

MusclePharm Corp  
Form 10-Q/A  
July 02, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q/ A (Amendment No. 1)**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarter ended: **September 30, 2011**

OR

**“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-53166**

**MUSCLEPHARM CORPORATION**

(Exact name of registrant as specified in its charter)

Nevada 77-0664193  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

**4721 Ironton Street, Building A**

**Denver, CO 90839**

(Address of principal executive offices and zip code)

**(303) 396-6100**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months, 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 (§232.405 of this chapter) 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, or a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

As of June 29, 2012, there were 1,399,074,207 shares outstanding of the registrant's common stock.



**TABLE OF CONTENTS**

**PART I – FINANCIAL INFORMATION**

Item 1.	Financial Statements.	3
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations.	25
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	31
Item 4.	Controls and Procedures.	31

**PART II – OTHER INFORMATION**

Item 1.	Legal Proceedings.	33
Item 1A.	Risk Factors.	33
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds.	33
Item 3	Defaults Upon Senior Securities.	35
Item 4.	(Removed and Reserved).	35
Item 5.	Other Information.	36
Item 6.	Exhibits.	37
	Signatures	38

**Explanatory Note**

On May 14, 2012, MusclePharm Corporation's (the "Company") independent registered public accounting firm and the Company's board of directors (the "Board") determined, after consultation with Company management that the Company's unaudited financial statements for the period ended September 30, 2011, filed in a quarterly report on Form 10-Q with the Securities and Exchange Commission (the "Commission") on November 14, 2011, contained certain material misstatements. Our financial statements contained in this amended quarterly report on Form 10-Q/A restate a previous error in accounting for the Company's calculation of net sales and presentation of general and administrative expenses. The Company has determined that advertising related credits that were granted to customers

fell within the guidance of ASC No. 605-50-55 ("Revenue Recognition" - Customer Payments and Incentives - Implementation Guidance and Illustrations).

The foregoing guidance indicates that, absent evidence of benefit to the vendor, appropriate U.S. GAAP treatment requires netting these types of payments against gross revenues and not as advertising expense. The Company also noted other credits and discounts that, upon further review, had been previously classified as advertising expense as a component of general and administrative expense that require a reallocation of presentation as amounts to be netted against gross revenues. Additionally, for the quarter ended September 30, 2011, the Company reclassified certain items classified as samples originally included as an advertising expense to cost of sales. There were no such reclassifications for 2010.

The Company previously deducted certain credits and promotions as general and administrative expenses. After a thorough analysis and review as noted above, the Company has determined to net any credits and promotions directly against gross sales instead of classifying the same amounts as an advertising expense. Because this accounting change is a reclassification of expenses in the Company's Consolidated Statements of Operations, the Company's net loss will not be affected by the restatement, nor does the restatement affect the net loss amounts reported in this unaudited quarterly financial statements. The financial statements contained herein have been restated solely for 2011.

**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements.****MusclePharm Corporation and Subsidiary****Consolidated Balance Sheets**

	September 30, 2011 (unaudited)	December 31, 2010
Assets		
Current Assets		
Cash	\$ -	\$ 43,704
Accounts receivable	3,605,076	426,761
Prepaid stock compensation	823,261	893,240
Other current assets	245,234	42,605
Total Current Assets	4,673,570	1,406,310
Property and equipment	903,625	138,551
<b>Prepaid stock compensation</b>	41,728	1,088,131
Other assets	98,445	87,989
Total Assets	\$ 5,717,368	\$ 2,720,981
Liabilities and Stockholders' Deficit		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 4,695,399	\$ 3,155,701
Cash overdraft	27,008	-
Debt	1,023,441	289,488
Derivative liabilities	4,265,953	622,944
Deferred revenue	54,260	75,733
Due to factor	-	71,783
<b>Total Current Liabilities</b>	10,066,061	4,215,649
Long Term Liabilities:		
Debt	792,941	250,000
Total Liabilities	10,859,002	4,465,649
<b>Stockholders' Deficit</b>		

Edgar Filing: MusclePharm Corp - Form 10-Q/A

Series A, Convertible Preferred Stock, \$0.001 par value; 10,000,000 shares authorized, none issued and outstanding	-	-
Common Stock, \$0.001 par value; 500,000,000 shares authorized, 354,374,865 and 118,649,439 issued and outstanding	354,374	118,649
Additional paid-in capital	28,711,667	20,012,122
Accumulated deficit	(34,207,675 )	(21,875,438 )
Total Stockholders' Deficit	(5,141,634 )	(1,744,667 )
 Total Liabilities and Stockholders' Deficit	 \$ 5,717,368	 \$ 2,720,981

**PART I – FINANCIAL INFORMATION****MusclePharm Corporation and Subsidiary****Consolidated Statements of Operations****(unaudited)**

	For The Three Months Ended September 30, 2011 As Restated		For the Nine Months Ended September 30, 2011 As Restated	
		2010		2010
Sales – net	\$ 4,443,571	\$ 1,409,016	\$ 10,875,249	\$ 3,135,712
Cost of sales	3,928,628	927,506	8,842,990	2,120,113
Gross profit	514,943	481,510	2,032,259	1,015,599
General and administrative expenses	2,927,287	2,759,153	7,425,596	8,420,275
Loss from operations	(2,412,344 )	(2,277,643 )	(5,393,337 )	(7,404,676 )
Other income (expense)				
Derivative expense	481,667	-	(3,576,192 )	
Change in fair value of derivative liabilities	1,547,185	-	2,181,955	
Loss on settlement of accounts payable and debt		(364,472 )	(2,542,073 )	(369,668 )
Interest expense	499,800	(231,739 )	(3,002,589 )	(900,886 )
Total other income (expense) - net	2,528,653	(596,211 )	(6,938,899 )	(1,270,554 )
Net Income (loss)	\$ 116,309	\$ (2,873,854 )	\$ (12,332,236 )	\$ (8,675,230 )
Net loss per share available to common stockholders - basic and diluted	\$ -	\$ (0.08 )	\$ (0.05 )	\$ (0.28 )
Weighted average number of common shares outstanding during the year – basic and diluted	326,088,629	35,923,947	225,410,157	30,473,190



**PART I – FINANCIAL INFORMATION****MusclePharm Corporation and Subsidiary****Consolidated Statements of Cash Flows****(unaudited)**

	Nine Months Ended September 30,	
	2011	2010
Cash Flows From Operating Activities:		
Net loss	\$ (12,332,236	) \$ (8,675,230 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	89,390	10,830
Bad debt	84,018	6,771
Stock based compensation	558,209	4,213,585
Amortization of prepaid stock based compensation	1,436,631	-
Amortization of debt discount and debt issue costs	2,659,918	714,430
Loss on extinguishment of debt	-	402,739
Derivative expense	3,576,192	-
Change in fair value of derivative liabilities	(2,181,955	) -
Loss on sale of accounts receivable	-	51,644
Loss (Gain) on settlement of accounts payable	2,542,073	(84,715 )
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(3,262,333	) (730,131 )
Prepaid and other	(213,152	) 49,417
Inventory	-	(181,782 )
Deposits	-	(4,485 )
Other current Assets	-	(52,268 )
Accounts payable and accrued liabilities	2,995,123	1,870,492
Deferred revenue	(21,473	) 40,456
Due to factor	(5,853	) -
Net Cash Used In Operating Activities	(4,075,448	) (2,368,247 )
Cash Flows From Investing Activities:		
Purchases of property and equipment	(771,652	) (30,395 )
Net Used In Investing Activities	(771,652	) (30,395 )
Net Used In Investing Activities	(771,652	) (30,395 )
Cash Flows From Financing Activities:		
Proceeds from sale of accounts receivable	-	226,847
Repayment of debt - related party	-	(39,291 )

Edgar Filing: MusclePharm Corp - Form 10-Q/A

Proceeds from issuance of debt	4,495,756	1,259,000
Debt issue costs	(219,368 )	-
Payment for recapitalization from merger	-	(25,108 )
Proceeds from issuance of common stock	500,000	1,005,692
Cash overdraft	27,008	(17,841 )
Net Cash Provided By Financing Activities	4,803,396	2,409,299
Net increase (decrease) in cash	(43,704 )	10,657
Cash at beginning of period	43,704	-
Cash at end of period	\$ -	\$ 10,657

**PART I – FINANCIAL INFORMATION****MusclePharm Corporation and Subsidiary****Consolidated Statements of Cash Flows****(unaudited)**

	Nine Months Ended September 30,	
	2011	2010
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$-	\$-
Supplemental disclosure of non-cash investing and financing activities:		
Stock issued for future services - third parties	\$326,500	\$-
Debt discount recorded on convertible debt accounted for as a derivative liability	\$3,273,181	\$-
Stock issued to settle debt - third parties	\$1,521,355	\$678,325
Conversion of notes to common stock	\$2,379,913	\$564,037
Conversion of notes to common stock payable	\$-	\$-
Reclassification of derivative liability to additional paid in capital	\$1,024,409	\$-
Beneficial conversion feature - convertible debt	\$-	\$426,000
Conversion of preferred stock to common stock	\$-	\$73
Stock issued to acquire equipment	\$82,811	\$-
Share cancellation	\$350	\$-

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**September 30, 2011 (Restated)**

**(Unaudited)**

**Note 1 Nature of Operations and Basis of Presentation (Restated)**

**Nature of Operations**

MusclePharm Corporation (the “Company” or “MP”), was organized as a limited liability company in the State of Colorado on April 22, 2008. On February 18, 2010, the Company executed a reverse recapitalization with Tone in Twenty, Inc., a then inactive public shell company, and changed its name to MusclePharm Corporation.

The Company markets branded sports nutrition products.

**Basis of Presentation**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the United States Securities and Exchange Commission for interim financial information.

The financial information as of December 31, 2010 is derived from the audited financial statements presented in the Company’s Annual Report on Form 10-K for the years ended December 31, 2010 and 2009. The unaudited interim consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K, which contains the audited financial statements and notes thereto, together with the Management’s Discussion and Analysis, for the years ended December 31, 2010 and 2009.

Certain information or footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been or omitted, pursuant to the rules

and regulations of the Securities and Exchange Commission for interim financial reporting. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows. It is management's opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The interim results for the nine months ended September 30, 2011 are not necessarily indicative of results for the full fiscal year.

## Restatement

On May 14, 2012, the Company determined that a material misstatement exists in the Company's 2011 quarterly and 2011 and 2010 annual financial statements. The Company concluded that the following financial statements contained material misstatements: (i) the Company's audited financial statements for the year ended December 31, 2011, filed in an annual report on Form 10-K with the U.S. Securities and Exchange Commission (the "SEC") on April 16, 2012; (ii) the Company's audited financial statements for the year ended December 31, 2010, filed in an annual report on Form 10-K with the U.S. Securities and Exchange Commission (the "SEC") on April 1, 2011; (iii) the Company's unaudited financial statements for the period ended September 30, 2011, filed in a quarterly report on Form 10-Q with the SEC on November 14, 2011; (iv) the Company's unaudited financial statements for the period ended June 30, 2011, filed in a quarterly report on Form 10-Q with the SEC on August 16, 2011; and (v) the Company's unaudited financial statements for the period ended March 31, 2011, filed in a quarterly report on Form 10-Q with the SEC on May 23, 2011.

The foregoing financial statements contained material misstatements pertaining to the Company's calculation of net sales and presentation of general and administrative expenses and cost of sales. The Company has determined that advertising related credits that were granted to customers fell within the guidance of ASC No. 605-50-55 ("*Revenue Recognition*" – *Customer Payments and Incentives – Implementation Guidance and Illustrations*). The guidance indicates that, absent evidence of benefit to the vendor, appropriate treatment requires netting these types of payments against revenues and not expensing as advertising expense. The Company also noted other credits and discounts that, upon further review, had been previously classified as advertising expense as a component of general and administrative expense that require a reallocation of presentation as amounts to be netted against revenues. The Company's net loss and loss per share will not be affected by this reallocation in the statement of operations. Additionally, for the quarter ended September 30, 2011, the Company reclassified certain items classified as samples originally included as an advertising expense to cost of sales. There were no such reclassifications for 2010.

Promotions, credits and non-specific advertising with its customers have been reclassified from general and administrative expenses to revenues.

Samples shipped to customers not clearly identifiable were reclassified from general and administrative expense to cost of sales.



Edgar Filing: MusclePharm Corp - Form 10-Q/A

	The Three Months Ended September 30, 2011 As Restated	Adjustments	The Three Months Ended September 30, 2011 As Issued	The Nine Months Ended September 30, 2011 As Restated	Adjustments	The Nine Months Ended September 30, 2011 As Issued
Sales - net	\$ 4,443,571	\$ (1,312,855 )	\$ 5,756,426	\$ 10,875,249	\$ (2,201,757 )	\$ 13,077,006
Cost of sales	3,928,628	90,593	3,838,035	8,842,990	199,090	8,643,900
Gross profit	514,943	(1,403,448 )	1,918,391	2,032,259	(2,400,847 )	4,433,106
General and administrative expenses	2,927,287	(1,403,448 )	4,330,735	7,425,596	(2,400,847 )	9,826,443
Loss from operations	(2,412,344 )	-	(2,412,344 )	(5,393,337 )	-	(5,393,337 )
Other income (expense )						
Derivative expense	481,667	-	481,667	(3,576,192 )	-	(3,576,192 )
Change in fair value of derivative liabilities	1,547,185	-	1,547,185	2,181,955	-	2,181,955
Loss on settlement of accounts payable and debt	-	-	-	(2,542,073 )	-	(2,542,073 )
Interest expense	499,800	-	499,800	(3,002,589 )	-	(3,002,589 )
Total other income (expense) - net	2,528,653	-	2,528,653	(6,938,899 )	-	(6,938,899 )
Net Income (loss)	\$ 116,309	\$ -	\$ 116,309	\$ (12,332,236 )	\$ -	\$ (12,332,236 )
<b>Net loss per share available to common stockholders - basic and</b>	\$ 0	\$ -	\$ 0	\$ (0.05 )	\$ -	\$ (0.05 )

**diluted**

Weighted  
average  
number of  
common  
shares  
outstanding  
during the year  
– basic and  
diluted

326,088,629	-	326,088,629	225,410,157	-	225,410,157
-------------	---	-------------	-------------	---	-------------

**Note 2 Summary of Significant Accounting Policies****Principles of Consolidation**

All significant intercompany accounts and transactions have been eliminated in consolidation.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes.

Such estimates and assumptions impact, among others, the following: the fair value of share-based payments, fair value of derivative liabilities, estimates of the probability and potential magnitude of contingent liabilities and the valuation allowance for deferred tax assets due to continuing operating losses.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the consolidated financial statements, which management considered in formulating its estimate could change in the near term due to one or more future confirming events. Accordingly, the actual results could differ significantly from our estimates.



**MusclePharm Corporation and Subsidiary Notes**

**to Consolidated Financial Statements**

**September 30, 2011 (Restated)**

**(Unaudited)**

**Risks and Uncertainties**

The Company operates in an industry that is subject to rapid change and intense competition. The Company's operations will be subject to significant risk and uncertainties including financial, operational, technological, regulatory and other risks, including the potential risk of business failure. Also, see Note 3 regarding going concern and liquidity matters.

**Cash and Cash Equivalents**

The Company considers all highly liquid instruments purchased with an original maturity of three months or less and money market accounts to be cash equivalents. There were no cash equivalents at September 30, 2011 and at December 31, 2010.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable represents trade obligations from customers that are subject to normal trade collection terms. The Company periodically evaluates the collectability of its accounts receivable and considers the need to establish an allowance for doubtful accounts based upon historical collection experience and specific customer information. Accordingly, the actual amounts could vary from the recorded allowances.

The Company does not charge interest on past due receivables. Receivables are determined to be past due based on the payment terms of the original invoices.

Accounts receivable at September 30, 2011 and December 31, 2010:

Accounts receivable	\$3,766,300	\$542,863
Less: allowance for doubtful accounts	(161,224 )	(116,102)
Accounts receivable – net	\$3,605,076	\$426,761

At September 30, 2011 and December 31, 2010, the Company had the following concentrations of accounts receivable with customers:

<b>Customer</b>	2011	2010
A	29 %	40 %
B	21 %	24 %
C	20 %	- %
D	4 %	11 %

### **Property and Equipment**

Property and equipment are stated at cost and depreciated to their estimated residual value over their estimated useful lives. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation are relieved from the accounts and the resulting gains or losses are included in operating income in the statements of operations. Repairs and maintenance costs are expensed as incurred. Depreciation is provided using the straight-line method for all property and equipment.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**September 30, 2011 (Restated)**

**(Unaudited)**

**Long-Lived Assets**

The Company reviews long-lived assets for impairment whenever events or changes in circumstances, such as service discontinuance or technological obsolescence, indicate that the carrying amount of the long-lived asset may not be recoverable. When such events occur, the Company compares the carrying amount of the asset to the undiscounted expected future cash flows related to the asset. If the comparison indicates that impairment is present, the amount of the impairment is calculated as the difference between the excess of the carrying amount over the fair value of the asset. If a readily determinable market price does not exist, fair value is estimated using discounted expected cash flows attributable to the asset.

**Fair Value of Financial Instruments**

The Company measures assets and liabilities at fair value based on an expected exit price as defined by the authoritative guidance on fair value measurements, which represents the amount that would be received on the sale of an asset or paid to transfer a liability, as the case may be, in an orderly transaction between market participants. As such, fair value may be based on assumptions that market participants would use in pricing an asset or liability. The authoritative guidance on fair value measurements establishes a consistent framework for measuring fair value on either a recurring or nonrecurring basis whereby inputs, used in valuation techniques, are assigned a hierarchical level.

The following are the hierarchical levels of inputs to measure fair value:

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.  
Level 2: Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Unobservable inputs reflecting the Company's assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

The following are the major categories of liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010, using quoted prices in active markets for identical liabilities (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	September 30, 2011	December 31, 2011
Derivative liabilities Level 2	\$ 4,265,953	\$ 622,944

The Company's financial instruments consisted primarily of cash, accounts receivable, prepaid stock compensation, other assets, accounts payable and accrued liabilities, demand loans and short term debt. The carrying amounts of the Company's financial instruments generally approximated their fair values as of September 30, 2011 and December 31, 2010, respectively, due to the short-term nature of these instruments.

### **Revenue Recognition (Restated)**

The Company records revenue when all of the following have occurred: (1) persuasive evidence of an arrangement exists, (2) product has been shipped or delivered, (3) the sales price to the customer is fixed or determinable, and (4) collectability is reasonably assured.

Depending on individual customer agreements, sales are recognized either upon shipment of products to customers or upon delivery. For one of our largest customers, which represents 13% of our total revenue for the nine months ended September 30, 2011, revenue is recognized upon delivery.

The Company has determined that advertising related credits that were granted to customers fell within the guidance of ASC No. 605-50-55 ("*Revenue Recognition*" – *Customer Payments and Incentives – Implementation Guidance and Illustrations*). The guidance indicates that, absent evidence of benefit to the vendor, appropriate treatment requires netting these types of payments against revenues and not expensing as advertising expense.

The Company records store support, giveaways, sales allowances and discounts as a direct reduction of sales. The Company recorded reductions to gross revenues totaling approximately \$2,446,025 and \$128,247 for the nine months ended September 30, 2011 and 2010, respectively.

Edgar Filing: MusclePharm Corp - Form 10-Q/A

Sales for the three and nine months ended September 30, 2011 and 2010 are as follows:

	The Three Months Ended September 30, 2011		The Three Months Ended September 30, 2011		<b>The Three Months Ended September 30, 2010</b>		The Nine Months Ended September 30, 2011		The Nine Months Ended September 30, 2011	
	As Issued	Adjustments	As Restated		As Issued	Adjustments	As Restated		As Restated	
Sales	\$ 5,811,685	\$ -	\$ 5,811,685	\$ 1,452,354	\$ 13,321,274	\$ -	\$ 13,321,274			
Discounts	(55,259 )	(1,312,855 )	(1,368,114 )	(43,338 )	(244,268 )	(2,201,757 )	(2,446,025 )			
Sales - Net	\$ 5,756,426	\$ (1,312,855 )	\$ 4,443,571	\$ 1,409,016	\$ 13,077,006	\$ (2,201,757 )	\$ 10,875,249			

The Company has an informal 7-day right of return for products. There were nominal returns for the three and nine months ended September 30, 2011 and 2010.

For the nine months ended September 30, 2011 and 2010, the Company had the following concentrations of revenues with customers:

Customer	2011 (As Restated)		2010	
A	39	%	37	%
B	13	%	9	%
C	-	%	15	%
D	6	%	11	%

**Cost of Sales (Restated)**

Cost of sales represents costs directly related to the production and manufacturing of the Company's products.

Cost of sales increased by \$199,090 for the nine months ended September 30, 2011 due to a reclassification from advertising expense to cost of sales due to our restatement.

See restatement discussion

**Shipping and Handling**

Product sold is shipped directly to the customer from the manufacturer. Any freight billed to customers is offset against shipping costs and included in cost of sales.

**Advertising (Restated)**

The Company expenses advertising costs when incurred.

Advertising for the three and nine months ended September 30, 2011 and 2010 are as follows:

	The Three Months Ended September 30, 2011 As Issued	Adjustments	The Three Months Ended September 30, 2011 As Restated	The Three Months Ended September 30, 2010	The Nine Months Ended September 30, 2011 As Issued	Adjustments	The Nine Months Ended September 30, 2011 As Restated
Advertising	\$ 2,676,417	\$ (1,403,448 )	\$ 1,272,969	\$ 1,143,663	\$ 5,869,049	\$ (2,400,847 )	\$ 3,468,202

See restatement discussion

12

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**September 30, 2011 (Restated)**

**(Unaudited)**

**Beneficial Conversion Feature**

For conventional convertible debt where the rate of conversion is below market value, the Company records a "beneficial conversion feature" ("BCF") and related debt discount.

When the Company records a BCF, the relative fair value of the BCF would be recorded as a debt discount against the face amount of the respective debt instrument. The discount would be amortized to interest expense over the life of the debt.

**Derivative Liabilities**

Fair value accounting requires bifurcation of embedded derivative instruments such as conversion features in convertible debt or equity instruments, and measurement of their fair value for accounting purposes. In determining the appropriate fair value, the Company uses the Black-Scholes option-pricing model. In assessing the convertible debt instruments, management determines if the convertible debt host instrument is conventional convertible debt and further if there is a beneficial conversion feature requiring measurement. If the instrument is not considered conventional convertible debt, the Company will continue its evaluation process of these instruments as derivative financial instruments.

Once determined, derivative liabilities are adjusted to reflect fair value at each reporting period end, with any increase or decrease in the fair value being recorded in results of operations as an adjustment to fair value of derivatives. In addition, the fair value of freestanding derivative instruments such as warrants, are also valued using the Black-Scholes option-pricing model.

**Debt Issue Costs and Debt Discount**



The Company may pay debt issue costs, and record debt discounts in connection with raising funds through the issuance of convertible debt. These costs are amortized over the life of the debt to interest expense. If a conversion of the underlying debt occurs, a proportionate share of the unamortized amounts is immediately expensed.

### **Original Issue Discount**

For certain convertible debt issued, the Company provides the debt holder with an original issue discount. The original issue discount is recorded to debt discount and additional paid in capital at an amount not to exceed gross proceeds raised, reducing the face amount of the note and is being amortized to interest expense over the life of the debt.

### **Share-Based Payments**

Generally, all forms of share-based payments, including stock option grants, warrants, restricted stock grants and stock appreciation rights are measured at their fair value on the awards' grant date, based on estimated number of awards that are ultimately expected to vest. Share-based compensation awards issued to non-employees for services rendered are recorded at either the fair value of the services rendered or the fair value of the share-based payment, whichever is more readily determinable.

### **Earnings Per Share**

Basic earnings (loss) per share is computed by dividing net income (loss) by weighted average number of shares of common stock outstanding during each period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during the period.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**September 30, 2011 (Restated)**

**(Unaudited)**

Since the Company reflected a net loss for the nine months ended September 30, 2011 and 2010, respectively, the effect of considering any common stock equivalents, if exercisable, would have been anti-dilutive. A separate computation of diluted earnings (loss) per share is not presented.

Common stock equivalents consist of exercisable instruments at the balance sheet date. The Company has the following common stock equivalents at September 30, 2011 and 2010:

	2011	2010
Stock options (exercise price \$0.50/share)	2,767,500	-
Warrants (exercise price - \$0.10 - \$1.50/share)	56,696,327	-
Convertible debt	210,751,119	2,202,000
Total common stock equivalents	270,214,946	2,202,000

In the above table, some of the convertible debt from 2011 and 2010 contains discount to market provisions that would cause variability in the exercise price at the balance sheet date. As a result, common stock equivalents could change at each reporting period.

**Reclassification**

Certain items in the 2010 financial statement presentation have been reclassified to conform to the 2011 presentation. Such reclassifications have no effect on previously reported financial condition, operations or cash flows.

**Recent Accounting Pronouncements**

There are no recent accounting pronouncements that are expected to have an effect on the Company's consolidated financial statements.

**Note 3 Going Concern and Liquidity**

As reflected in the accompanying unaudited interim consolidated financial statements, the Company had a net loss of \$12,332,236 and net cash used in operations of \$4,075,448 for the nine months ended September 30, 2011 and a working capital deficit and stockholders' deficit of \$5,392,491 and \$5,141,634 respectively, at September 30, 2011. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The ability of the Company to continue its operations is dependent on Management's plans, which include the raising of capital through debt and/or equity markets with some additional funding from other traditional financing sources, including term notes, sale of aged debt to third parties in exchange for free trading stock, until such time that funds provided by operations are sufficient to fund working capital requirements. The Company may need to incur liabilities with certain related parties to sustain the Company's existence.

The Company will require additional funding to finance the growth of its current and expected future operations as well as to achieve its strategic objectives. The Company believes its current available cash along with anticipated revenues may be insufficient to meet its cash needs for the near future. There can be no assurance that financing will be available in amounts or terms acceptable to the Company, if at all.

In response to these problems, management has taken the following actions:

Seeking additional third party debt and/or equity financing; and

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**September 30, 2011 (Restated)**

**(Unaudited)**

allocate sufficient resources to continue with advertising and marketing efforts.

The accompanying unaudited interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

**Note 4 Property and Equipment**

Property and equipment consisted of the following at September 30, 2011 and December 31, 2010:

	September 30, <b>2011</b>	December 31, 2010	Estimated Useful Life
Leasehold improvements	\$ 218,256	\$ 67,760	*
Furniture and fixtures	759,272	55,305	3 years
Displays	32,056	32,057	5 years
Website	11,462	11,462	3 years
	1,021,046	166,584	
Less: Accumulated depreciation and amortization	(117,421 )	(28,033 )	
	<b>\$ 903,625</b>	<b>\$ 138,551</b>	

\* The shorter of 5 years or the life of the lease.

**Note 5 Debt**

At September 30, 2011 and December 31, 2010, debt consists of the following:

Edgar Filing: MusclePharm Corp - Form 10-Q/A

	September 30, 2011	December 31, 2010
Convertible debt – secured – derivative liabilities	\$ 1,847,097	\$ 380,000
Conventional convertible debt – secured	-	225,000
Convertible debt - unsecured	-	78,249
Less: debt discount	(1,159,352 )	(331,261 )
Convertible debt – net	687,745	351,988
Secured debt	-	187,500
Unsecured debt	1,128,637	-
Total debt	1,816,382	539,488
Less: current portion	(1,023,441 )	(289,488 )
Long term debt	\$ 792,941	\$ 250,000

Debt in default of \$30,000 is included as a component of short-term debt.

**(A) Convertible Debt – Secured – Derivative Liabilities**

**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****September 30, 2011 (Restated)****(Unaudited)**

During the nine months ended September 30, 2011, the Company issued \$3,798,733 in convertible debt – secured – derivative liabilities. The Company issued these debt instruments with 13 different sets of conversion terms. The Material terms of the Company's convertible debt – secured – derivative liabilities are as follows:

		Amount of Principal Raised
Interest Rate	6% - 12	%
Default interest rate	15% - 22	%
Maturity	April 5, 2011 to June 2, 2014	
Conversion terms 1	Average 10 day trade pricing divided by 200% of outstanding principal balance	\$ 827,600
Conversion terms 2	Lesser of: Average of the lowest 2 closing prices of the 5 days preceding conversion date or \$0.025/share	\$ 775,000
Conversion terms 3	60% of the average of the lowest 3 closing prices in the 10 days preceding conversion date	\$ 170,000
Conversion terms 4	\$0.03	\$ 100,000
Conversion terms 5	65% of the average of the lowest 3 closing prices in the 30 days preceding conversion	\$ 303,800
Conversion terms 6	62% of the lowest closing prices in the 7 days preceding conversion date	\$ 40,000
Conversion terms 7	70% of the average of the lowest 3 closing prices in the 30 days preceding conversion	\$ 600,000
Conversion terms 8	50% of the average closing prices in the 10 days preceding conversion	\$ 85,000
Conversion terms 9	45% of the lowest 3 closing prices in the 10 days preceding conversion	\$ 277,500
Conversion terms 10	35% of the lowest 3 closing prices in the 10 days preceding conversion	\$ 100,000
Conversion terms 11	Lesser of: 50% of average of the lowest 3 closing prices of the 20 days preceding conversion date or \$0.05/share	\$ 33,000
Conversion terms 12	50% of lowest trade price in preceding 20 days	\$ 45,000
Conversion terms 13	80% of lowest trade price in preceding 30 days	\$ 441,833
		\$ 3,798,733

During the nine months ended September 30, 2011, the Company converted \$2,379,913 in notes into 132,321,172 shares of the Company's common stock at prices ranging from \$0.01 to \$0.08 per share, based upon the terms of the

debt conversion.

The following is a summary of the Company's convertible debt – secured:

Convertible debt – secured – derivative liabilities – December 31, 2010	\$380,000
Issuance of convertible debt – secured – derivative liabilities	3,798,733
Conversions of convertible debt to common stock	(2,331,636)
Convertible debt - secured – September 30, 2011	\$1,847,097

**(B) Conventional Convertible Debt – Secured**

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**September 30, 2011 (Restated)**

**(Unaudited)**

Terms of the Company's conventional convertible debt are as follows:

Interest rate 8%,

All notes were due by December 31, 2010, and were converted in 2011,

Conversion of principal and accrued interest at rates ranging from 150% - 300%,

Secured by all assets of the Company, and

All conversion rates associated with these instruments were at or above market. There is no BCF.

During the nine months ended September 30, 2011, the Company issued 7,226,649 shares of common stock, having a fair value of \$426,970 (\$0.06 - \$0.10/share) to settle convertible notes payable, originating prior to December 31, 2010, having a face value of \$225,000. As a result, the Company recorded a loss on debt conversion of \$137,017.

The following is a summary of the Company's conventional convertible debt –secured:

Conventional convertible debt - secured – December 31, 2010	\$225,000
Settlement of debt through issuance of common stock	(225,000)
Conventional convertible debt - secured – September 30, 2011	\$-

**(C) Convertible Debt – Unsecured**

During the nine months ended September 30, 2011, \$102,649 was converted into 11,501,829, shares of common stock, having a fair value of \$76,647 (\$0.101/share), based upon the quoted closing trading price. The Company recorded a loss on debt settlement of \$24,107.



During the nine months ended September 30, 2011, the Company issued an additional \$90,000 of conventional convertible notes, convertible at 200% of the face value of the note, bearing 8% interest annually.

The following is a summary of the Company's unsecured debt:

Unsecured debt – December 31, 2010	\$78,249
Issuance of convertible secured notes	90,000
Settlement of debt through issuance of common stock	(102,649)
Unsecured debt – September 30, 2011	\$65,600

Table above this has been combined with convertible secured debt

**(D) Secured Debt**

During the nine months ended September 30 2011, \$187,500 was converted into 7,500,000 shares of common stock, having a fair value of \$437,500 (\$0.058/share - \$0.059/share), based upon the quoted closing trading price. The Company recorded a loss on debt settlement of \$250,000.

The following is a summary of the Company's secured debt:

Secured debt – December 31, 2010	\$187,500
Settlement of debt through issuance of common stock	(187,500)
Secured debt – September 30, 2011	\$-

**(E) Debt Issue Costs**

The following is a summary of the Company's debt issue costs:

**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****September 30, 2011 (Restated)****(Unaudited)**

Debt issue costs – net – December 31, 2010	\$34,404
Issue costs paid during nine months ended September 30, 2011	219,368
Amortization of debt issue costs – September 30, 2011	(225,686)
Debt issue costs – net – September 30, 2011	\$28,086

**(F) Debt Discount**

During the nine months ended September 30, 2011, the Company issued convertible debt with embedded derivatives and warrants. The Company recorded the derivatives and warrants at fair value and are amortizing the debt discount over the life of the debt. Debt discount is as follows:

Debt discount balance at December 31, 2010	\$331,261
Discount recorded for convertible notes issued during nine months ended September 30, 2011	3,262,323
Accretion of debt discount to interest expense during the nine months ended September 30, 2011	(2,434,232)
Debt discount balance at September 30, 2011	\$1,159,352

**Note 6 Derivative Liabilities**

The Company identified conversion features embedded within convertible debt - secured (see Note 5(A)). The Company has determined that the features associated with the embedded conversion option should be accounted for at fair value as a derivative liability.

As a result of the application of ASC No. 815, the fair value of the conversion feature is summarized as follow:

Derivative liability balance at December 31, 2010	\$622,944
Fair value at the commitment date for convertible notes issued during nine months ended September 30, 2011	6,849,374

Edgar Filing: MusclePharm Corp - Form 10-Q/A

Reclassification of derivative liability to additional paid in capital	(1,024,409)
Fair value mark to market adjustment	(2,181,956)
Derivative liability balance at September 30, 2011	\$4,265,953

The Company recorded the derivative liability to debt discount to the extent of the gross proceeds raised, and expensed immediately the remaining value of the derivative as it exceeded the gross proceeds of the note. The Company recorded a derivative expense for \$3,576,192 during the nine months ended September 30, 2011.

The fair value at the commitment and remeasurement dates for embedded conversion features and warrants were based upon the following management assumptions:

	Commitment Date		Remeasurement Date	
Expected dividends	0	%	0	%
Expected volatility	150%-204	%	212	%
Expected term: conversion feature	0.02 – 3 years		0.04 – 2.67 years	
Expected term: warrants	2.5 – 5 years		2.5 – 5 years	
Risk free interest rate	0.11% - 1.16	%	0.11	%

**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****September 30, 2011 (Restated)****(Unaudited)****Note 7 Stockholders' Deficit****(A) Common Stock**

On April 18, 2011, the Company increased its authorized shares of common stock to 500,000,000.

During the nine months ended September 30, 2011, the Company issued the following common stock:

Transaction Type	Quantity	Valuation	<b>Loss on Settlement</b>	Range of Value per Share
Conversion of debt (1)	132,321,172	\$2,379,913	\$1,056,369	\$ 0.01–0.08
Settlement of accounts payable and accrued expenses (2)	65,097,382	\$3,642,108	\$1,485,704	\$ 0.02-0.12
Services – rendered (3)	15,220,665	\$527,231		\$ 0.03–1.15
Services – prepaid stock compensation (4)	6,586,207	\$326,500		\$ 0.05-0.09
Common shares issued for cash (5)	20,000,000	\$500,000		\$ 0.025
Share cancellation (6)	(3,500,000 )	\$(350 )		\$ 0.0001
Totals	235,725,426	\$7,375,402	\$2,542,073	\$ 0.0001-1.15

The fair value of all stock issuances above is based upon the quoted closing trading price on the date of issuance, except for stock issued for cash and warrants, which was based upon the cash received. Stock issued in the conversion of preferred stock was recorded at par value.

The following is a more detailed description of some of the Company's stock issuances from the table above:

**(1) Conversion of Debt**

The Company issued 132,321,172 shares of common stock to settle notes payable having a fair value of \$2,379,913 In connection therewith the Company has recorded a loss on settlement of \$1,056,369.

**(2) Settlement of Accounts Payable and Accrued Expense and Loss on Settlement**

Of the total shares issued to settle accounts payable, accrued expenses and contract settlements the Company issued 65,097,382 shares of common stock having a fair value of \$3,642,108. The Company has recorded losses in connection with these settlements of \$1,485,704.

**(3) Stock Issued for Services**

During nine months ended September 30, 2011, the Company issued 15,220,665 shares of common stock for services, having a fair value of \$527,231 based upon the quoted closing trading price.

**(4) Prepaid Stock Compensation**

During the nine months ended September 30, 2011, the Company issued 6,586,207 shares of common stock for future services, having a fair value of \$326,500. The agreements commenced during the periods July 2010 – September 2011 and terminate during the periods July 2011 - November 2012.

The following represents the allocation of prepaid stock compensation:

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**September 30, 2011 (Restated)**

**(Unaudited)**

Prepaid stock compensation – December 31, 2010	\$ 1,981,371
Stock issued for future services	320,249
Amortization of prepaid stock compensation	(1,436,631)
Prepaid stock compensation – September 30, 2011	864,989
Less: current portion	(823,261 )
Long term portion	\$ 41,728

**(5) Common Stock Issued for Cash**

The Company issued 20,000,000 shares of it's common stock for proceeds of \$500,000

**(6) Share Cancellation**

The Company cancelled 3,500,000 shares during the nine months ended September 30, 2011, valued at par (\$0.001). The Company is disputing the issuance of these shares due to non-performance by a consultant.

**(B) Stock Options**

On February 1, 2010, the Company's board of directors and shareholders approved the 2010 Stock Incentive Plan ("2010 Plan"). The 2010 Plan allows the Company to grant incentive stock options, non-qualified stock options, restricted stock awards, restricted stock units and stock appreciation rights to key employees and directors of the Company or its subsidiaries, consultants, advisors and service providers. Any stock option granted in the form of an incentive stock option will be intended to comply with the requirements of Section 422 of the Internal Revenue Code of 1986, as amended. Only stock options granted to employees qualify for incentive stock option treatment. No incentive stock option shall be granted after February 1, 2020, which is 10 years from the date the 2010 Plan was initially adopted. A stock option may be exercised in whole or in installments, which may be cumulative. Shares of common stock purchased upon the exercise of a stock option must be paid for in full at the time of the exercise in cash or such other consideration determined by the compensation committee. Payment may include tendering shares of common stock or surrendering of a stock award, or a combination of methods.

The 2010 Plan will be administered by the compensation committee. The compensation committee has full and exclusive power within the limitations set forth in the 2010 Plan to make all decisions and determinations regarding the selection of participants and the granting of awards; establishing the terms and conditions relating to each award; adopting rules, regulations and guidelines; and interpreting the 2010 Plan. The Compensation Committee will determine the appropriate mix of stock options and stock awards to be granted to best achieve the objectives of the Plan. The 2010 Plan may be amended by the Board or the compensation committee, without the approval of stockholders, but no such amendments may increase the number of shares issuable under the 2010 Plan or adversely affect any outstanding awards without the consent of the holders thereof. The total number of shares that may be issued shall not exceed 5,000,000, subject to adjustment in the event of certain recapitalizations, reorganizations and similar transactions.

On April 2, 2010, the Company's board of directors authorized the issuance of 2,767,500 stock options, having a fair value of \$630,990, which was expensed immediately since all stock options vested immediately. These options expire on April 2, 2015.

The Company applied fair value accounting for all share based payment awards. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes assumptions used in the year ended December 31, 2010 is as follows:

**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****September 30, 2011 (Restated)****(Unaudited)**

Exercise price	\$0.50	
Expected dividends	0	%
Expected volatility	74.8	%
Risk free interest rate	1.4	%
Expected life of option	2.5 years	
Expected forfeitures	0	%

The following is a summary of the Company's stock option activity:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance – December 31, 2010 – outstanding	2,767,500	\$ 0.50		\$ -
Balance – December 31, 2010 – exercisable	2,767,500	\$ 0.50		\$ -
Granted	-	\$ -		
Exercised	-	\$ -		
Forfeited	-	\$ -		
Balance – September 30, 2011 – outstanding	2,767,500	\$ .32	1.25 years	\$ -
Balance – September 30, 2011 – exercisable	2,767,500	\$ 0.50	1.25 years	\$ -
Grant date fair value of options granted – 2011		\$ -		
Weighted average grant date fair value – 2011		\$ -		
Outstanding options held by related parties – 2011	2,000,000			
Exercisable options held by related parties – 2011	2,000,000			
Fair value of stock options granted to related parties – 2011	\$-			

**(C) Stock Warrants**



## Edgar Filing: MusclePharm Corp - Form 10-Q/A

During the nine months ended September 30, 2011, the Company issued 61,376,327 stock warrants attached to certain convertible debt (Note 5A). These warrants contain variable exercise features, resulting in the treatment of these warrants as derivative liabilities.

In addition, the Company issued 200,000, 5 year stock purchase warrants, with exercise prices ranging from \$0.08 - \$0.10 per share for services rendered. The company recorded an expense of \$16,200 as a result of the issuance.

The Company applied fair value accounting for stock warrant issuance. The fair value of each stock warrant granted is estimated on the date of issuance using the Black-Scholes option-pricing model. The Black-Scholes assumptions used at issuance are as follows:

Exercise price	\$H.10 - 1.50	
Expected dividends	0	%
Expected volatility	180	%
Risk fee interest rate	1.16	%
Expected life of warrants	2.5 to 5 years	
Expected forfeitures	0	%

**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****September 30, 2011 (Restated)****(Unaudited)**

The following is a summary of the Company's stock warrant activity:

	<b>Warrants</b>	Weighted Average Exercise Price
Outstanding – December 31, 2010	750,000	\$ 1.50
Exercisable – December 31, 2010	750,000	\$ 1.50
Granted	61,576,327	\$ 0.10
Exercised	-	\$ -
Forfeited/Cancelled	-	\$ -
Outstanding – September 30, 2011	62,326,327	\$ 0.10
Exercisable – September 30, 2011	56,696,327	\$ 0.10

Warrants Outstanding			Weighted	Warrants Exercisable	
Range of exercise price	Number	Weighted Average Remaining Contractual Life (in years)	Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.10- \$1.50	62,326,327	4.14 years	\$0.10	56,696,327	\$0.10

At September 30, 2011 and December 31, 2010, the total intrinsic value of warrants outstanding and exercisable was \$0 and \$0, respectively.

**Note 8 Commitments, Contingencies and Other Matters****(A) Other Matters**

In April 2010, the Company entered into a factoring agreement (the "agreement") and sold its accounts receivable. During 2010, the Company entered into legal proceedings with the factor, as a result of the Company's customers not remitting funds directly to the factor.

A settlement, of \$96,783, was reached on November 10, 2010. During 2010, the Company repaid \$25,000, leaving a remaining balance of \$71,783 due to factor. In January 2011, the Company paid \$10,000.

On December 22, 2010, the Company became involved in a business dispute with a manufacturer, seller and distributor of their product line (the "manufacturer") regarding their respective obligations. The parties settled their dispute in private mediation. As a result of the settlement, the Company agreed to pay a maximum of \$425,000. The Company issued 511,509 shares in 2010 of common stock having a fair value of \$100,000. The Company settled the balance due in 2011, by issuing 4,932,500 shares of common stock, having a fair value of \$187,435. The Company recorded a loss on debt settlement of \$88,785.

On February 28, 2011, the remaining \$65,930, inclusive of fees and interest, was settled with the issuance of 2,187,666 shares of common stock, having a fair value of \$126,885. The Company recorded a loss on this debt settlement of \$60,955. This has been included as component of stock issued to settle accounts payable and accrued expenses (Note 7).

At September 30, 2011, the Company no longer factors its accounts receivable.

#### **(B) Litigations, Claims and Assessments**

From time to time, the Company may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm its business.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**September 30, 2011 (Restated)**

**(Unaudited)**

Other legal matters to which the Company is party do exist. The outcome of these matters is not probable nor reasonably estimable. The Company intends to defend these matters vigorously.

**(C) Taxes**

As of September 30, 2011, accounts payable and accrued expenses included a balance of approximately \$196,000 pertaining to accrued payroll taxes. The taxes represent employee withholdings that have yet to be remitted to the taxing agencies. The balance consists of the following;

Prior to the Company becoming a publicly traded company in February 2010, the Company existed as an LLC, which had accrued payroll taxes/penalties/interest of approximately \$53,000.

As of the filing of this report, the Company repaid approximately \$55,000. The remaining \$141,000 is expected to be repaid in the fourth quarter of 2011

Accrued payroll taxes – MusclePharm, Inc.	\$ 101,000
Accrued payroll taxes/penalties/interest – MusclePharm, LLC	\$53,000
Accrued penalties and interest - MusclePharm, Inc	\$42,000
	\$ 196,000
Payment in October 2011	\$(55,000 )
Balance due	\$ 141,000

**Note 9 Subsequent Events**

**Debt Issuance**

On October 1, 2011 the Company borrowed \$100,000 cash related to a debt financing the terms have not yet been finalized.

On October 6, 2011 the Company borrowed \$50,000 in the form of a convertible promissory note bearing interest at 8%. The note matures on July 12, 2012 and is convertible into shares of the Company's common stock at a variable conversion price. Due to the variable conversion feature, the Company will need to determine the fair value of the derivative liability associated with this debt instrument.

On October 6, 2011 the Company borrowed \$150,000 in the form of a convertible promissory note bearing interest at 8%. The note matures on April 3, 2012 and is convertible into shares of the Company's common stock at a variable conversion price. Due to the variable conversion feature, the Company will need to determine the fair value of the derivative liability associated with this debt instrument

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**September 30, 2011 (Restated)**

**(Unaudited)**

**Conversion of Debt and Demand Loans and Accrued Interest**

During the period October 1, 2011 through November 7, 2011, the Company issued 22,803,731 shares of common stock to convert notes payable and accrued interest totaling \$194,871.

One note payable totaling \$41,600 in principal and accrued interest was converted over the period October 28, 2011 through November 3, 2011, into 4,181,643 shares of the Company's common stock at a conversion price of approximately \$0.01.

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

This report and other reports filed by our Company from time to time with the SEC contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, our management as well as estimates and assumptions made by our management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the filings, the words "anticipate," "believe," "estimate," "expect," "future," "intend," "plan," or the negative of terms and similar expressions as they relate to us or our management identify forward-looking statements. Such statements reflect our current view with respect to future events and are subject to risks, uncertainties, assumptions, and other factors. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. The following discussion should be read in conjunction with our unaudited consolidated financial statements and notes thereto appearing elsewhere in this report.

### **Plan of Operation**

Headquartered in Denver, Colorado, MusclePharm is a rapidly expanding healthy life-style company that develops and distributes a full line of National Sanitation Foundation International and scientifically approved, nutritional supplements that are 100% free of any banned substances. Based on years of research, MusclePharm products are created through an advanced six-stage research protocol involving the expertise of top nutritional scientists and field tested by more than 100 elite professional athletes from various sports including the National Football League, mixed martial arts, and Major League Baseball. The Company's propriety and award winning products address all categories

of an active lifestyle including muscle building, weight loss, and maintaining general fitness through a daily nutritional supplement regimen. MusclePharm is sold in over 120 countries and available in over 5,000 U.S. retail outlets, including GNC, Vitamin Shoppe, and Vitamin World. The Company also sells its products in over 100 online stores, including bodybuilding.com, amazon.com and vitacost.com.

Our primary focus at the current time is on the following:

1. Increase our distribution and sales;
2. Continue aggressive marketing campaign to further build upon our brand and market awareness and recognition;
3. Conduct additional testing of the safety and efficacy of our products; and
4. Hire additional key employees to continue to strengthen the Company.



**Results of Operations****For the Nine Months Ended September 30, 2011 (As Restated) and 2010 (unaudited):**

	<b>Nine months ended</b>	
	September 30, 2011	September 30, 2010
	Restated	
Sales	\$ 10,875,249	\$ 3,135,712
Gross profit	\$ 2,032,259	\$ 1,015,599
General and administrative expenses	\$ (7,425,596 )	\$ (8,420,275 )
Loss from operations	\$ (5,393,337 )	\$ (7,404,676 )
Other expenses	\$ (6,938,899 )	\$ (1,270,554 )
Net Loss	\$ (12,332,236 )	\$ (8,675,230 )
Net loss per common share – basic and diluted	\$ (0.05 )	\$ (0.28 )

***Sales (restated)***

Sales were \$10,875,249 for the nine months ended September 30, 2011, as compared to \$3,135,712 for the comparable nine months ended September 30, 2010. The increase in sales was primarily attributable to increased brand awareness. Since inception, the Company has focused on an aggressive marketing plan to penetrate the market. As a direct result of the aggressive marketing plan, our products are currently being offered in more retail stores, both domestic and international, and our products are receiving better shelf placement.

***Gross Profit (restated)***

Gross profit percentage decreased from 32% during the nine months ended September 30, 2010, to 19% during the nine months ended September 30, 2011. The decrease in the gross profit percentage is primarily attributable to the Company's restatement of advertising expenses as a discount to be netted with gross revenues of \$2,201,757 and samples of \$199,090 shipped to customers not clearly identifiable reclassified to cost of sales.

***General and Administrative Expenses (restated)***

General and administrative expenses for the nine months ended September 30, 2011, were \$7,425,596 as compared to \$8,420,275 for the comparable nine months ended September 30, 2010. The \$994,679 decrease is primarily attributable to increase in trade show related expenses of approximately \$97,000, research and development fees of approximately \$330,000 and travel expenses of \$96,500, offset by decreases in professional fees of approximately \$1,202,000.

### ***Loss from Operations***

The loss from operations for the nine months ended September 30, 2011, was \$5,393,337 as compared to \$7,404,676 for the comparable nine months ended September 30, 2010. The decrease in the net operating loss for the period is primarily attributable an aggressive marketing plan and the Company's ability to gain brand recognition resulting in increased sales during the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010. Margins on our product sales remained relatively stable between the comparable periods.

### ***Other Expenses***

Other expenses for the nine months ended September 30, 2011, were \$6,938,899, as compared to \$1,270,554 for the comparable nine months ended September 30, 2010. The increase in other expenses of \$5,668,345 is primarily attributable to the financing transactions the Company entered into during the nine months ended September 30, 2011. The Company issued \$3,798,733 in convertible notes during the nine months ended September 30, 2011. These notes bore interest at rates ranging from 6% to 12% per annum. Interest expense during the nine months ended September 30, 2011, increased \$2,101,703 as compared to the comparable nine months ended September 30, 2010. In addition, the convertible notes contained embedded derivatives, due to the Company not being able to determine the number of shares needed to settle the conversion privilege. As a result, on the commitment date of each financing, the Company recorded aggregate derivative expenses of \$3,576,192 and on the date of re-measurement, which is September 30, 2011, a gain on the change in fair market value of \$2,181,955. There were no derivative liabilities recorded as of September 30, 2010.

The Company also issued shares of the Company's common stock to satisfy aged accounts payable, accrued expenses and debt. The Company recorded a loss on settlement in the amount of \$2,542,073 as a result of these transactions.

**Net Loss**

Net loss for the nine months ended September 30, 2011, was \$12,332,236 or loss per share of \$(0.05), as compared to \$8,675,230 or loss per share of \$(0.28) for the comparable nine months ended September 30, 2010.

Inflation did not have a material impact on the Company's operations for the period. Other than the foregoing, management knows of no trends, demands, or uncertainties that are reasonably likely to have a material impact on the Company's results of operations.

**For the Three Months Ended September 30, 2011(As Restated) and 2010 (unaudited):**

	Three months ended	
	September 30, 2011 Restated	September 30, 2010
Sales	\$ 4,443,571	\$ 1,409,016
Gross profit	\$ 514,943	\$ 481,510
General and administrative expenses	\$ 2,927,287	\$ 2,759,153
Loss from operations	\$ 2,412,344	\$ 2,277,643
Other (income) expenses - net	\$ (2,528,653 )	\$ 596,211
Net Income (Loss)	\$ 116,309	\$ (2,873,854 )
Net Income (loss) per common share – basic and diluted	\$ 0.00	\$ (0.08 )

**Sales (restated)**

Sales were \$4,443,571 for the three months ended September 30, 2011, as compared to \$1,409,016 for the comparable three months ended September 30, 2010. The significant increase in sales was primarily attributable to increased brand awareness. Since inception, the Company has focused on an aggressive marketing plan for market penetration. As a direct result of the aggressive marketing plan, our products are currently being offered in more retail stores, both domestic and international, and our products are receiving better shelf placement.

***Gross Profit (restated)***

A gross profit percentage decreased from 34% during the three months ended September 30, 2010, to 12% during the three months ended September 30, 2011 is primarily attributable to the to the Company's restatement of advertising expenses as a discount to be netted with gross revenues of \$1,312,855 and samples of \$90,593 shipped to customers not clearly identifiable reclassified to cost of sales.

***General and Administrative Expenses (restated)***

General and administrative expenses for the three months ended September 30, 2011, were \$2,927,287, as compared to \$2,759,153 for the comparable three months ended September 30, 2010. The \$168,134 increase is primarily attributable to increases in; advertising of approximately \$129,306 and research and development fees of approximately \$53,000.

***Loss from Operations***

Loss from operations for the three months ended September 30, 2011, was \$2,412,344 as compared to \$2,277,643 for the comparable three months ended September 30, 2010. The increase in operating loss is primarily attributable to an aggressive marketing plan and the Company's ability to gain brand recognition resulting in increased sales during the three months ended September 30, 2011, as compared to the three months ended September 30, 2010.

***Other (Income) Expenses - Net***

Other expenses for the three months ended September 30, 2011, were (\$2,528,653), as compared to \$596,211 for the comparable three months ended September 30, 2010. The decrease in other expenses of \$3,124,864 is primarily attributable to features associated with the financing transactions the Company entered into during the three months ended September 30, 2011. Interest expense during the three months ended September 30, 2011, decreased approximately \$731,539 as compared to the comparable three months ended September 30, 2010. In addition, the convertible notes contained embedded derivatives, due to the Company not being able to determine the number of shares needed to settle the conversion privilege. As a result, on the commitment date of each financing, the Company recorded aggregate derivative expenses of (\$481,667) and on the date of re-measurement, which is September 30, 2011, a change in fair market value of (\$1,547,185). There were no derivative liabilities recorded for the three months ended September 30, 2010.

The Company also issued shares of the Company's common stock to satisfy aged accounts payable, accrued expenses and debt. The Company recorded a loss on settlement in the amount of \$-0- as a result of these transactions.

***Net Income (Loss)***

Net income for the three months ended September 30, 2011, was \$116,309 or income per share of \$0.00, as compared to a net loss of \$2,873,854 or loss per share of \$(0.08) for the comparable three months ended September 30, 2010.

Inflation did not have a material impact on the Company's operations for the period. Other than the foregoing, management knows of no trends, demands, or uncertainties that are reasonably likely to have a material impact on the Company's results of operations.

**Liquidity and Capital Resources**

The following table summarizes total current assets, liabilities and working capital at September 30, 2011 compared to December 31, 2010.

September 30,	
2011	December 31,

Edgar Filing: MusclePharm Corp - Form 10-Q/A

	(unaudited)	2010	Increase/Decrease
Current Assets	\$ 4,673,570	\$ 1,406,310	\$ 3,267,260
Current Liabilities	\$ 10,066,061	\$ 4,215,649	\$ 5,850,412
Working Capital (Deficit)	\$ (5,392,491 )	\$ (2,809,339 )	\$ (2,583,152 )

At September 30, 2011, we had a working capital deficit of \$5,392,491, as compared to a working capital deficit of \$2,809,339, at December 31, 2010, an increase of \$(2,583,152). The increase is primarily attributable to the Company issuing \$3,798,733 in convertible notes during the nine months ended September 30, 2011. The Company continues to devote significant resources to continue aggressively market the product line.

Net cash used for operating activities for the nine months ended September 30, 2011 and 2010, was \$(4,075,448) and \$(2,368,247), respectively. The changes in net cash used in operating activities are attributable to our net loss adjusted for non-cash charges as presented in the consolidated statements of cash flows and changes in working capital as discussed above.

Net cash used for investing activities for the nine months ended September 30, 2011 and 2010, was \$(771,652) and \$(30,395), respectively. Increases in cash used in investing activities relates to purchases of gym and office equipment during the nine months ended September 30, 2011.

Net cash obtained through all financing activities for the nine months ended September 30, 2011, was \$4,803,396, as compared to \$2,409,299 for the nine months ended September 30, 2010.

## Going Concern

As reflected in the accompanying unaudited interim consolidated financial statements, the Company had a net loss of \$12,332,236 and net cash used in operations of \$4,075,448 for the nine months ended September 30, 2011, and a working capital deficit and stockholders' deficit of \$5,392,491 and \$5,141,634, respectively, at September 30, 2011. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The ability of the Company to continue its operations is dependent on management's plans, which include the raising of capital through debt and/or equity markets with some additional funding from other traditional financing sources, including term notes, sale of aged debt to third parties in exchange for free trading stock, until such time that funds provided by operations are sufficient to fund working capital requirements. The Company may need to incur liabilities with certain related parties to sustain the Company's existence.

The Company will require additional funding to finance the growth of its current and expected future operations as well as to achieve its strategic objectives. The Company believes its current available cash along with anticipated revenues may be insufficient to meet its cash needs for the near future. There can be no assurance that financing will be available in amounts or terms acceptable to the Company, if at all.

In response to these problems, management has taken the following actions:

- seeking additional third party debt and/or equity financing;
- continue with the implementation of the business plan;
- generate new sales from international customers; and
- allocate sufficient resources to continue with advertising and marketing efforts.

## Financings

Our primary source of operating cash has been through the sale of equity and through the issuance of convertible secured promissory notes.

The Company continues to explore potential expansion opportunities in the industry in order to boost sales, while leveraging distribution systems to consolidate lower costs. The Company needs to continue to raise money in order to execute the business plan.

### **Off-Balance Sheet Arrangements**

Other than the operating leases, as of September 30, 2011, the Company did not have any off-balance sheet arrangements. We are obligated under an operating lease for the rental of office space. Future minimum rental commitments with a remaining term in excess of one year as of September 30, 2011 are as follows:

### **PERIODS ENDING DECEMBER 31,**

2011	\$6,692
2012	87,560
2013	93,448
2014	99,576
2015	105,704
Total minimum lease payments	\$392,980

### **Critical Accounting Policies**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from those estimates. The Company believes the following accounting policies are critical to the judgments and estimates used in the preparation of its financial statements:



### **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable represents trade obligations from customers that are subject to normal trade collection terms. The Company periodically evaluates the collectability of its accounts receivable and considers the need to establish an allowance for doubtful accounts based upon historical collection experience and specific customer information. Accordingly, the actual amounts could vary from the recorded allowances.

The Company does not charge interest on past due receivables. Receivables are determined to be past due based on the payment terms of the original invoices.

### **Revenue Recognition (restated)**

The Company records revenue when all of the following have occurred: (1) persuasive evidence of an arrangement exists, (2) product has been shipped or delivered, (3) the sales price to the customer is fixed or determinable, and (4) collectability is reasonably assured.

Depending on individual customer agreements, sales are recognized either upon shipment of products to customers or upon delivery. The Company records sales allowances and discounts as a direct reduction of sales. The Company has determined that advertising related credits that were granted to customers fell within the guidance of ASC No. 605-50-55 (“*Revenue Recognition*” – *Customer Payments and Incentives – Implementation Guidance and Illustrations*). The guidance indicates that, absent evidence of benefit to the vendor, appropriate treatment requires netting these types of payments against revenues and not expensing as advertising expense

The Company has an informal 7-day right of return for products. There were nominal returns for the three and nine months ended September 30, 2011 and 2010.

### **Beneficial Conversion Feature**

For conventional convertible debt where the rate of conversion is below market value, the Company records a “beneficial conversion feature” (“BCF”) and related debt discount.

When the Company records a BCF, the relative fair value of the BCF would be recorded as a debt discount against the face amount of the respective debt instrument. The discount would be amortized to interest expense over the life of the debt.

### **Derivative Liabilities**

Fair value accounting requires bifurcation of embedded derivative instruments such as conversion features in convertible debt or equity instruments, and measurement of their fair value for accounting purposes. In determining the appropriate fair value, the Company uses the Black-Scholes option-pricing model. In assessing the convertible debt instruments, management determines if the convertible debt host instrument is conventional convertible debt and further if there is a beneficial conversion feature requiring measurement. If the instrument is not considered conventional convertible debt, the Company will continue its evaluation process of these instruments as derivative financial instruments.

Once determined, derivative liabilities are adjusted to reflect fair value at each reporting period end, with any increase or decrease in the fair value being recorded in results of operations as an adjustment to fair value of derivatives. In addition, the fair value of freestanding derivative instruments such as warrants, are also valued using the Black-Scholes option-pricing model.

### **Debt Issue Costs and Debt Discount**

The Company may pay debt issue costs, and record debt discounts in connection with raising funds through the issuance of convertible debt. These costs are amortized over the life of the debt to interest expense. If a conversion of the underlying debt occurs, a proportionate share of the unamortized amounts is immediately expensed.

### **Original Issue Discount**

For certain convertible debt issued, the Company provides the debt holder with an original issue discount. The original issue discount is recorded to debt discount and additional paid in capital at an amount not to exceed gross proceeds raised, reducing the face amount of the note and is amortized to interest expense over the life of the debt.

### **Share-Based Payments**

Generally, all forms of share-based payments, including stock option grants, warrants, restricted stock grants and stock appreciation rights are measured at their fair value on the awards' grant date, based on estimated number of awards that are ultimately expected to vest. Share-based compensation awards issued to non-employees for services rendered are recorded at either the fair value of the services rendered or the fair value of the share-based payment, whichever is more readily determinable.

### **Recent Accounting Pronouncements**

There are no recent accounting pronouncements that are expected to have an effect on the Company's consolidated financial statements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We do not hold any derivative instruments and do not engage in any hedging activities.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(c) and 15d-15(e) under the Exchange Act) are not effective to ensure that information required to be disclosed by us in report that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### (b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

This company's management is responsible for establishing and maintaining internal controls over financial reporting and disclosure controls. Internal Control Over Financial Reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the registrant; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is appropriately recorded, processed, summarized and reported within the specified time periods.

Management has conducted an evaluation of the effectiveness of our internal control over financial reporting for the year ended December 31, 2011 based on the framework established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Based on this assessment, management concluded that as of May 2012 it had material weaknesses in its internal control procedures.

The Company's assessment identified certain material weaknesses which are set forth below:

**Functional Controls and Segregation of Duties**

Because of the company's limited resources, there are limited controls over information processing, and insufficient internal controls over the accuracy, completeness and authorization of transactions.

There is an inadequate segregation of duties consistent with control objectives. Our company's management is composed of a small number of individuals resulting in a situation where limitations on segregation of duties exist. In order to remedy this situation we would need to hire additional staff to provide greater segregation of duties. Currently, it is not feasible to hire additional staff to obtain optimal segregation of duties. Management will reassess this matter in the following year to determine whether improvement in segregation of duty is feasible.

Accordingly, as the result of identifying the above material weaknesses we have concluded that these control deficiencies resulted in a reasonable possibility that a material misstatement of the annual or interim financial statements would not be prevented or detected on a timely basis by the company's internal controls.

Management believes that the material weaknesses set forth above were the result of the scale of our operations and are intrinsic to our small size. Management believes these weaknesses did not have a material effect on our financial results and is actively working to take remedial actions.

We are committed to improving our financial organization. As part of this commitment, we will create a position to segregate duties consistent with control objectives and will increase our personnel resources and technical accounting expertise within the accounting function when funds are available to us by preparing and implementing sufficient written policies and checklists which will set forth procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements.

(1) We will continue to update the documentation of our internal control processes, including formal risk assessment of our financial reporting processes.

(2) Retain staff to assist in financial and accounting controls.

Subsequent to December 31 2011, we have undertaken the following steps to address the deficiencies stated above:

Continued the development and documentation of internal controls and procedures surrounding the financial reporting process, primarily through the use of account reconciliations, and supervision.

31

We carried out an evaluation, under the supervision and with the participation of our management, including our PEO and PFO, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report. Based upon that evaluation, the PEO and PFO concluded that the Company's disclosure controls and procedures were ineffective.

(c) Inherent Limitations on Effectiveness of Controls

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within MusclePharm have been detected.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

### **Item 1A. Risk Factors.**

We believe there are no changes that constitute material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on April 1, 2011.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On July 1, 2011, the Company issued 20,000,000 shares of the Company's common stock for cash proceeds of \$500,000. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On July 1, 2011, the Company issued 699,200 shares of the Company's common stock for a May 2011 conversion of convertible notes to common stock payable. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On July 3, 2011, a convertible noteholder converted \$5,000 in principal into 208,644 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.



## Edgar Filing: MusclePharm Corp - Form 10-Q/A

On July 8, 2011, a convertible noteholder converted \$8,600 in principal into 353,713 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On July 11, 2011, a convertible noteholder converted \$50,000 in principal into 3,636,364 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On July 12, 2011, a convertible noteholder converted \$40,000 in principal into 3,095,455 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On July 12, 2011, the Company issued 100,000 shares of the Company's common stock to a consultant for services rendered at a fair value of \$3,050 (\$0.0305/share), based upon contract value. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On July 14, 2011, a convertible noteholder converted \$75,000 in principal into 6,234,327 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On July 20, 2011, a convertible noteholder converted \$77,000 in principal into 5,000,000 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On July 20, 2011, a convertible noteholder converted \$46,500 in principal into 6,038,961 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On July 26, 2011, a convertible noteholder converted \$75,000 in principal into 5,999,069 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On July 28, 2011, a convertible noteholder converted \$75,000 in principal into 5,999,069 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On July 29, 2011, a convertible noteholder converted \$8,000 in principal into 333,616 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On August 1, 2011, a convertible noteholder converted \$50,000 in principal into 3,300,247 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On August 2, 2011, a convertible noteholder converted \$125,000 in principal into 5,216,103 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On August 3, 2011, a convertible noteholder converted \$10,000 in principal into 660,049 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On August 4, 2011, the Company issued securities exempt from the registration requirements of the Securities Act pursuant to Section 3(a)(10) of the Securities Act, to a third party fund. Pursuant to this transaction, on August 4, 2011, the Company directed its transfer agent to issue and deliver to the third party 1,794,871 shares of the Company's common stock in satisfaction of a debt in the amount of \$100,000.

On August 16, 2011, a convertible noteholder converted \$87,500 in principal into 5,000,000 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

## Edgar Filing: MusclePharm Corp - Form 10-Q/A

On August 22, 2011, the Company issued 375,000 shares of the Company's common stock to a consultant for services rendered at a fair value of \$11,250 (\$0.03/share), based upon contract value. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On August 22, 2011 the Company issued 75,000 shares of the Company's common stock to a consultant for services rendered at a fair value of \$2,250 (\$0.03/share), based upon contract value. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On August 24, 2011, a convertible noteholder converted \$15,000 in principal into 980,392 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On August 29, 2011, a convertible noteholder converted \$15,000 in principal into 1,013,514 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On August 30, 2011, the Company issued 100,000 shares of the Company's common stock to a consultant for services rendered at a fair value of \$3,000 (\$0.03/share), based upon contract value. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On August 30, 2011, the Company issued 3,934,426 shares of the Company's common stock to a consultant for services rendered at a fair value of \$ (\$0.02/share). The Consultant returned to the Company 1,725,129 shares issued in the prior quarter. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On September 6, 2011, a convertible noteholder converted \$10,000 in principal into 872,180 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On September 6, 2011, the Company issued 2,586,207 shares of the Company's common stock to a consultant for services to be rendered at a fair value of \$75,000 (\$0.02899/share), based upon contract value. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On September 7, 2011, a convertible noteholder converted \$52,500 in principal into 3,000,000 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On September 13, 2011, a convertible noteholder converted \$50,000 in principal into 10,164,384 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On September 19, 2011, a convertible noteholder converted \$10,000 in principal into 1,204,819 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On September 22, 2011, a convertible noteholder converted \$12,000 in principal into 1,445,783 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On September 23, 2011, a convertible noteholder converted \$25,000 in principal into 2,577,320 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On September 26, 2011, a convertible noteholder converted \$12,000 in principal into 1,445,783 shares of the Company's common stock. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On September 30, 2011, the Company issued 100,000 shares of the Company's common stock to a consultant for services rendered at a fair value of \$8,100 (\$0.081/share), based upon contract value. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

**Item 3. Defaults Upon Senior Securities.**

There were no defaults upon senior securities during the quarter ended September 30, 2011.

**Item 4. (Removed and Reserved).**

## Item 5. Other Information.

### Entry into Material Definitive Agreements

#### *Jeremy DeLuca Employment Agreement*

On November 14, 2011 (the “Execution Date”), the Company entered into an employment agreement (the “DeLuca Employment Agreement”) with Jeremy DeLuca, the Company’s President and Chief Marketing Officer (the “President”). The term of the DeLuca Employment Agreement commences on the Execution Date and expires on December 31, 2014 (the “DeLuca Term”). Pursuant to the terms of the DeLuca Employment Agreement, the President is to receive a base salary of \$125,000 for the 2011 calendar year; \$175,000 for the 2012 calendar year; \$225,000 for the 2013 calendar year; and \$300,000 for the 2014 calendar year. In addition, upon the three year anniversary of the DeLuca Employment Agreement, the President shall receive 5,000 shares of the Company’s Series A Preferred Stock.

During the DeLuca Term, the President’s responsibilities will include all aspects of the day to day business operations of the Company. The President shall also be responsible for determining necessary strategic partnerships and investment opportunities relating to the Company, both nationally and internationally, and shall have wide discretion in implementing the vision, strategic goals and operational mission of the Company. The President shall, on a full time and exclusive basis, devote all of his business time, attention and energies to the operations of the Company and other duties as required by the DeLuca Employment Agreement, and shall use his best efforts to advance the best interests of the Company.

The description of the DeLuca Employment Agreement does not purport to be complete and is qualified in its entirety by reference to such document, a copy of which is attached hereto as Exhibit 10.5 and incorporated herein by reference.

#### *Brad Pyatt Amended and Restated Employment Agreement*

On November 14, 2011, the Company entered into an amended and restated employment agreement (the “Pyatt Employment Agreement”) with Brad Pyatt, the Company’s Chief Executive Officer (“Pyatt”). The parties amended the Pyatt Employment Agreement in order to amend section 3(c) as it relates to Mr. Pyatt’s bonus payment. The amended Pyatt Employment Agreement now provides that, for each one million dollars (\$1,000,000) in revenue growth achieved by the Company from the revenue figure reported for the prior fiscal year, Pyatt shall receive (i) ten thousand dollars (\$10,000) and (ii) one hundred thousand dollars (\$100,000) worth of the Company’s common stock, such stock

to be valued based on the average closing price for the twenty (20) trading days prior to the date of issuance of such stock. The aforementioned payments to Pyatt shall be made within 90 days after the end of the Company's fiscal year.

The description of the Pyatt Employment Agreement does not purport to be complete and is qualified in its entirety by reference to such document, a copy of which is attached hereto as Exhibit 10.6 and incorporated herein by reference.

*Cory Gregory Amended and Restated Employment Agreement*

On November 14, 2011, the Company entered into an amended and restated employment agreement (the "Gregory Employment Agreement") with Cory Gregory, the Company's Senior President ("Gregory"). The parties amended the Gregory Employment Agreement in order to amend section 3(c) as it relates to Mr. Gregory's bonus payment. The amended Gregory Employment Agreement now provides that, for each one million dollars (\$1,000,000) in revenue growth achieved by the Company from the revenue figure reported for the prior fiscal year, Gregory shall receive (i) ten thousand dollars (\$10,000) and (ii) one hundred thousand dollars (\$100,000) worth of the Company's common stock, such stock to be valued based on the average closing price for the twenty (20) trading days prior to the date of issuance of such stock. The aforementioned payments to Gregory shall be made within 90 days after the end of the Company's fiscal year.

The description of the Gregory Employment Agreement does not purport to be complete and is qualified in its entirety by reference to such document, a copy of which is attached hereto as Exhibit 10.7 and incorporated herein by reference.

**Item 6. Exhibits.**

Exhibit No.	Description
4.1	\$2,651,000 Senior Secured Convertible Promissory Note, dated June 29, 2011, issued in favor of Inter-Mountain Capital Corp. (as filed as Exhibit 4.1 to the Form 10-Q filed on November 14, 2011).
4.2	Common Stock Purchase Warrant, dated June 29, 2011, issued in favor of Inter-Mountain Capital Corp. (as filed as Exhibit 4.2 to the Form 10-Q filed on November 14, 2011).
10.1	Note and Warrant Purchase Agreement, dated June 29, 2011, by and between MusclePharm Corporation and Inter-Mountain Capital Corp. (as filed as Exhibit 10.1 to the Form 10-Q filed on November 14, 2011).
10.2	Stock Purchase Agreement, dated July 7, 2011, by and between MusclePharm Corporation and Carriage Group, LLC (as filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on July 19, 2011)
10.3	Endorsement Agreement, dated July 20, 2011, by and between MusclePharm Corporation and Michael Vick, individually (as filed as Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on July 22, 2011)
10.4	Employment Agreement, dated September 16, 2011, by and between MusclePharm Corporation and John H. Blucher, individually (as filed as Exhibit 10.4 to the Form 10-Q filed on November 14, 2011).
10.5	Employment Agreement, dated November 14, 2011, by and between MusclePharm Corporation and Jeremy DeLuca, individually (as filed as Exhibit 10,5 to the Form 10-Q filed on November 14, 2011).
10.6	Employment Agreement, dated November 14, 2011, by and between MusclePharm Corporation and Brad Pyatt, individually (as filed as Exhibit 10.6 to the Form 10-Q filed on November 14, 2011).
10.7	Employment Agreement, dated November 14, 2011, by and between MusclePharm Corporation and Cory Gregory, individually (as filed as Exhibit 10.7 to the Form 10-Q filed on November 14, 2011).
31.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 302 of 2002*
31.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 302 of 2002*
32.1	Certification of Principal Executive Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

\*Filed herewith





**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**MUSCLEPHARM CORPORATION**

Date: June 29, 2012 By: /s/ Brad J. Pyatt  
Name: Brad J. Pyatt  
Title: Chief Executive Officer  
(Principal Executive Officer)

Date: June 29, 2012 By: /s/ Lawrence S. Meer Name:  
Lawrence S. Meer Title:  
Chief Financial Officer  
(Principal Financial Officer)