

MusclePharm Corp
Form 10-Q
November 09, 2015
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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: September 30, 2015

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
(State or other jurisdiction of
incorporation or organization)

77-0664193
(I.R.S. Employer
Identification No.)

4721 Ironton Street, Building A

Denver, Colorado
(Address of principal executive offices)
(303) 396-6100

80239
(Zip code)

(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

Number of shares of the registrant's common stock outstanding at October 30, 2015: 13,731,929 excludes 875,621 common shares 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 and contained in our other filings and reports made with the Securities and Exchange Commission. Moreover, we operate in a very competitive and rapidly changing environment which is subject to various federal and state regulations. New risks and uncertainties 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. 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)*

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash	\$ 3,457	\$ 1,020
Accounts receivable, net of allowance for doubtful accounts of \$297 and \$159 as of September 30, 2015 and December 31, 2014	15,586	16,644
Inventory	19,320	21,069
Prepaid giveaways	501	1,228
Prepaid stock compensation, current portion	2,344	4,476
Prepaid sponsorship and endorsement fees	541	238
Prepaid expenses and other current assets	3,420	1,742
Total current assets	45,169	46,417
Property and equipment, net	7,008	7,805
Long-term investments	977	
Intangible assets, net	8,904	7,074
Prepaid stock compensation, noncurrent portion		4,952
Other assets	185	108
TOTAL ASSETS	\$ 62,243	\$ 66,356
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	\$ 40,442	\$ 27,761
Accrued liabilities	10,986	7,023
Accrued restructuring charges	10,097	
Line of credit	2,635	8,000
Term loan	3,269	
Other debt obligations	21	46
Total current liabilities	67,450	42,830
Other long-term liabilities	342	146
TOTAL LIABILITIES	67,792	42,976

Commitments and contingencies (Note 9)

Stockholders (deficit) equity:

Common stock, par value of \$0.001 per share; 100,000,000 shares authorized as of September 30, 2015 and December 31, 2014; 14,607,550 and 13,996,007 shares issued as of September 30, 2015 and December 31, 2014; 13,731,929 and 13,120,386 shares outstanding as of September 30, 2015 and December 31, 2014

	14	14
Additional paid-in capital	142,458	129,130
Treasury stock, at cost; 875,621 shares as of September 30, 2015 and December 31, 2014	(10,039)	(10,039)
Accumulated other comprehensive loss	(171)	(66)
Accumulated deficit	(137,811)	(95,659)
TOTAL STOCKHOLDERS (DEFICIT) EQUITY	(5,549)	23,380
TOTAL LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY	\$ 62,243	\$ 66,356

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)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue, net	\$ 33,982	\$ 47,768	\$ 125,780	\$ 144,718
Cost of revenue (including restructuring charges of \$1,262 related to write-down of inventory for the three and nine months ended September 30, 2015)	23,512	32,812	83,428	96,242
Gross profit	10,470	14,956	42,352	48,476
Operating expenses:				
Advertising and promotion	7,093	7,749	22,603	19,997
Salaries and benefits	5,681	6,041	20,505	17,185
Selling, general and administrative	4,647	3,652	14,730	7,881
Research and development	1,437	735	3,323	2,996
Professional fees	1,980	1,316	5,499	3,393
Restructuring and other charges	16,650		16,650	
Total operating expenses	37,488	19,493	83,310	51,452
Loss from operations	(27,018)	(4,537)	(40,958)	(2,976)
Other (expense) income, net	(559)	5,234	(1,090)	5,551
(Loss) income before provision for income taxes	(27,577)	697	(42,048)	2,575
Provision for income taxes	71	94	104	171
Net (loss) income	\$ (27,648)	\$ 603	\$ (42,152)	\$ 2,404
Net (loss) income per share, basic	\$ (2.01)	\$ 0.05	\$ (3.12)	\$ 0.23
Net (loss) income per share, diluted	\$ (2.01)	\$ 0.05	\$ (3.12)	\$ 0.20
Weighted-average shares used in computing net (loss) income per share, basic	13,723,213	11,032,996	13,504,455	10,652,781
Weighted-average shares used in computing net (loss) income per share, diluted	13,723,213	12,612,896	13,504,455	12,112,017

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

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MusclePharm Corporation
Consolidated Statements of Comprehensive (Loss) Income

(In thousands)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net (loss) income	\$ (27,648)	\$ 603	\$ (42,152)	\$ 2,404
Other comprehensive income (loss):				
Change in foreign currency translation adjustment	72	(37)	(105)	(18)
Comprehensive (loss) income	\$ (27,576)	\$ 566	\$ (42,257)	\$ 2,386

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

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

							Accumulated			
		Common Stock		Additional	Treasury	Comprehensive	Accumulated	Stockholders		
		Shares	Amount	Paid-In Capital	Stock	(Loss)	Deficit	(Deficit)	Equity	
Balance	December 31, 2014	13,120,386	\$ 14	\$ 129,130	\$ (10,039)	\$ (66)	\$ (95,659)	\$	23,380	
Issuance of common stock warrants to third parties for services				62					62	
Stock-based compensation related to issuance of restricted stock awards to employees, executives and directors, net of cancellations		186,354		10,029					10,029	
Stock issued in conjunction with product line expansion		150,000		1,198					1,198	
Stock issued in conjunction with MusclePharm apparel rights acquisition		170,000		1,394					1,394	
Stock issued in conjunction with attempted financing agreement		50,000		325					325	
Stock issued in conjunction with non-employee consulting/endorsement agreement		55,189		320					320	
Change in foreign currency translation adjustment						(105)			(105)	
Net loss							(42,152)		(42,152)	
Balance	September 30, 2015	13,731,929	\$ 14	\$ 142,458	\$ (10,039)	\$ (171)	\$ (137,811)	\$	(5,549)	

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)*

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (42,152)	\$ 2,404
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	1,330	950
Amortization of intangible assets	776	422
Provision for doubtful accounts	168	164
Non-cash restructuring and other charges	8,430	
Inventory write down related to corporate restructuring	1,262	
Amortization of prepaid stock compensation	3,198	2,582
Amortization of prepaid sponsorship and endorsement fees	5,363	5,016
Accretion of discount on marketable securities		(15)
Amortization of debt issuance costs	29	1
Stock-based compensation	8,690	6,872
Issuance of common stock warrants to third parties for services	62	69
Bargain purchase gain and contingent asset gain on BioZone acquisition		(5,265)
Gain on settlement of accounts payable		(31)
Loss on disposal of property and equipment	32	
Change in fair value of derivative liabilities		(374)
Realized gain on marketable securities		(96)
Changes in operating assets and liabilities:		
Accounts receivable	890	(9,148)
Inventory	487	(7,424)
Prepaid giveaways	727	(257)
Prepaid sponsorship and endorsement fees	(6,492)	(4,377)
Prepaid expenses and other current assets	(1,822)	(720)
Other assets	(77)	(127)
Accounts payable	14,928	1,870
Accrued liabilities	3,903	