

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: **June 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.

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**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 June 30, 2011, filed in a quarterly report on Form 10-Q with the Securities and Exchange Commission (the "Commission") on August 23, 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 June 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 FINANCIAL STATEMENTS**

**JUNE 30, 2011 (Restated)**

**(UNAUDITED)**

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

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**MusclePharm Corporation and Subsidiary****Consolidated Balance Sheets**

|                                                                                                                     | June 30, 2011<br>(unaudited) | December 31, 2010 |
|---------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------|
| Assets                                                                                                              |                              |                   |
| Accounts receivable                                                                                                 | 2,399,097                    | 426,761           |
| Prepaid stock compensation                                                                                          | 382,546                      | 893,240           |
| Other current assets                                                                                                | 9,211                        | 42,605            |
|                                                                                                                     | 3,308,665                    | 1,406,310         |
| Total Current Assets                                                                                                | 514,404                      | 138,551           |
| Prepaid stock compensation                                                                                          | 810,399                      | 1,088,131         |
| Other assets                                                                                                        | 239,603                      | 87,989            |
| Total Assets                                                                                                        | \$4,873,071                  | \$ 2,720,981      |
| Liabilities and Stockholders' Deficit                                                                               |                              |                   |
| Accounts payable and accrued liabilities                                                                            | \$2,885,403                  | \$ 3,155,701      |
| Demand loans                                                                                                        | 278,600                      | -                 |
| Debt                                                                                                                | 2,008,567                    | 289,488           |
| Derivative liabilities                                                                                              | 5,155,773                    | 622,944           |
| Deferred revenue                                                                                                    | 18,240                       | 75,733            |
| Due to factor                                                                                                       | -                            | 71,783            |
| Total Current Liabilities                                                                                           | 10,346,583                   | 4,215,649         |
| Long Term Liabilities:                                                                                              |                              | 250,000           |
| Total Liabilities                                                                                                   | 10,434,203                   | 4,465,649         |
| Stockholders' Deficit                                                                                               |                              |                   |
| Series A, Convertible Preferred Stock, \$0.001 par value; 10,000,000 shares authorized, none issued and outstanding | -                            | 118,649           |
| Additional paid-in capital                                                                                          | 28,510,297                   | 20,012,122        |
| Accumulated deficit                                                                                                 | (34,323,984 )                | (21,875,438 )     |
| Total Stockholders' Deficit                                                                                         | (5,561,132 )                 | (1,744,667 )      |
|                                                                                                                     | \$4,873,071                  | \$ 2,720,981      |

See accompanying notes to financial statements



**MusclePharm Corporation and Subsidiary****Consolidated Statements of Operations****(unaudited)**

|                                                                                          | For The Three Months Ended June 30, |                 | For the Six Months Ended June 30, |                 |
|------------------------------------------------------------------------------------------|-------------------------------------|-----------------|-----------------------------------|-----------------|
|                                                                                          | 2011                                | 2010            | 2011                              | 2010            |
|                                                                                          | (As Restated)                       |                 | (As Restated)                     |                 |
| Sales - net                                                                              | \$ 3,397,742                        | \$ 468,109      | \$ 6,431,678                      | \$ 1,726,697    |
| Cost of sales                                                                            | 2,512,828                           | 361,250         | 4,914,361                         | 1,192,608       |
| Gross profit                                                                             | 884,914                             | 106,859         | 1,517,317                         | 534,089         |
| General and administrative expenses                                                      | 2,778,682                           | 2,982,236       | 4,498,310                         | 5,661,122       |
| Loss from operations                                                                     | (1,893,768 )                        | (2,875,377 )    | (2,980,993 )                      | (5,127,033 )    |
| Other income (expense)                                                                   |                                     |                 |                                   |                 |
| Derivative expense                                                                       | (2,698,490 )                        | -               | (4,057,859 )                      | -               |
| Change in fair value of derivative liabilities                                           | 766,487                             | -               | 634,770                           | -               |
| Loss on settlement of accounts payable and debt                                          | (627,384 )                          | -               | (2,542,073 )                      | -               |
| Interest expense                                                                         | (2,983,468 )                        | (316,283 )      | (3,502,390 )                      | (674,343 )      |
| Total other income (expense) - net                                                       | (5,542,854 )                        | (316,283 )      | (9,467,552 )                      | (674,343 )      |
| Net loss                                                                                 | \$ (7,436,623 )                     | \$ (3,191,660 ) | \$ (12,448,545 )                  | \$ (5,801,376 ) |
| Net loss per share available to common stockholders - basic and diluted                  | \$ (0.04 )                          | \$ (0.11 )      | \$ (0.07 )                        | \$ (0.21 )      |
| Weighted average number of common shares outstanding during the year – basic and diluted | 201,864,655                         | 29,247,811      | 174,365,323                       | 27,702,640      |

See accompanying notes to financial statements



**MusclePharm Corporation and Subsidiary****Consolidated Statements of Cash Flows****(unaudited)**

|                                                                             | Six Months Ended June 30, |                |
|-----------------------------------------------------------------------------|---------------------------|----------------|
|                                                                             | 2011                      | 2010           |
| <b>Cash Flows From Operating Activities:</b>                                |                           |                |
| Net loss                                                                    | \$(12,448,545)            | \$ (5,801,376) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                           |                |
| Depreciation                                                                | 31,393                    | 6,455          |
| Bad debt (recovery)                                                         | (5,203 )                  | 660            |
| Stock based compensation                                                    | 758,826                   | 2,641,067      |
| Amortization of prepaid stock based compensation                            | 1,039,925                 | -              |
| Amortization of debt discount and debt issue costs                          | 3,034,192                 | 594,351        |
| Derivative expense                                                          | 4,057,859                 | -              |
| Change in fair value of derivative liabilities                              | (634,770 )                | -              |
| Loss on sale of accounts receivable                                         | -                         | 5,196          |
| Loss on settlement of accounts payable                                      | 2,542,073                 | -              |
| Changes in operating assets and liabilities:                                |                           |                |
| (Increase) decrease in:                                                     |                           |                |
| Accounts receivable                                                         | (1,967,133 )              | (459,454 )     |
| Prepaid and other                                                           | (48,359 )                 | 54,411         |
| Inventory                                                                   | -                         | (70,672 )      |
| Deposits                                                                    | -                         | (55,055 )      |
| Other current Assets                                                        | -                         | (2,267 )       |
| Accounts payable and accrued liabilities                                    | 1,057,640                 | 1,264,000      |
| Deferred revenue                                                            | (57,493 )                 | 294,887        |
| Due to factor                                                               | (5,853 )                  | -              |
| Net Cash Used In Operating Activities                                       | (2,645,448 )              | (1,527,797)    |
| <b>Cash Flows From Investing Activities:</b>                                |                           |                |
| Purchases of property and equipment                                         | (324,435 )                | (6,884 )       |
| Net Used In Investing Activities                                            | (324,435 )                | (6,884 )       |
| <b>Cash Flows From Financing Activities:</b>                                |                           |                |
| Proceeds from sale of accounts receivable                                   | -                         | 226,847        |
| Repayment of debt - related party                                           | -                         | (39,797 )      |
| Proceeds from issuance of debt                                              | 3,648,083                 | 1,026,000      |
| Debt issue costs                                                            | (204,093 )                | -              |
| Payment for recapitalization from merger                                    | -                         | (25,108 )      |
| Proceeds from issuance of common stock                                      | -                         | 317,098        |
| Bank overdrafts                                                             | -                         | 29,641         |
| Net Cash Provided By Financing Activities                                   | 3,443,990                 | 1,534,681      |

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|                       |           |      |
|-----------------------|-----------|------|
| Net increase in cash  | 474,107   | -    |
| Cash at end of period | \$517,811 | \$ - |

Supplemental disclosures of cash flow information:

|                        |             |      |
|------------------------|-------------|------|
| Cash paid for interest | \$2,518,761 |      |
| Cash paid for taxes    | \$-         | \$ - |

Supplemental disclosure of non-cash investing and financing activities:

|                                                                                    |             |            |
|------------------------------------------------------------------------------------|-------------|------------|
| Stock issued for future services - third parties                                   | \$251,500   | \$ -       |
| Debt discount recorded on convertible debt accounted for as a derivative liability | \$3,258,108 | \$ -       |
| Stock issued to settle accounts payable and accrued expenses - third parties       | \$1,393,868 | \$ -       |
| Conversion of notes to common stock                                                | \$1,454,635 | \$ 167,199 |
| Reclassification of convertible notes to demand loans                              | \$278,600   | \$ -       |
| Reclassification of derivative liability to additional paid in capital             | \$1,284,928 | \$ -       |
| Beneficial conversion feature - convertible debt                                   | \$-         | \$ 366,000 |
| Conversion of preferred stock to common stock                                      | \$-         | \$ 15      |
| Stock issued to acquire equipment                                                  | \$82,811    | \$ -       |
| Share cancellation                                                                 | \$350       | \$ -       |

See accompanying notes to financial statements

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

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

**Nature of Operations**

MusclePharm Corporation (the “Company”, or “MusclePharm”), 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 (the “SEC”) 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 SEC 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 six months ended June 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 June 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.

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

For the three months and six months ended June 30, 2011:

|                                                             | The Three<br>Months Ended<br>June 30,<br>2011<br>As Restated | Adjustments   | The Three<br>Months Ended<br>June 30,<br>2011<br>As Issued | The Six<br>Months Ended<br>June 30,<br>2011<br>As Restated | Adjustments   | The Six<br>Months Ended<br>June 30,<br>2011<br>As Issued |
|-------------------------------------------------------------|--------------------------------------------------------------|---------------|------------------------------------------------------------|------------------------------------------------------------|---------------|----------------------------------------------------------|
| Sales - net                                                 | \$ 3,397,742                                                 | \$ (405,064 ) | \$ 3,802,806                                               | \$ 6,431,678                                               | \$ (888,902 ) | \$ 7,320,580                                             |
| Cost of sales                                               | 2,512,828                                                    | 31,171        | 2,481,657                                                  | 4,914,361                                                  | 108,496       | 4,805,865                                                |
| Gross profit                                                | 884,914                                                      | (436,235 )    | 1,321,149                                                  | 1,517,317                                                  | (997,398 )    | 2,514,715                                                |
| General and<br>administrative<br>expenses                   | 2,778,682                                                    | (436,235 )    | 3,214,917                                                  | 4,498,310                                                  | (997,398 )    | 5,495,708                                                |
| Loss from<br>operations                                     | (1,893,768 )                                                 | -             | (1,893,768 )                                               | (2,980,993 )                                               | -             | (2,980,993 )                                             |
| Other income<br>(expense)                                   |                                                              |               |                                                            |                                                            |               |                                                          |
| Derivative<br>expense                                       | (2,698,490 )                                                 | -             | (2,698,490 )                                               | (4,057,859 )                                               | -             | (4,057,859 )                                             |
| Change in fair<br>value of<br>derivative<br>liabilities     | 766,487                                                      | -             | 766,487                                                    | 634,770                                                    | -             | 634,770                                                  |
| Loss on<br>settlement of<br>accounts<br>payable and<br>debt | (627,384 )                                                   | -             | (627,384 )                                                 | (2,542,073 )                                               | -             | (2,542,073 )                                             |
|                                                             | (2,983,468 )                                                 | -             | (2,983,468 )                                               | (3,502,390 )                                               | -             | (3,502,390 )                                             |

|                                                                                          |                 |      |                 |                  |      |                  |
|------------------------------------------------------------------------------------------|-----------------|------|-----------------|------------------|------|------------------|
| Interest expense                                                                         |                 |      |                 |                  |      |                  |
| Total other income (expense) - net                                                       | (5,542,854 )    | -    | (5,542,854 )    | (9,467,552 )     | -    | (9,467,552 )     |
| Net loss                                                                                 | \$ (7,436,623 ) | \$ - | \$ (7,436,623 ) | \$ (12,448,545 ) | \$ - | \$ (12,448,545 ) |
| Net loss per share available to common stockholders - basic and diluted                  | \$ (0.04 )      | \$ - | \$ (0.04 )      | \$ (0.07 )       | \$ - | \$ (0.07 )       |
| Weighted average number of common shares outstanding during the year - basic and diluted | 201,864,655     | -    | 201,864,655     | 174,365,323      | -    | 174,365,323      |

## **Note 2 Summary of Significant Accounting Policies**

### **Principles of consolidation**

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



**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

**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.

**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 June 30, 2011 and at December 31, 2010.

The Company minimizes its credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits.

### **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.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

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

|                                       |             |           |
|---------------------------------------|-------------|-----------|
| Accounts receivable                   | \$2,509,996 | \$542,863 |
| Less: allowance for doubtful accounts | (110,899 )  | (116,102) |
| Accounts receivable – net             | \$2,399,097 | \$426,761 |

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

| Customer | 2011 | 2010 |
|----------|------|------|
| A        | 34 % | 86 % |
| B        | 17 % | 9 %  |
| C        | 15 % | - %  |
| D        | 13 % | - %  |

**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.

**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 an 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.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

**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 June 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):

June 30,      December

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|                        |         | 2011        | 31, 2010  |
|------------------------|---------|-------------|-----------|
| Derivative liabilities | Level 2 | \$5,155,773 | \$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 June 30, 2011 and December 31, 2010, respectively, due to the short-term nature of these instruments.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

**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 10% of our total revenue for the six months ended June 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 \$1,077,911 and \$84,909 for the six months June 30, 2011 and 2010, respectively.

Sales for the three and six months ended June 30, 2011 and 2010, are as follows:

| The Three<br>Months Ended<br>June 30,<br>2011<br>As Issued | Adjustments | The Three<br>Months Ended<br>June 30,<br>2011<br>As Restated | The Three<br>Months Ended<br>June 30,<br>2010 | The Six<br>Months Ended<br>June 30,<br>2011<br>As Issued | Adjustments | The Six<br>Months Ended<br>June 30,<br>2011<br>As Restated | The S<br>Mont<br>June<br>2010 |
|------------------------------------------------------------|-------------|--------------------------------------------------------------|-----------------------------------------------|----------------------------------------------------------|-------------|------------------------------------------------------------|-------------------------------|
|------------------------------------------------------------|-------------|--------------------------------------------------------------|-----------------------------------------------|----------------------------------------------------------|-------------|------------------------------------------------------------|-------------------------------|

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|             |              |               |              |            |              |               |              |        |
|-------------|--------------|---------------|--------------|------------|--------------|---------------|--------------|--------|
| Sales       | \$ 3,838,374 | \$ -          | \$ 3,838,374 | \$ 491,151 | \$ 7,509,589 | \$ -          | \$ 7,509,589 | \$ 1,8 |
| Discounts   | (35,568 )    | (405,064 )    | (440,632 )   | (23,042 )  | (189,009 )   | (888,902 )    | (1,077,911 ) | (84    |
| Sales - Net | \$ 3,802,806 | \$ (405,064 ) | \$ 3,397,742 | \$ 468,109 | \$ 7,320,580 | \$ (888,902 ) | \$ 6,431,678 | \$ 1,7 |

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

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

| Customer | 2011<br>(As Restated) |   | 2010 |   |
|----------|-----------------------|---|------|---|
| A        | 39                    | % | 31   | % |
| B        | 10                    | % | 13   | % |
| C        | 7                     | % | 14   | % |
| D        | 0                     | % | 28   | % |

**Cost of Sales (Restated)**

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

Cost of sales increased by \$108,496 for the six months ended June 30, 2011 due to a reclassification from advertising expense to cost of sales due to our restatement.

At June 30, 2011 and 2010, the Company had the following concentrations of purchases from vendors:

| Customer | 2011  | 2010 |
|----------|-------|------|
| A        | 100 % | 16 % |
| B        | - %   | 76 % |



See discussion of restatement

### **Shipping and Handling**

Product sold is typically 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 months ended June 30, 2011 and 2010 are as follows:

|             | The Three<br>Months<br>Ended<br>June 30,<br>2011<br>As Issued | Adjustments   | The Three<br>Months<br>Ended<br>June 30,<br>2011<br>As Restated | The Three<br>Months<br>Ended<br>June 30,<br>2010 |
|-------------|---------------------------------------------------------------|---------------|-----------------------------------------------------------------|--------------------------------------------------|
| Advertising | \$ 2,049,275                                                  | \$ (436,235 ) | \$ 1,613,040                                                    | \$ 1,817,540                                     |

Advertising for the six months ended June 30, 2011 and 2010 are as follows:

|             | The Six<br>Months<br>Ended<br>June 30,<br>2011<br>As Issued | Adjustments   | The Six<br>Months<br>Ended<br>June 30,<br>2011<br>As Restated | The Six<br>Months<br>Ended<br>June 30,<br>2010 |
|-------------|-------------------------------------------------------------|---------------|---------------------------------------------------------------|------------------------------------------------|
| Advertising | \$ 3,192,633                                                | \$ (997,398 ) | \$ 2,195,235                                                  | \$ 3,055,512                                   |

See discussion of restatement

### **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.

There were no recorded BCF's during 2011.

### **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. At June 30, 2011 and December 31, 2010, the Company had derivative liabilities in the amounts of \$5,155,773 and \$622,944, respectively.

### **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.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

**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.

Since the Company reflected a net loss for the three and six months ended June 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.

The Company has the following common stock equivalents at June 30, 2011 and 2010:

|                                                    | 2011        | 2010      |
|----------------------------------------------------|-------------|-----------|
| Stock options (exercise price - \$0.50/share)      | 2,767,500   | -         |
| Warrants (exercise price - \$0.025 - \$1.50/share) | 59,843,333  | -         |
| Convertible debt                                   | 43,933,988  | 2,202,000 |
| Total common stock equivalents                     | 106,544,821 | 2,202,000 |

In the above table, some of the outstanding convertible debt and warrants 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 unaudited 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.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

**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 \$12,448,545 and net cash used in operations of \$2,645,448 for the six months ended June 30, 2011 and a working capital deficit and stockholders' deficit of \$7,037,918 and \$5,561,132, respectively, at June 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;

generate new sales from international customers; and

allocate sufficient resources to continue with advertising and marketing efforts.

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

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 June 30, 2011 and December 31, 2010:

|                                                 | June 30, 2011 | December 31, 2010 | Estimated Useful Life |
|-------------------------------------------------|---------------|-------------------|-----------------------|
| Leasehold improvements                          | \$ 142,194    | \$ 67,760         | *                     |
| Furniture and fixtures                          | 388,117       | 55,305            | 3 years               |
| Displays                                        | 32,057        | 32,057            | 5 years               |
| Website                                         | 11,462        | 11,462            | 3 years               |
|                                                 | 573,830       | 166,584           |                       |
| Less: Accumulated depreciation and amortization | (59,426 )     | (28,033 )         |                       |
|                                                 | \$ 514,404    | \$ 138,551        |                       |

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

**Note 5 Debt**

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

| June 30,<br>2011 | December<br>31, 2010 |
|------------------|----------------------|
|------------------|----------------------|



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|                                                    |             |           |
|----------------------------------------------------|-------------|-----------|
| Convertible debt –secured – derivative liabilities | \$2,759,995 | \$380,000 |
| Conventional convertible debt – secured            | -           | 225,000   |
| Less: debt discount                                | (689,408 )  | (331,261) |
| Convertible debt – net                             | 2,070,587   | 273,739   |
| Secured debt                                       | -           | 187,500   |
| Unsecured debt                                     | 25,600      | 78,249    |
| Total debt                                         | 2,096,187   | 539,488   |
| Less: current portion                              | (2,008,567) | (289,488) |
| Long term debt                                     | \$87,620    | \$250,000 |

**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****June 30, 2011 (Restated)****(unaudited)****(A) Convertible Debt – Secured – Derivative Liabilities**

During the six months ended June 30, 2011, the Company issued \$3,735,733 (net proceeds was \$3,443,990) 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:

|                       |                                                                                                                   | Face Amount of<br>Debt |
|-----------------------|-------------------------------------------------------------------------------------------------------------------|------------------------|
| 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                                     | \$ 764,600             |
| 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             |
|                       |                                                                                                                   | \$ 3,735,733           |
|                       | Less original issue discount                                                                                      | \$ (87,650 )           |
|                       | Less debt issue costs                                                                                             | \$ (204,093 )          |
|                       | Net proceeds                                                                                                      | \$ 3,585,900           |



**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

During the six months ended June 30, 2011, the Company converted \$1,077,138 in notes into 49,941,545 shares of the Company's common stock at prices ranging from \$0.016 to \$0.036/per share, based upon the terms of the debt conversion.

During the six months ended June 30, 2011, \$278,600 in convertible debt was reclassified to demand loans due to the maturity of the notes. The notes are unsecured and bear no interest.

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                                            | 3,735,733   |
| Conversions of convertible debt to common stock                         | (1,077,138) |
| Conversions of convertible debt to demand loans                         | (278,600 )  |
| Convertible debt - secured – June 30, 2011                              | \$2,759,995 |

On June 29, 2011, the Company issued a convertible note and warrants. The note has an aggregate amount of \$2,651,000, of which the Company can draw down in a series of tranches. As of June 30, 2011, the Company received \$400,000 net of original discount of \$41,833 under the following terms:

- 6% interest;
- Due 48 months from drawdown date; and
- Unsecured.

The warrants contain the following provisions:

- one warrant to purchase common stock equal to \$800,000 divided by 80% of the lowest trade price of the stock during the 30 days immediately preceding the issue date;
- The number of warrants is variable; and
- The warrants expire 5 years from issuance.

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

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.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

During the six months ended June 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 – June 30, 2011     | \$-       |

**(C) Secured Debt**

During the six months ended June 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 – June 30, 2011                        | \$-       |

**(D) Unsecured Debt**

During the six months ended June 30, 2011, \$52,649 was converted into 1,337,445 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.

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

|                                                     |          |
|-----------------------------------------------------|----------|
| Unsecured debt – December 31, 2010                  | \$78,249 |
| Settlement of debt through issuance of common stock | (52,649) |
| Unsecured debt – June 30, 2011                      | \$25,600 |

**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****June 30, 2011 (Restated)****(unaudited)****(E) Debt Issue Costs**

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

|                                                        |           |
|--------------------------------------------------------|-----------|
| Debt issue costs – net – December 31, 2010             | \$34,404  |
| Issue costs paid during six months ended June 30, 2011 | 216,367   |
| Amortization of debt issue costs – June 30, 2011       | (134,233) |
| Debt issue costs – net – June 30, 2011                 | \$116,538 |

**(F) Debt Discount**

During the six months ended June 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 six months ended June 30, 2011     | 3,258,106   |
| Accretion of debt discount to interest expense during the six months ended June 30, 2011 | (2,899,959) |
| Debt discount balance at June 30, 2011                                                   | \$689,408   |

**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 follows:

|                                                                                                      |             |
|------------------------------------------------------------------------------------------------------|-------------|
| Derivative liability balance at December 31, 2010                                                    | \$622,944   |
| Fair value at the commitment date for convertible notes issued during six months ended June 30, 2011 | 6,452,527   |
| Reclassification of derivative liability to additional paid in capital                               | (1,284,928) |
| Fair value mark to market adjustment                                                                 | (634,770 )  |
| Derivative liability balance at June 30, 2011                                                        | \$5,155,773 |

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

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 \$4,057,859 during the six months ended June 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               | 180             | %        | 180                | % |
| Expected term: conversion feature | 0.08 – 3 years  |          | 0.04 – 2.93 years  |   |
| Expected term: warrants           | 2.5 – 5 years   |          | 2.5 – 5 years      |   |
| Risk free interest rate           | 0.11%           | - 2.76 % | 0.11 – 1.16        | % |

**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 six months ended June 30, 2011, the Company issued the following common stock:

| Transaction Type       | Quantity   | Valuation   | Loss on Settlement | Range of Value per Share |
|------------------------|------------|-------------|--------------------|--------------------------|
| Conversion of debt (1) | 66,005,639 | \$2,109,677 | \$411,124          | \$ 0.012–0.066           |

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|                                                         |             |             |             |                |
|---------------------------------------------------------|-------------|-------------|-------------|----------------|
| Settlement of accounts payable and accrued expenses (2) | 54,746,257  | \$3,625,771 | \$2,130,949 | \$ 0.012–0.101 |
| Services – rendered (3)                                 | 10,466,497  | \$510,681   |             | \$ 0.03–1.15   |
| Services – prepaid stock compensation (4)               | 4,000,000   | \$251,500   |             | \$ 0.047–0.08  |
| Contract settlement (5)                                 | 2,187,666   | \$126,885   |             | \$ 0.058       |
| Shares in dispute (6)                                   | 3,500,000   | \$350       | -           | \$ 0.0001      |
| Total                                                   | 133,906,059 | \$6,624,164 | \$2,542,073 | \$ 0.012–1.15  |

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.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

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 66,005,639 shares of common stock to settle notes payable having a fair value of \$2,109,677 (\$0.012 - \$0.066/share), based upon the quoted closing trading price. The Company also recorded a loss on settlement of \$411,124.

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

Of the total shares issued to settle accounts payable and accrued expenses, the Company issued 54,746,257 shares of common stock having a fair value of \$3,625,771 (\$0.016 - \$0.10/share), based upon the quoted closing trading price. The Company settled \$1,494,822 in accounts payable and recorded a loss on settlement of \$2,130,949.

**(3) Stock Issued for Services**

During six months ended June 30, 2011, the Company issued 10,466,497 (\$0.030 - \$1.15/share) shares of common stock for services, having a fair value of \$510,681 based upon the quoted closing trading price.

**(4) Prepaid Stock Compensation**

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During six months ended June 30, 2011, the Company issued 4,000,000 shares of common stock for future services, having a fair value of \$251,500 (\$0.047 - \$0.08/share), based upon the quoted closing trading price. The agreements terminate during the periods July 2011 - November 2012.

The following represents the allocation of prepaid stock compensation:

|                                                  | Short-<br>Term | Long-<br>Term | Total       |
|--------------------------------------------------|----------------|---------------|-------------|
| Prepaid stock compensation - – December 31, 2010 | \$893,240      | \$1,088,131   | \$1,981,371 |
| Prepaid issuances of stock for services          | 150,000        | 101,500       | 251,500     |
| Reclassification from long-term to short-term    | 379,232        | (379,232 )    | -           |
| Amortization – 2011                              | (1,039,926)    | -             | (1,039,926) |
| Prepaid stock compensation – June 30, 2011       | \$382,546      | \$810,399     | \$1,192,945 |

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

**(5) Contract Settlement**

In connection with litigation (See Note 8(A)), the Company issued stock that has been accounted for as a settlement expense and a component of other expense.

- (6) The Company cancelled 3,500,000 shares having a par value of \$350 (\$0.0001). 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 2010 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.

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

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

|                                                               | Options   | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual Life | Aggregate<br>Intrinsic<br>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 – June 30, 2011 – outstanding                         | 2,767,500 | \$ 0.50                                  | 1.25 years                                           | \$ -                            |
| Balance - June 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**

During the six months ended June 30, 2011, the Company issued 58,893,333 stock warrants attached to certain convertible debt (Note 5A). The Company recorded the fair value of the discount to additional paid in capital. The Company is amortizing the discount over the life of the convertible debt.

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:

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

|                           |                  |   |
|---------------------------|------------------|---|
| Exercise price            | \$0.025 - \$1.50 |   |
| Expected dividends        | 0                | % |
| Expected volatility       | 180              | % |
| Risk free interest rate   | 1.16             | % |
| Expected life of warrants | 2.5 to 5 years   |   |
| Expected forfeitures      | 0                | % |

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

|                                 | Warrants   | Weighted Average Exercise Price |
|---------------------------------|------------|---------------------------------|
| Outstanding – December 31, 2010 | 750,000    | \$ 1.50                         |
| Exercisable – December 31, 2010 | 750,000    | \$ 1.50                         |
| Granted                         | 59,093,333 | \$ 0.08                         |
| Exercised                       | -          | \$ -                            |
| Forfeited/Cancelled             | -          | \$ -                            |
| Outstanding – June 30, 2011     | 59,843,333 | \$ 0.09                         |
| Exercisable – June 30, 2011     | 59,843,333 | \$ 0.51                         |

**Warrants Outstanding    Warrants Exercisable**

| Range of exercise price | Warrants Outstanding |                                                        | Warrants Exercisable |                                 |
|-------------------------|----------------------|--------------------------------------------------------|----------------------|---------------------------------|
|                         | Number               | Weighted Average Remaining Contractual Life (in years) | Number               | Weighted Average Exercise Price |
| \$0.025- \$1.50         | 59,843,333           | 2.64 years                                             | 59,843,333           | \$ 0.09                         |

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

**Note 8 Commitments and Contingencies**

**(A) Factoring Agreement**

In April 2010, the Company entered into a factoring 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.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

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 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 (\$0.058/share), based upon the quoted closing trading price. The Company recorded a loss on this debt settlement of \$60,955.

At June 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.

The Company is currently aware of the following legal proceeding that they believe will have, individually or in the aggregate, a material adverse affect on its business, financial condition or operating results:

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 settlement the balance due in 2011, by issuing 4,932,500 shares of common stock, having a fair value of \$187,435(\$0.038/share), based upon the quoted closing settled trading price. The Company recorded a loss on debt settlement of \$88,785.

**(C) Taxes**

As of June 30, 2011, accounts payable and accrued expenses included a balance of approximately \$320,000 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 \$170,000. The remaining \$150,000 is expected to be repaid in the third quarter of 2011

|                                                             |             |
|-------------------------------------------------------------|-------------|
| Accrued payroll taxes – MusclePharm, Inc.                   | \$222,000   |
| Accrued payroll taxes/penalties/interest – MusclePharm, LLC | \$53,000    |
| Accrued penalties and interest - MusclePharm, Inc           | \$45,000    |
|                                                             | \$320,000   |
| Payment in July 2011                                        | \$(170,000) |
| Balance due                                                 | \$150,000   |

**Note 9 Subsequent Event**

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

During the period July 1, 2011 to August 15, 2011, 10 noteholders converted common stock payable and notes totaling \$471,847 into 29,383,074 shares of the Company’s common stock. The amounts previously accounted for as common stock payable reflected the fact that the Company had received conversion notices from its debt holders, but did not have sufficient authorized shares to settle these conversions.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**June 30, 2011 (Restated)**

**(unaudited)**

**Issuance of Stock for Services**

On July 31, 2011, the Company issued a consultant 375,000 shares, for services rendered, having a fair value of \$15,000 (\$0.04/share), based upon the fair value of services rendered.

**Issuance of Stock for Cash**

On July 7, 2011, the Company issued 20,000,000 shares of common stock for \$500,000 (\$0.025/share).

**Endorsement Contract**

On July 20, 2011, the Company entered into a two-year endorsement agreement with a celebrity athlete. The athlete will evaluate and promote certain Company products as well as consent to the use his of name, photograph, appearance, likeness, reputation, voice and signature, as is customary in endorsement agreements. In return, the athlete will receive the following compensation:

- Cash compensation: \$200,000 per year;
- \$100,000 in stock based compensation payable over the term of the contract; and
- Additional cash and stock compensation based on the athlete achieving various milestones in profession.

## **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 manufactures 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.

## **Business Strategy**

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 Six Months Ended June 30, 2011 (As Restated) and 2010 (unaudited):

|                                               | Six months ended |                  |
|-----------------------------------------------|------------------|------------------|
|                                               | June 30,<br>2011 | June 30,<br>2010 |
|                                               | Restated         |                  |
| Sales                                         | \$ 6,431,678     | \$ 1,726,697     |
| Gross profit                                  | \$ 1,517,317     | \$ 534,089       |
| General and administrative expenses           | \$ (4,498,310 )  | \$ (5,661,122 )  |
| Loss from operations                          | \$ (2,980,993 )  | \$ (5,127,033 )  |
| Other expenses                                | \$ (9,467,552 )  | \$ (674,343 )    |
| Net Loss                                      | \$ (12,448,545 ) | \$ (5,801,376 )  |
| Net loss per common share – basic and diluted | \$ (0.07 )       | \$ (0.21 )       |

### *Sales (restated)*

Sales were \$6,431,678 for the six months ended June 30, 2011, as compared to \$1,726,697 for the comparable six months ended June 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 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 31% during the six months ended June 30, 2010, to 24% during the six months ended June 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 \$888,902 and samples of \$108,496 shipped to customers not clearly identifiable reclassified to cost of sales.

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

General and administrative expenses for the six months ended June 30, 2011, were \$4,498,310, as compared to \$5,661,122 for the comparable six months ended June 30, 2010. The \$1.2 million decrease is primarily attributable to the restatement of advertising expenses as a discount to be netted with gross revenues non clearly identifiable samples reclassified from general and administrative expenses and added to cost of sales of \$997,398.

***Loss from Operations***

Loss from operations for the six months ended June 30, 2011, was \$2,980,993 as compared to \$5,127,033 for the comparable six months ended June 30, 2010. The decrease in operating loss is primarily attributable to the aggressive marketing plan and the Company's ability to gain brand recognition resulting in increased sales during the six months ended June 30, 2011 as compared to the six months ended June 30, 2010.

***Other expenses***

Other expenses for the six months ended June 30, 2011, were \$9,467,552, as compared to \$674,343 for the comparable six months ended June 30, 2010. The increase in other expenses of \$8,793,209 is primarily attributable to the financing transactions the Company entered into during the six months ended June 30, 2011. The Company issued \$3,753,733 in convertible notes during the six months ended June 30, 2011. These notes bore interest at rates ranging from 6% to 12% per annum. Interest expense during the six months ended June 30, 2011, increased \$2,828,047 as compared to the comparable six months ended June 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 an aggregate derivative expenses of \$4,057,859 and on the date of remeasurement, which is June 30, 2011, a change in fair market value of \$634,770. There were no derivative liabilities recorded as of June 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 six months ended June 30, 2011, was \$12,448,545 or loss per share of \$(0.07), as compared to \$5,801,376 or loss per share of \$(0.21) for the comparable six months ended June 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 June 30, 2011 (As Restated) and 2010 (unaudited):***

|                                               | Three months ended |                  |
|-----------------------------------------------|--------------------|------------------|
|                                               | June 30,<br>2011   | June 30,<br>2010 |
|                                               | Restated           |                  |
| Sales                                         | \$ 3,397,742       | \$ 468,109       |
| Gross profit                                  | \$ 884,914         | 106,859          |
| General and administrative expenses           | \$ (2,778,682 )    | \$ (2,982,236 )  |
| Loss from operations                          | \$ (1,893,768 )    | \$ (2,875,377 )  |
| Other expenses                                | \$ (5,542,854 )    | \$ (316,283 )    |
| Net Loss                                      | \$ (7,436,623 )    | \$ (3,191,660 )  |
| Net loss per common share – basic and diluted | \$ (0.04 )         | \$ (0.11 )       |

***Sales (restated)***

Sales were \$3,397,742 for the three months ended June 30, 2011, as compared to \$468,109 for the comparable three months ended June 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 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 strengthened from 23% during the three months ended June 30, 2010 to 26% during the three months ended June 30, 2011. The increase in the gross profit percentage is primarily attributable to the Company's ability to negotiate more favorable terms due to the increased volume in product sales. This change also reflects the restatement of advertising expenses as a discount to be netted with gross revenues of \$405,064 and samples of \$31,171 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 June 30, 2011, were \$2,778,682, as compared to \$2,982,236 for the comparable three months ended June 30, 2010. The \$203,554 decrease is primarily attributable to the Company's restatement of advertising expenses as a discount to be netted with gross revenues non clearly identifiable samples reclassified from general and administrative expenses and added to cost of sales of \$436,235. The Company's employee headcount increased from 12 employees during the three months ended June 30, 2010, to 15 employees during the three months ended June 30, 2011. In addition, due to the Company experience in growth in sales, expenses have increased accordingly.

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

Loss from operations for the three months ended June 30, 2011, was \$1,893,768 as compared to \$2,875,377 for the comparable three months ended June 30, 2010. The decrease in operating loss is primarily attributable to the aggressive marketing plan and the Company's ability to gain brand recognition resulting in increased sales during the three months ended June 30, 2011 as compared to the three months ended June 30, 2010.

### ***Other expenses***

Other expenses for the three months ended June 30, 2011, were \$5,542,854, as compared to \$316,283 for the comparable three months ended June 30, 2010. The increase in other expenses of \$5,226,571 is primarily attributable to features associated with the financing transactions the Company entered into during the three months ended June 30, 2011. Interest expense during the three months ended June 30, 2011, increased approximately \$2,667,185 as compared to the comparable three months ended June 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 an aggregate derivative expenses of \$2,698,490 and on the date of remeasurement, which is June 30, 2011, a change in fair market value of \$766,487. There were no derivative liabilities recorded for the three months ended June 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 \$627,384 as a result of these transactions.

### ***Net Loss***

Net loss for the three months ended June 30, 2011, was \$7,436,623 or loss per share of \$(0.03), as compared to \$3,191,660 or loss per share of \$(0.11) for the comparable three months ended June 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 June 30, 2011 compared to December 31, 2010.

|                           | June 30,<br>2011<br>(unaudited) | December 31,<br>2010 | Increase/Decrease |
|---------------------------|---------------------------------|----------------------|-------------------|
| Current Assets            | \$3,308,665                     | \$1,406,310          | \$1,902,355       |
| Current Liabilities       | \$10,346,583                    | \$4,215,649          | \$6,130,934       |
| Working Capital (Deficit) | \$(7,037,918)                   | \$(2,809,339)        | \$(4,228,579)     |

As June 30, 2011, we had a working capital deficit of \$7,037,918, as compared to a working capital deficit of \$2,809,339, at December 31, 2010, a decrease of \$(4,228,579). The decrease is primarily attributable to the Company issuing \$3,735,733 in convertible notes during the six months ended June 30, 2011. The Company continues to devote significant resources to continue aggressively market the product line.

Net cash used for operating activities for the six months ended June 30, 2011 and 2010 was \$(2,645,448) and \$(1,527,797), respectively. The net loss for the six months ended June 30, 2011 and 2010 was \$(12,448,545) and \$(5,801,376), respectively.

Net cash used for investing activities for the six months ended June 30, 2011 and 2010 was \$(324,435) and \$(6,884), respectively. The Company purchased gym and office equipment during the six months ended June 30, 2011.

Net cash obtained through all financing activities for the six months ended June 30, 2011 was \$3,443,990, as compared to \$1,534,681 for the six months ended June 30, 2010.

### **Going Concern**

As reflected in the accompanying unaudited interim consolidated financial statements, the Company had a net loss of \$12,448,545 and net cash used in operations of \$2,645,448 for the six months ended June 30, 2011, and a working capital deficit and stockholders' deficit of \$7,037,918 and \$5,561,132, respectively, at June 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 June 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 June 30, 2011 are as follows:

### PERIODS ENDING DECEMBER 31,

|                              |           |
|------------------------------|-----------|
| 2011                         | \$40,152  |
| 2012                         | 87,560    |
| 2013                         | 93,448    |
| 2014                         | 99,576    |
| 2015                         | 105,704   |
| Total minimum lease payments | \$426,439 |

## 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 six months ended June 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.

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.**

Other than as 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, 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 April 6, 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 April 6, 2011, the Company directed its transfer agent to issue and deliver to the third party 2,000,000 shares of the Company's common stock subject to adjustment, in satisfaction of a debt in the amount of \$50,000.

On April 15, 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 April 15, 2011, the Company directed its transfer agent to issue and deliver to the third party 2,000,000 shares of the Company's common stock subject to adjustment, in satisfaction of a debt in the amount of \$58,644.

On April 15, 2011, the Company issued 100,000 shares of the Company's common stock to a consultant for services to be rendered at a fair value of \$8,100 (\$0.081/share), based upon the quoted closing price trading price on the date of issuance. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act

and Regulation D promulgated thereunder.

On April 27, 2011, a convertible noteholder converted \$8,225 in principal into 350,000 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 April 27, 2011, the Company raised gross proceeds of \$40,000 through the sale of a (6 months) convertible note at a conversion price of 60% of the average of the lowest three closing prices in the ten days preceding a conversion date. The notes bear interest at annual rates of between 8% - 10%. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On April 27, 2011, the Company raised gross proceeds of \$40,000 through the sale of a (6 months) convertible note at a conversion price of 60% of the average of the lowest three closing prices in the ten days preceding a conversion date. The notes bear interest at annual rates of between 8% - 10%. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On April 28, 2011, a convertible noteholder converted \$25,208 in principal into 892,326 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 April 29, 2011, a convertible noteholder converted \$25,170 in principal into 923,685 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 April 30, 2011, the Company issued 319,149 shares of the Company's common stock to a consultant for services to be rendered at a fair value of \$15,000 (\$0.047/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 May 1, 2011, the Company issued 3,723,404 shares of the Company's common stock to a consultant for services to be rendered at a fair value of \$175,000 (\$0.047/share), based upon the quoted closing price trading price on the date of issuance. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On May 1, 2011, the Company issued 500,000 shares of the Company's common stock to a consultant for services to be rendered at a fair value of \$23,500 (\$0.047/share), based upon the quoted closing price trading price on the date of issuance. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On May 2, 2011, a convertible noteholder converted \$25,219 in principal into 951,667 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 May 6, 2011, the Company raised gross proceeds of \$125,000 through the sale of a (6 month) convertible note at a conversion price equal to the lesser of (i) the average of the lowest two closing prices during the five days preceding a conversion date or (ii) \$0.025/share. The notes bear interest at an annual rate of 12%. The Company also issued 5,000,000 common stock purchase warrants with an exercise price of \$0.03 per share to certain accredited investors. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On May 11, 2011, a convertible noteholder converted \$36,400 in principal into 1,400,000 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 May 11, 2011, a convertible noteholder converted \$36,400 in principal into 1,400,000 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 May 12, 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 May 12, 2011, the Company directed its transfer agent to issue and deliver to the third party 3,023,040 shares of the Company's common stock subject to adjustment, in satisfaction of a debt in the amount of \$75,576.

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On May 17, 2011, a convertible noteholder converted \$10,228 in principal into 417,467 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 May 17, 2011, a convertible noteholder converted \$10,228 in principal into 417,467 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 May 17, 2011, a convertible noteholder converted \$2,018 in principal into 82,834 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 May 19, 2011, a convertible noteholder converted \$10,067 in principal into 402,667 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 May 19, 2011, a convertible noteholder converted \$40,088 in principal into 1,083,450 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 May 19, 2011, a convertible noteholder converted \$10,024 in principal into 237,256 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 May 19, 2011, a convertible noteholder converted \$9,018 in principal into 243,722 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 May 19, 2011, a convertible noteholder converted \$10,022 in principal into 230,388 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 May 19, 2011, a convertible noteholder converted \$50,110 in principal into 1,186,025 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 May 19, 2011, a convertible noteholder converted \$25,110 in principal into 865,848 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 May 19, 2011, a convertible noteholder converted \$25,110 in principal into 865,848 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 May 19, 2011, a convertible noteholder converted \$5,034 in principal into 165,048 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 May 19, 2011, a convertible noteholder converted \$25,170 in principal into 825,241 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 May 19, 2011, a convertible noteholder converted \$10,068 in principal into 335,598 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.

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On May 19, 2011, a convertible noteholder converted \$5,140 in principal into 102,805 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 May 19, 2011, a convertible noteholder converted \$15,102 in principal into 554,199 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 May 19, 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 May 19, 2011, the Company directed its transfer agent to issue and deliver to the third party 4,031,853 shares of the Company's common stock subject to adjustment, in satisfaction of a debt in the amount of \$100,796.

On May 20, 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 May 20, 2011, the Company directed its transfer agent to issue and deliver to the third party 3,774,744 shares of the Company's common stock subject to adjustment, in satisfaction of a debt in the amount of \$83,044.

On May 24, 2011, a convertible noteholder converted \$39,000 in principal into 1,500,000 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 May 27, 2011, a convertible noteholder converted \$25,000 in principal into 1,250,000 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 May 31, 2011, a convertible noteholder converted \$78,000 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 May 31, 2011, the Company issued 333,333 shares of the Company's common stock to a consultant for services to be rendered at a fair value of \$15,000 (\$0.045/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 May 31, 2011, the Company raised gross proceeds of \$10,000 through the sale of a (1 Month) convertible notes at a conversion price of the average

10 day trade pricing divided by 200% of the outstanding principal balance. The notes bear interest at a rate of 8%. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On June 2, 2011, a convertible noteholder converted \$125,345 in principal into 3,679,355 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 June 2, 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 June 2, 2011, the Company directed its transfer agent to issue and deliver to the third party 4,932,500 shares of the Company's common stock subject to adjustment, in satisfaction of a debt in the amount of \$98,650.

On June 3, 2011, a convertible noteholder converted \$15,000 in principal into 625,000 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 June 3, 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 June 3, 2011, the Company directed its transfer agent to issue and deliver to the third party 2,777,777 shares of the Company's common stock subject to adjustment, in satisfaction of a debt in the amount of \$50,000.

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On June 7, 2011, the Company issued a noteholder 402,667 shares of the Company's common stock in consideration for an extension of the noteholder's note. The issuance was recorded as interest at a fair value of \$14,778 (\$0.037/share) based upon the quoted closing price of the Company's common stock on the date of issuance. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On June 8, 2011, a convertible noteholder converted \$50,000 in principal into 2,840,910 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 June 9, 2011, a convertible noteholder converted \$63,473 in principal into 3,100,000 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 June 14, 2011, the Company raised gross proceeds of \$40,000 through the sale of a (9 months) convertible note at a conversion price of 60% of the average of the lowest three closing prices in the ten days preceding a conversion date. The notes bear interest at annual rates of between 8% - 10%. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

On June 20, 2011, a convertible noteholder converted \$50,000 in principal into 4,132,232 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 June 20, 2011, a convertible noteholder converted \$71,663 in principal into 4,500,000 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 June 23, 2011, a convertible noteholder converted \$47,775 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 June 27, 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 June 27, 2011, the Company directed its transfer agent to issue and deliver to the third party 3,636,363 shares of the Company's common stock subject to adjustment, in satisfaction of a debt in the amount of \$40,000.

On June 29, 2011, a convertible noteholder converted \$15,000 in principal into 955,414 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 June 29, 2011, a convertible noteholder converted \$20,000 in principal into 1,273,885 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 June 30, 2011, a convertible noteholder converted \$6,600 in principal into 417,722 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 June 30, 2011, the Company issued 500,000 shares of the Company's common stock to a consultant for services to be rendered at a fair value of \$15,000 (\$0.030/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. DEFAULT UPON SENIOR SECURITIES.**

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

**ITEM 4. (REMOVED AND RESERVED).**

**ITEM 5. OTHER INFORMATION.**

On August 15, 2011, the Company amended its certificate of incorporation by filing a certificate of designation with Secretary of State of Nevada that designates a series of convertible preferred stock (the “Series B Convertible Preferred Stock”). The Series B Convertible Preferred Stock described above is qualified in its entirety by reference to the certificate of designation, a copy of which is attached as an exhibit to this report and is incorporated herein by reference.

On August 15, 2011, the Company entered into an employment agreement (the “Pyatt Employment Agreement”) with Brad J. Pyatt, individually, pursuant to which Mr. Pyatt will serve as the Company’s Chief Executive Officer (the “CEO”). The term of the Pyatt Employment Agreement is for a period of sixty (60) months, commencing retroactively on January 1, 2011, and expiring on December 31, 2015 (the “Pyatt Term”). Pursuant to the terms of the Employment Agreement, the CEO is to receive a base salary of \$250,000 for the 2011 calendar year; \$350,000 for the 2012 calendar year; \$400,000 for the 2013 calendar year; \$450,000 for the 2014 calendar year; and \$500,000 for the 2015 calendar year. Further, the CEO shall receive, upon execution of the Pyatt Employment Agreement, 31 shares of the Company’s Series B Preferred Stock. In addition, upon the three year anniversary of the Pyatt Employment Agreement, the CEO shall receive 10,000 shares of the Company’s Series A Preferred Stock.

During the Pyatt Term, the CEO’s responsibilities will include all aspects of the day to day business operations of the Company. The CEO 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 CEO 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 Pyatt Employment Agreement, and shall use his best efforts to advance the best interests of the Company.

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 10.1 and incorporated herein by reference.

On August 15, 2011, the Company entered into an employment agreement (the “Gregory Employment Agreement”) with Cory Gregory, individually, pursuant to which Mr. Gregory will serve as the Company’s Senior President (the “Senior President”). The term of the Gregory Employment Agreement is for a period of sixty (60) months, commencing retroactively on January 1, 2011, and expiring on December 31, 2015 (the “Gregory Term”). Pursuant to the terms of the Gregory Employment Agreement, the Senior President is to receive a base salary of \$150,000 for the 2011 calendar year; \$200,000 for the 2012 calendar year; \$250,000 for the 2013 calendar year; \$300,000 for the 2014 calendar year; and \$350,000 for the

2015 calendar year. Further, the Senior President shall receive, upon execution of the Gregory Employment Agreement, 20 shares of the Company’s Series B Preferred Stock. In addition, upon the three year anniversary of the Gregory Employment Agreement, the Senior President shall receive 10,000 shares of the Company’s Series A Preferred Stock.

During the Gregory Term, the Senior President’s responsibilities will include, but shall not be limited to, on a full time and exclusive basis, devoting all of his business time, attention and energies to the operations of the Company and other duties as required by the Gregory Employment Agreement and as directed by the Board of Directors, and shall use his best efforts to advance the best interests of the Company.

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 10.2 and incorporated herein by reference.

## **ITEM 6. EXHIBITS.**

### **Exhibit No. Description**

- |      |                                                                                                                                                                |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1  | Certificate of Designation of Series B Convertible Preferred Stock (as filed as Exhibit 3.1 to the Form 10-Q filed on August 16, 2011).                        |
| 10.1 | Employment Agreement, dated August 15, 2011, by and between the Company and Brad Pyatt (as filed as Exhibit 10.1 to the Form 10-Q filed on August 16, 2011).   |
| 10.2 | Employment Agreement, dated August 15, 2011, by and between the Company and Cory Gregory (as filed as Exhibit 10.2 to the Form 10-Q filed on August 16, 2011). |

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- 31.1 Certification of the Principal Executive Officer of MusclePharm Corporation, pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of the Principal Accounting Officer of MusclePharm Corporation, pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1 Certification of the Principal Executive Officer of MusclePharm Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Principal Accounting Officer of MusclePharm Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**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)  
(Principal Accounting Officer)