depreciation and Amortization | \$ 19,317                            | 9.5%              | \$ 20,402 | 10.0%             | \$ (1,085)   |
| General and Administrative    | 595,403                              | 292.7%            | 353,128   | 172.7%            | 242,275      |
|                               | -----                                | -----             | -----     | -----             | -----        |
| Total Operating Expenses      | \$614,720                            | 302.2%            | \$373,530 | 182.6%            | \$241,190    |
|                               | =====                                | =====             | =====     | =====             | =====        |

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. The increase in general and administrative expense was primarily attributable to legal, accounting and other professional services required in preparation for the registration and initial offering of the Company's common stock to the public.

### LIQUIDITY AND CAPITAL RESOURCES

Since Masterbeat's inception, it has financed operations primarily through the contributions and investments from its members and shareholders, and through short term borrowings. During the three months ended March 31, 2010, the company issued a convertible debenture in the amount of \$280,000 which bears interest at 14% per annum. As of March 31, 2010, Masterbeat has a negative working capital balance of \$254,399. Current assets consist of \$6,261 in cash and cash equivalents and \$69,751 in accounts receivable and prepaid assets. We estimate that our existing cash, combined with additional capital that will be raised through selling additional shares or new short term borrowings, will be sufficient to fund current operations. Despite this prior funding, there can be no assurance that we will be successful in raising additional capital, if required. If we are not able to secure additional funding, the implementation of our business plan may be impaired. There can be no assurance that such additional financing will be available to us on acceptable terms or at all. As a

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public entity, we may issue shares of our common stock and preferred stock in private or public offerings to obtain financing or capital in order to improve our performance and growth.

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### OPERATING ACTIVITIES

The Company used cash flow in operating activities of \$431,645 for the three months ended March 31, 2010. This cash flow is primarily attributable to the net loss of \$586,529 and an increase in accounts receivable of \$76,773.

### FINANCING ACTIVITIES

The Company generated cash flow from financing activities of \$280,000 for the three months ended March 31, 2010. These additional cash resources are from the issuance of a convertible debenture in the amount of \$280,000. The debenture bears interest at 14% per year and has a maturity date of August 1, 2011. The principal amount of the debenture is convertible into the Company's common stock on the basis of one share of stock per each \$0.45 in principal amount.

### OFF-BALANCE SHEET ARRANGEMENTS

None

### CRITICAL ACCOUNTING POLICIES

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less. At various times during the fiscal year, the Company's cash and cash equivalents in bank balances may exceed the Federally insured limits.

#### 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.

#### 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 because of the short maturity of these instruments.

#### ACCOUNTS RECEIVABLE

Accounts receivable consist mainly of unprocessed credit card sales from music downloads, event ticket sales and online poster sales. The Company establishes an allowance for uncollectable accounts receivable based on the age of outstanding invoices and management's evaluation of the collectability of outstanding balances.

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#### FIXED ASSETS

Fixed assets, consisting mainly of computer equipment, software and office equipment and furniture, are stated at cost, net of accumulated depreciation

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which is calculated using the straight-line method over the estimated useful lives generally ranging from 5 to 7 years.

### LONG-LIVED ASSETS

FASB ASC 360-10 (Prior Authoritative Literature: Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets), requires that we evaluate our long-lived assets for financial impairment on a regular basis. We evaluate the recoverability of long-lived assets not held for sale by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. If such evaluations indicate that the future discounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. The useful lives assigned to the Company's internal-use website were based on management's assessment of when standard maintenance and software updates would no longer allow the website to perform at a level consistent with market expectations and competitor's offerings.

### REVENUE RECOGNITION

We recognize revenue when persuasive evidence of an arrangement exists, the fee is fixed or determinable, collectability is reasonably assured and delivery has occurred. 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 FASB ASC 605-45 (Prior authoritative literature: EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent"). 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 are 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 FASB ASC 605-45 (Prior authoritative literature EITF 00-10, "ACCOUNTING FOR SHIPPING AND HANDLING FEES AND COSTS"). The actual cost to the Company is recognized as an operating expense.

### SHIPPING AND HANDLING COSTS

The Company includes its shipping and handling costs in selling, general and administrative expenses.

### RECENT AUTHORITATIVE ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 805 (Prior authoritative literature: Statement of Financial Accounting Standards ("SFAS") No. 141(R), Business Combinations, which replaces SFAS No. 141). ASC 805 establishes principles and

requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. ASC 805 is effective for calendar year companies on January 1, 2009. The Company has adopted this ASC effective January 1, 2009.

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In March 2008, the FASB issued ASC 815-10 (Prior authoritative literature: SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, and amendment of SFAS No. 133). This statement will require additional disclosures about how and why we use derivative financial instruments, how derivative instruments and related hedged items are accounted for under ASC 815 (Prior authoritative literature: SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended and interpreted), and how derivative instruments and related hedged items affect our financial position, results of operations, and cash flows. ASC 815-10 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008; however early adoption is encouraged, as are comparative disclosures for earlier periods. The Company adopted this ASC effective January 1, 2009 which did not have a material impact on its financial statements.

In April 2008, the FASB issued ASC 350-30 (Prior authoritative literature: FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets). ASC 350-30 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC 350 (Prior authoritative literature: SFAS No. 142, "Goodwill and Other Intangible Assets") and also requires expanded disclosure related to the determination of intangible asset useful lives. ASC 350-30 is effective for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company adopted this ASC effective January 1, 2009; see Note 6 for information regarding useful lives of the Company's intangible assets.

In May 2009, the FASB issued FASB ASC 855-10 (prior authoritative literature, SFAS No. 165, "Subsequent Events"). FASB ASC 855-10 established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. FASB ASC 855-10 is effective for interim or annual financial periods ending after June 15, 2009. The Company adopted this ASC effective the current quarter ended September 30, 2009; see Note 8 for a discussion of subsequent events through March 17, 2010.

In June 2009, the FASB issued FASB ASC 105-10 (prior authoritative literature, SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles--a replacement of SFAS No. 162). FASB ASC 105-10 replaces SFAS 162 and establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. FASB ASC 105-10 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. As such, the Company is required to adopt this standard in the current period. Adoption of FASB ASC 105-10 did not have a significant effect on the Company's financial statements.

In June 2009, the FASB issued guidance under 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

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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 Company will adopt the provision of this ASC effective January 1, 2010 and is currently evaluation the impact, if any, on its financial statements.

ITEM 4. CONTROLS AND PROCEDURES

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### 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, March 31, 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 March 31, 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.

There were no sales of unregistered securities during the period covered by this report.

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### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

There were no defaults upon senior securities during the period covered by this report.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted to a vote of security holders during the period covered by this report.

### ITEM 5. OTHER INFORMATION.

None.

### ITEM 6. EXHIBITS.

| Exhibit No. | Description  |
|-------------|--|
| -----       | -----  |
| 31.1        | Certification pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended. |

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- 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

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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.

May 17, 2010

MASTERBEAT CORPORATION

/s/ Brett Henrichsen

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By: Brett Henrichsen  
Chief Executive Officer and  
Chief Financial Officer

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