

MusclePharm Corp  
Form 10-Q  
May 10, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended: March 31, 2016**

**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)**

<p><b>Nevada</b>  <b>(State or other jurisdiction of</b>    <b>incorporation or organization)</b></p> <p><b>4721 Ironton Street, Building A</b></p> <p><b>Denver, Colorado</b>  <b>(Address of principal executive offices)</b></p>	<p><b>77-0664193</b>  <b>(I.R.S. Employer</b>    <b>Identification No.)</b></p> <p><b>80239</b>  <b>(Zip code)</b></p> <p><b>(303) 396-6100</b>    <b>(Registrant's telephone number, including area code)</b></p>
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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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

Number of shares of the registrant's common stock outstanding at May 5, 2016: 13,634,680, excluding 875,621 shares of common stock held in treasury.



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**NOTE ABOUT FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words believe, may, will, estimate, continue, anticipate, intend, expect, and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part II, Item 1A, Risk Factors in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****MusclePharm Corporation****Consolidated Balance Sheets***(In thousands, except share and per share data)*

	<b>March 31, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 9,054	\$ 7,081
Accounts receivable, net of allowance for doubtful accounts of \$293 and \$347 as of March 31, 2016 and December 31, 2015	22,339	22,003
Inventory	8,613	12,549
Prepaid giveaways	293	307
Prepaid stock compensation	938	1,641
Prepaid expenses and other current assets	3,952	3,698
Total current assets	45,189	47,279
Property and equipment, net	6,404	6,693
Investments, long-term	977	977
Intangible assets, net	8,433	8,652
Other assets	230	180
<b>TOTAL ASSETS</b>	<b>\$ 61,233</b>	<b>\$ 63,781</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 39,365	\$ 39,652
Accrued liabilities	12,738	12,526
Accrued restructuring charges, current	8,814	9,140
Obligation under secured borrowing arrangement	5,713	
Convertible note with a related party, net of discount, current	5,964	
Line of credit		3,000
Term loan		2,949
Other debt obligations	21	21
Total current liabilities	72,615	67,288
Convertible note with a related party, net of discount, long-term		5,952
Accrued restructuring charges, long-term	279	279
Other long-term liabilities	227	330

Total liabilities	73,121	73,849
Commitments and contingencies (Note 9)		
Stockholders' deficit:		
Common stock, par value of \$0.001 per share; 100,000,000 shares authorized as of March 31, 2016 and December 31, 2015; 14,809,406 and 14,664,161 shares issued as of March 31, 2016 and December 31, 2015; 13,933,785 and 13,788,540 shares outstanding as of March 31, 2016 and December 31, 2015	14	14
Additional paid-in capital	152,436	147,646
Treasury stock, at cost; 875,621 shares as of March 31, 2016 and December 31, 2015	(10,039)	(10,039)
Accumulated other comprehensive loss	(177)	(172)
Accumulated deficit	(154,122)	(147,517)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(11,888)</b>	<b>(10,068)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 61,233</b>	<b>\$ 63,781</b>

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

**Table of Contents****MusclePharm Corporation****Consolidated Statements of Operations***(In thousands, except share and per share data)**(Unaudited)*

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2016</b>	<b>2015</b>
Revenue, net	\$ 42,912	\$ 41,322
Cost of revenue <sup>(1)</sup>	27,699	26,938
Gross profit	15,213	14,384
Operating expenses:		
Advertising and promotion	4,287	7,225
Salaries and benefits	9,620	7,061
Selling, general and administrative	4,243	4,962
Research and development	863	965
Professional fees	1,388	1,455
Restructuring and other charges	574	
Total operating expenses	20,975	21,668
Loss from operations	(5,762)	(7,284)
Other expense, net	(712)	(183)
Loss before provision for income taxes	(6,474)	(7,467)
Provision for income taxes	131	12
Net loss	\$ (6,605)	\$ (7,479)
Net loss per share, basic and diluted	\$ (0.48)	\$ (0.56)
Weighted average shares used to compute net loss per share, basic and diluted	13,896,876	13,333,868

- <sup>(1)</sup> Cost of revenue for the three months ended March 31, 2016 included restructuring charges of \$1,662 related to write-down of inventory for discontinued products.

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



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**MusclePharm Corporation**

**Consolidated Statements of Comprehensive Loss**

*(In thousands)*

*(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net loss	\$ (6,605)	\$ (7,479)
Other comprehensive loss:		
Change in foreign currency translation adjustment	(5)	(80)
Comprehensive loss	\$ (6,610)	\$ (7,559)

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

**Table of Contents****MusclePharm Corporation****Consolidated Statements of Stockholders Deficit***(In thousands, except share data)**(Unaudited)*

		Common Stock		Additional	Treasury	Accumulated Other Comprehensive	Accumulated	Total
		Shares	Amount	Paid-in Capital	Stock	Loss	Deficit	Stockholders Deficit
Balance	December 31, 2015	13,788,540	\$ 14	\$ 147,646	\$ (10,039)	\$ (172)	\$ (147,517)	\$ (10,068)
Stock-based compensation related to issuance of common stock warrants to third parties for services								
				3				3
Stock-based compensation related to issuance of restricted stock awards to employees, executives and directors								
		145,245		756				756
Stock-based compensation related to accelerated vesting of restricted stock awards to a terminated executive								
				3,900				3,900
Stock-based compensation related to accelerated vesting of restricted stock awards to terminated employees as part of restructuring								
				117				117
Stock-based compensation related to issuance of stock options to an executive and a director								
				14				14
Change in foreign currency translation adjustment								
						(5)		(5)
Net loss								
							(6,605)	(6,605)
Balance	March 31, 2016	13,933,785	\$ 14	\$ 152,436	\$ (10,039)	\$ (177)	\$ (154,122)	\$ (11,888)

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

**Table of Contents****MusclePharm Corporation****Consolidated Statements of Cash Flows***(In thousands)**(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (6,605)	\$ (7,479)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of property and equipment	427	382
Amortization of intangible assets	220	225
Provision for doubtful accounts	(34)	30
Non-cash restructuring and other charges	143	
Inventory write down related to restructuring	1,662	
Amortization of prepaid stock compensation	703	1,109
Amortization of prepaid sponsorship and endorsement fees	698	1,431
Amortization of debt discount and issuance costs	12	9
Stock-based compensation	4,670	2,523
Issuance of common stock warrants to third parties for services	3	33
Loss on disposal of property and equipment	35	7
Changes in operating assets and liabilities:		
Accounts receivable	(302)	(2,345)
Inventory	2,274	7,197
Prepaid giveaways	14	(247)
Prepaid sponsorship and endorsement fees		(1,590)
Prepaid expenses and other current assets	(249)	(272)
Other assets	(50)	(79)
Accounts payable	(591)	719
Accrued liabilities	(334)	(971)
Accrued restructuring charges	(326)	
Net cash provided by operating activities	2,370	682
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(50)	(257)
Proceeds from disposal of property and equipment	16	447
Purchase of MusclePharm Apparel Rights		(850)
Trademark registrations	6	
Net cash used in investing activities	\$ (28)	\$ (660)

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

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**MusclePharm Corporation**

**Consolidated Statements of Cash Flows (Continued)**

*(In thousands)*

*(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	\$	\$ 4,001
Payments on line of credit	(3,000)	(4,001)
Repayments of term loan	(2,949)	(103)
Proceeds from issuance of term loan		4,000
Issuance costs of term loan		(40)
Proceeds from secured borrowing arrangement	23,142	