

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: **March 31, 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 March 31, 2011, filed in a quarterly report on Form 10-Q with the Securities and Exchange Commission (the "Commission") on May 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 March 31, 2011, the Company reclassified certain items classified as samples originally included as an advertising expense to cost of sales. There were no such reclassifications for 2010.

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

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****MusclePharm Corporation and Subsidiary****Consolidated Balance Sheets**

	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Current Assets		
Cash	\$ 333,373	\$ 43,704
Accounts receivable	2,020,985	426,761
Prepaid stock compensation	737,821	893,240
Inventory	31,011	-
Other current assets	12,507	42,605
<b>Total Current Assets</b>	<b>3,135,697</b>	<b>1,406,310</b>
Property and equipment	382,029	138,551
Other assets	104,533	87,989
Total Assets	\$ 4,560,606	\$ 2,720,981
Liabilities and Stockholders' Deficit		
Accounts payable and accrued liabilities	\$ 3,613,919	\$ 3,155,701
Common stock payable	522,000	-
Debt	381,071	289,488
Derivative liabilities	2,149,429	622,944
Deferred revenue	-	75,733
Due to factor	-	71,783
<b>Total Current Liabilities</b>	<b>6,666,419</b>	<b>4,215,649</b>
Long Term Liabilities:		
Debt	25,027	250,000
Total Liabilities	6,691,446	4,465,649

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Stockholders' Deficit

Series A, Convertible Preferred Stock, \$0.001 par value; 10,000,000 shares authorized, none issued and outstanding	-	-
Common Stock, \$0.001 par value; 500,000,000 shares authorized, 167,610,888 and 118,649,439 issued and outstanding	167,611	118,649
Additional paid-in capital	24,588,910	20,012,122
Accumulated deficit	(26,887,360)	(21,875,438 )
<b>Total Stockholders' Deficit</b>	<b>(2,130,839 )</b>	<b>(1,744,667 )</b>
 Total Liabilities and Stockholders' Deficit	 \$4,560,606	 \$2,720,981

See accompanying notes to consolidated financial statements.

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

	For The Three Months Ended March 31,	
	2011	2010
	As Restated	
Sales - net	\$ 3,033,936	\$ 1,258,588
Cost of sales	2,401,534	873,632
Gross profit	632,402	384,956
General and administrative expenses	1,719,627	2,636,612
Loss from operations	(1,087,225 )	(2,251,656 )
Other income (expense)		
Derivative expense	(1,359,369 )	-
Change in fair value of derivative liabilities	(131,717 )	-
Loss on settlement of accounts payable and debt	(1,914,689 )	-
Interest expense	(518,922 )	(358,060 )
Other income (expense)	-	-
Total other income (expense) - net	(3,924,697 )	(358,060 )
Net loss	\$ (5,011,922 )	\$ (2,609,716 )
Net loss per share available to common stockholders - basic and diluted	\$ (0.03 )	\$ (0.10 )
Weighted average number of common shares outstanding during the year – basic and diluted	146,560,444	26,113,000

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$ (5,011,922 )	\$ (2,609,716 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	10,345	3,067
Bad debt (recovery)	(13,801 )	1,889
Stock issued for services - third parties	70,431	1,039,500
Amortization of prepaid stock based compensation	533,203	-
Amortization of debt discount and debt issue costs	485,237	334,133
Derivative expense	1,359,369	-
Change in fair value of derivative liabilities	131,717	-
Loss on settlement of accounts payable	1,914,689	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,580,423 )	(325,306 )
Prepaid and other	30,098	12,720
Inventory	(31,011 )	(53,811 )
Deposits	-	32,115
Other current Assets	-	(2,268 )
Accounts payable and accrued liabilities	1,314,846	780,551
Deferred revenue	(75,733 )	181,498
Due to factor	(5,853 )	-
Net Cash Used In Operating Activities	(868,808 )	(605,628 )
<b>Cash Flows From Investing Activities:</b>		
Purchases of property and equipment	(253,823 )	(650 )
Net Used In Investing Activities	(253,823 )	(650 )
<b>Cash Flows From Financing Activities:</b>		
Repayment of debt - related party	-	(14,615 )
Proceeds from issuance of debt	1,482,000	620,893
Debt issue costs	(69,700 )	-
Net Cash Provided By Financing Activities	1,412,300	606,278
Net increase in cash	289,669	-
Cash at beginning of period	43,704	-
Cash at end of period	\$ 333,373	\$ -



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Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 54,215	\$ 754
Cash paid for taxes	\$ -	\$ -

Supplemental disclosure of non-cash investing and financing activities:

Stock issued for future services - third parties	\$ 228,000	\$ -
Debt discount recorded on convertible debt accounted for as a derivative liability	\$ 224,531	\$ -
Recognition of stock purchase warrants as discount to debt	\$ 863,440	\$ 99,603
Stock issued to settle debt - third parties	\$ 903,850	\$ -
Conversion of notes to common stock	\$ 437,500	\$ 6
Conversion of notes to common stock payable	\$ 522,000	\$ -
Reclassification of derivative liability to additional paid in capital	\$ 189,132	\$ -
Beneficial conversion feature - convertible debt	\$ -	\$ 366,000

See accompanying notes to consolidated financial statements.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**March 31, 2011 (Restated)**

**(unaudited)**

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

**Nature of Operations**

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

The Company markets branded sports nutrition products.

**Basis of Presentation**

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

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

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

and regulations of the Securities and Exchange Commission for interim financial reporting. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows. It is management's opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The interim results for the three months ended March 31, 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 March 31, 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.

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	Months Ended March 31, 2011 Restated	Adjustments	March 31, 2011 As Issued
Sales - net	\$ 3,033,936	\$ (483,838 )	\$ 3,517,774
Cost of sales	2,401,534	77,326	2,324,208
Gross profit	632,402	(561,164 )	1,193,566
General and administrative expenses	1,719,627	(561,164 )	2,280,791
Loss from operations	(1,087,225 )	-	(1,087,225 )
Other income (expense)			
Derivative expense	(1,359,369 )	-	(1,359,369 )
Change in fair value of derivative liabilities	(131,717 )	-	(131,717 )
Loss on settlement of accounts payable and debt	(1,914,689 )	-	(1,914,689 )
Interest expense	(518,922 )	-	(518,922 )
Other income (expense)	-	-	-
Total other income (expense) - net	(3,924,697 )	-	(3,924,697 )
Net loss	\$ (5,011,922 )	\$ -	\$ (5,011,922 )
Net loss per share available to common stockholders - basic and diluted	\$ (0.03 )	\$ -	\$ (0.03 )
Weighted average number of common shares outstanding during the year – basic and diluted	146,560,444	-	146,560,444

**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**

**March 31, 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.

**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 March 31, 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.

As of March 31, 2011 and December 31, 2010, the Company had cash in bank accounts which exceeded the federally insured limits by \$96,741 and \$0, respectively.

### **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**

**March 31, 2011 (Restated)**

**(unaudited)**

Accounts receivable at March 31, 2011 and December 31, 2010:

Accounts receivable	\$2,123,286	\$542,863
Less: allowance for doubtful accounts	(102,301 )	(116,102)
Accounts receivable – net	\$2,020,985	\$426,761

The Company recorded bad debt expense of \$0 and \$1,889 for the three months ended March 31, 2011 and 2010, respectively. The Company recorded a bad debt recovery of \$13,801 during the three months ended March 31, 2011.

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

<b>Customer</b>	<b>2011</b>	<b>2010</b>
A	34 %	40 %
B	14 %	24 %
C	11 %	- %
D	10 %	11 %

**Inventory**

At March 31, 2011 and December 31, 2010, the Company maintained finished goods inventory for apparel of \$31,011 and \$0, respectively, which was stated at the lower of cost or market. Costs were determined by the first-in first-out method.

At March 31, 2011 and December 31, 2010, the Company did not manufacture or physically hold any supplement inventory. Inventory is held and distributed by the Company's co-manufacturers.

## **Property and Equipment**

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



**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**March 31, 2011 (Restated)**

**(unaudited)**

**Website Development Costs**

Costs incurred in the planning stage of a website are expensed, while costs incurred in the development stage are capitalized and amortized over the estimated useful life of the asset.

**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.

**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 March 31, 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):

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**March 31, 2011 (Restated)**

**(unaudited)**

	March 31, 2011	December 31, 2010
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Derivative liabilities Level 2	\$2,149,429	\$ 622,944
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The Company's financial instruments consisted primarily of cash, accounts receivable, prepaid and other, accounts payable and accrued liabilities, and short term debt. The carrying amounts of the Company's financial instruments generally approximated their fair values as of March 31, 2011 and December 31, 2010, respectively, due to the short-term nature of these instruments.

**Revenue Recognition (Restated)**

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

Depending on individual customer agreements, sales are recognized either upon shipment of products to customers or upon delivery. For one of our largest customers, which represents 9% of our total revenue for the three months ended March 31, 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 \$637,279 and \$112,314 for the three months

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ended March 31, 2011 and 2010, respectively.

Sales for the three months ended March 31, 2012 and 2011 are as follows:

	March 2011 As Issued	Adjustments	March 31, 2011 Restated	March 31, 2010
Sales	\$ 3,671,215	\$ -	\$ 3,671,215	\$ 1,370,902
Discounts	153,441	483,838	637,279	112,314
Sales - Net	\$ 3,517,774	\$ 483,838	\$ 3,033,936	\$ 1,258,588

The Company has an informal 7-day right of return for products. However, there were nominal returns for the three months ended March 31, 2011 and 2010.

At March 31, 2011 and 2010, the Company had the following concentrations of revenues with customers:

Customer	2011 (As Restated)		2010	
A	40	%	12	%
B	10	%	-	%
C	9	%	15	%
D	4	%	18	%
E	-	%	38	%

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**March 31, 2011 (Restated)**

**(unaudited)**

**Cost of Sales (Restated)**

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

Cost of sales increased by \$77,326 for the three months ended March 31, 2011 due to a reclassification from advertising expense to cost of sales due to our restatement.

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 goods sold.

**Advertising (Restated)**

The Company expenses advertising costs when incurred.

Advertising for the years ended March 31, 2011 and 2010 are as follows:

	March 31, 2011 As Issued	Adjustments	March 31, 2011 As Restated	March 31, 2010
Advertising	\$1,143,358	\$ 561,164	\$ 582,194	\$1,195,696

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.

### **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 March 31, 2011 and December 31, 2010, the Company had derivative liabilities in the amounts of \$2,149,429 and \$622,944, respectively.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**March 31, 2011 (Restated)**

**(unaudited)**

**Debt Issue Costs and Debt Discount**

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

**Original Issue Discount**

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

**Share-based payments**

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

**Earnings per Share**

Basic earnings (loss) per share is computed by dividing net income (loss) by weighted average number of shares of common stock outstanding during each period. Diluted earnings (loss) per share is computed by dividing net income

(loss) by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during the period.

Since the Company reflected a net loss for the three months ended March 31, 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.



**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****March 31, 2011 (Restated)****(unaudited)**

The Company has the following common stock equivalents at March 31, 2011 and 2010:

	2011	2010
Stock options (exercise price - \$0.50/share)	2,767,500	-
Warrants (exercise price - \$0.025 - \$1.50/share)	16,310,000	-
Convertible debt	46,504,410	2,202,000
Total common stock equivalents	65,581,910	2,202,000

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

**Reclassification**

Certain items in the 2010 unaudited financial statement presentation have been reclassified to conform to the 2011 presentation. Such reclassifications have no effect on previously reported net loss or the balance sheet and statement of cash flows.

**Recent Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board ("FASB") issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures on significant transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and the reasons for any transfers in or out of Level 3. This update also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For example, this update clarifies that reporting entities are required to provide fair value measurement

disclosures for each class of assets and liabilities rather than each major category of assets and liabilities. This update also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This update will become effective for the Company with the interim and annual reporting period beginning January 1, 2010, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will become effective for the Company with the interim and annual reporting period beginning January 1, 2011. The Company will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. Other than requiring additional disclosures, adoption of this update will not have a material effect on the Company's unaudited interim consolidated financial statements.

In August 2010, the FASB issued an exposure draft on lease accounting that would require entities to recognize assets and liabilities arising from lease contracts on the balance sheet. The proposed exposure draft states that lessees and lessors should apply a "right-of-use model" in accounting for all leases. Under the proposed model, lessees would recognize an asset for the right to use the leased asset, and a liability for the obligation to make rental payments over the lease term. The lease term is defined as the longest possible term that is "more likely than not" to occur. The accounting by a lessor would reflect its retained exposure to the risks or benefits of the underlying leased asset. A lessor would recognize an asset representing its right to receive lease payments based on the expected term of the lease. Comments on this exposure draft were due by December 15, 2010 and the final standard is expected to be issued in the second quarter of 2011. The Company believes that the proposed standard, as currently drafted, will have neither a material impact on its reported financial position and reported results of operations, nor a material impact on the liquidity of the Company.

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**March 31, 2011 (Restated)**

**(unaudited)**

In August 2010, the FASB issued Accounting Standards Update (“ASU”) No. 2010-05, Measuring Liabilities at Fair Value, or ASU 2010-05, which amends ASC 820 to provide clarification of a circumstance in which a quoted price in an active market for an identical liability is not available. A reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities (or similar liabilities when traded as assets) and/or 2) a valuation technique that is consistent with the principles of ASC 820. ASU 2010-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. The adoption did not have a material impact on our unaudited interim consolidated financial statements

In December 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2010-29, *Business Combinations (Topic 805) – Disclosure of Supplementary Pro Forma Information for Business Combinations*. This ASU requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. ASU 2010-29 affects any public entity as defined by Topic 805 that enters into business combinations that are material on an individual or aggregate basis. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company does not expect the provisions of ASU 2010-29 to have an effect on its financial position, results of operations or cash flows.

**Note 3 Going Concern and Liquidity**

As reflected in the accompanying unaudited interim consolidated financial statements, the Company had a net loss of \$5,011,922 and net cash used in operations of \$868,808 for the three months ended March 31, 2011; and a working capital deficit and stockholders’ deficit of \$3,530,722 and \$2,130,839, respectively, at March 31, 2011. These factors raise substantial doubt about the Company's ability to continue as a going concern.



**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**March 31, 2011 (Restated)**

**(unaudited)**

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,
- increase product prices as well as reducing discounts and free samples,
- obtain manufacturing agreements which provide for lower production costs,
- generate new sales from international customers; and
- allocate sufficient resources to continue with advertising and marketing efforts

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

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**March 31, 2011 (Restated)**

**(unaudited)**

**Note 4 Property and Equipment**

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

	March 31, 2011	December 31, 2010	Estimated Useful Life
Leasehold improvements	\$ 133,371	\$ 67,760	*
Furniture and fixtures	243,517	55,305	3 years
Displays	32,057	32,057	5 years
Website	11,462	11,462	3 years
	420,407	166,584	
Less: Accumulated depreciation and amortization	(38,378 )	(28,033 )	
	\$ 382,029	\$ 138,551	

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

The Company purchased approximately \$107,000 in equipment that was not placed into service as of March 31, 2011.

Depreciation expense was \$10,345 and \$3,067 for the three months ended March 31, 2011 and 2010, respectively.

**Note 5 Debt**

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

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	March 31, 2011	December 31, 2010
Convertible debt –secured – derivative liabilities	\$1,250,000	\$ 380,000
Conventional convertible debt – secured	80,000	225,000
Less: debt discount	(987,151 )	(331,261 )
Convertible debt – net	342,849	273,739
Secured debt	-	187,500
Unsecured debt	63,249	78,249
Total debt	406,098	539,488
Less: current portion	(381,071 )	(289,488 )
Long term debt	\$25,027	\$ 250,000

(A) Convertible Debt – Secured – Derivative Liabilities

During the three months ended March 31, 2011, the Company issued \$1,482,000 in convertible debt – secured – derivative liabilities. The Company issued these debt instruments with 5 different sets of conversion terms. The Material terms of the Company’s convertible debt – secured – derivative liabilities are as follows:



**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****March 31, 2011 (Restated)****(unaudited)**

		Amount of Principal Raised
Interest Rate	8% - 12%	
Default interest rate	15% - 22%	
Maturity	January 30, 2011 to March 29, 2014	
Conversion terms 1	Average 10 day trade pricing divided by 200% of outstanding principal balance	\$ 677,000
Conversion terms 2	Lesser of: Average of the lowest 2 closing prices of the 5 days preceding conversion date or \$0.025/share	\$ 525,000
Conversion terms 3	60% of the average of the lowest 3 closing prices in the 10 days preceding conversion date	\$ 130,000
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	\$ 50,000
		\$ 1,482,000

During the three months ended March 31, 2011, the Company converted \$90,000 into 3,208,080 shares of the Company's common stock at rates ranging from \$0.024 to \$0.036/per share (Note 7(A)).

During the three months ended March 31, 2011, \$522,000 in convertible debt was reclassified to common stock payable. The company did not have sufficient authorized shares to settle these conversions.

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

Convertible debt – secured – derivative liabilities – December 31, 2010	\$380,000
Issuance of convertible debt – secured – derivative liabilities	1,482,000
Conversions of convertible debt to common stock	(90,000 )
Conversions of convertible debt to common stock payable	(522,000 )
Convertible debt - secured – derivative liabilities – March 31, 2011	\$ 1,250,000



**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**March 31, 2011 (Restated)**

**(unaudited)**

(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,

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

Secured by all assets of the Company

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

During the three months ended March 31, 2011, the Company issued 5,255,050 shares of common stock, having a fair value of \$371,970 (\$0.060 - \$0.101/share) to settle convertible notes payable and accrued interest, originating prior to December 31, 2010, having a face value of \$145,000 and accrued interest of \$9,597 (Note 7(A)). As a result, the Company recorded a loss on debt conversion of \$217,373.

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

Conventional convertible debt - secured – December 31, 2010	\$225,000
Settlement of debt through issuance of common stock	(145,000)
Conventional convertible debt - secured – March 31, 2011	\$80,000

(C) Secured Debt

During the three months ended March 31 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 (Note 7(A)). 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 – March 31, 2011	\$-

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**March 31, 2011 (Restated)**

**(unaudited)**

**(D) Unsecured Debt**

During the three months ended March 31 2011, the Company issued 387,196 shares of common stock, having a fair value of \$39,107 (\$0.101/share), based upon the quoted closing trading price (Note 7(A)). 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	(15,000)
Unsecured debt – March 31, 2011	\$63,249

**(E) Debt Issue Costs**

During the three months ended March 31, 2011 and 2010, the Company paid debt issue costs totaling \$69,700 and \$0, respectively.

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 three months ended March 31, 2011	69,700
Amortization of debt issue costs – March 31, 2011	(53,156)
Debt issue costs – net – March 31, 2011	\$50,948

**(F) Debt Discount**

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During the three months ended March 31, 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 three months ended March 31, 2011	1,087,971
Accretion of debt discount to interest expense during the three months ended March 31, 2011	(432,081 )
Debt discount balance at March 31, 2011	\$987,151

**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****March 31, 2011 (Restated)****(unaudited)****Note 6 Derivative Liabilities**

The Company identified conversion features embedded within convertible debt issued in 2011 and 2010 for \$1,482,000 and \$380,000, respectively (see Note 5 (A)). The Company has determined that the features associated with the embedded conversion option should be accounted for at fair value as a derivative liability.

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

Derivative liability balance at December 31, 2010	\$622,944
Fair value at the commitment date for convertible notes issued during three months ended March 31, 2011	1,583,900
Reclassification of derivative liability to additional paid in capital	(189,132 )
Fair value mark to market adjustment	131,717
Derivative liability balance at March 31, 2011	\$2,149,429

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 \$1,359,369 during the three months ended March 31, 2011.

The fair value at the commitment and remeasurement dates were based upon the following management assumptions:

	Commitment Date		Remeasurement Date	
Expected dividends	0	%	0	%
Expected volatility	150-180	%	180	%
Expected term: conversion feature	0.50 – 3 years		0.06 – 3 years	
Risk free interest rate	0.11% - 2.76	%	0.11 – 1.16	%





**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****March 31, 2011 (Restated)****(unaudited)****Note 7 Stockholders' Deficit****(A) Common Stock**

During the three months ended March 31, 2011, the Company issued the following common stock:

Transaction Type	Quantity	Valuation	Loss on Settlement of Debt	Range of Value per Share
Settlement of accounts payable and accrued expenses (1)	25,740,865	\$2,209,284	\$ 1,362,254	\$ 0.03–0.101
Conversion of secured debt (Note 5 (C))	7,500,000	\$437,500	\$ 250,000	\$ 0.058 – 0.059
Conversion of conventional convertible debt secured and accrued interest (Note 5(B))	5,255,050	\$371,970	\$ 217,373	\$ 0.060 – 0.101
Conversion of convertible debt secured with derivative liability (Note 5(A))	3,208,080	\$90,000	\$ -	\$ 0.024 – 0.036
Conversion of unsecured debt (Note 5(D))	387,196	\$39,107	\$ 24,107	\$ 0.101
Contract settlement (Note 8(A))	2,187,666	\$126,885	\$ 60,955	\$ 0.058
Services – rendered (3)	1,182,592	\$70,431	\$ -	\$ 0.052–0.069
Services – prepaid stock compensation (2)	3,500,000	\$228,000	\$ -	\$ 0.06–0.08
<b>Total</b>	<b>48,961,449</b>	<b>\$3,573,177</b>	<b>\$ 1,914,689</b>	<b>\$ 0.024–0.101</b>

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

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

(1) 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 25,740,865 shares of common stock having a fair value of \$2,209,284 (\$0.03 - \$0.10/share), based upon the quoted closing trading price. The Company settled \$828,322 in accounts payable and accrued expenses and recorded a loss on settlement of \$1,380,962.

The Company also paid cash to settle accounts payable of \$84,715 and recorded a gain on settlement of \$18,708, as a result, the Company has recorded a total net loss on settlement of accounts payable of \$1,362,254.

**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****March 31, 2011 (Restated)****(unaudited)****(2) Prepaid Stock Compensation**

During three months ended March 31, 2011, the Company issued 3,500,000 shares of common stock for future services, having a fair value of \$228,000 (\$0.06 - \$0.08/share), based upon the quoted closing trading price. The agreements commenced during the periods February – March 2011 and terminate during the periods August 2011 - February 2012.

The following represents the allocation of prepaid stock compensation:

	<b>Short-Term</b>	<b>Long-Term</b>	<b>Total</b>
Prepaid stock compensation - – December 31, 2010	\$893,240	\$1,088,131	\$1,981,371
Prepaid issuances of stock for services	150,000	78,000	228,000
Reclassification from long-term to short-term	227,784	(227,784 )	-
Amortization of prepaid stock compensation	(533,203 )	-	(533,203 )
Prepaid stock compensation – March 31, 2011	\$737,821	\$938,347	\$1,676,168

During the three months ended March 31, 2011, the Company amortized \$533,203 to general and administrative expenses, of the total, \$264,640 was for advertising, \$147,724 was for professional fees and \$120,839 was for research and development.

**(3) Stock Issued for Services**

During three months ended March 31, 2011, the Company issued 1,182,592 (\$0.052 - \$0.069/share) shares of common stock for services, having a fair value of \$70,431 based upon the quoted closing trading price.

**(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.

**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****March 31, 2011 (Restated)****(unaudited)**

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

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

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

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

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

Weighted

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	Options	Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance – December 31, 2010 – outstanding	2,767,500	\$ 0.50		\$ -
Balance – December 31, 2010 – exercisable	2,767,500	\$ 0.50		\$ -
Granted	-	\$ -		
Exercised	-	\$ -		
Forfeited	-	\$ -		
Balance – March 31, 2011 – outstanding	2,767,500	\$ 0.50	1.50 years	\$ -
Balance - March 31, 2011 – exercisable	2,767,500	\$ 0.50	1.50 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		\$-		

**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****March 31, 2011 (Restated)****(unaudited)****(C) Stock Warrants**

During the three months ended March 31, 2011, the Company issued 15,560,000 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.

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

Exercise price	\$0.025 - \$0.065	
Expected dividends	0	%
Expected volatility	180	%
Risk free interest rate	1.16	%
Expected life of warrants	2.5 to 3.51 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	15,560,000	\$ 0.03
Exercised	-	\$ -
Forfeited/Cancelled	-	\$ -
Outstanding – March 31, 2011	16,310,000	\$ 0.10
Exercisable – March 31, 2011	16,310,000	\$ 0.10





**MusclePharm Corporation and Subsidiary****Notes to Consolidated Financial Statements****March 31, 2011 (Restated)****(unaudited)**

Warrants Outstanding			Warrants Exercisable		
Range of exercise price	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.025- \$1.50	16,310,000	3.23 years	\$ 0.10	16,310,000	\$ 0.10

At March 31, 2011 and December 31, 2010, the total intrinsic value of warrants outstanding and exercisable was \$545,560 and \$0, respectively.

**Note 8 Commitments and Contingencies****(A) Factoring Agreement**

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

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

At March 31, 2011, the Company no longer factors its accounts receivable.

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 (Note 7(A)). The Company recorded a loss on this debt settlement of \$60,955.

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

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

**MusclePharm Corporation and Subsidiary**

**Notes to Consolidated Financial Statements**

**March 31, 2011 (Restated)**

**(unaudited)**

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 (See Note 9(B)). Although stayed by court order, case will not be officially dismissed until May 21, 2011, after the Company satisfies the settlement with the manufacturer. The Company has been granted a 30 day extension to June 21, 2011.

**Note 9 Subsequent Event**

On April 18, 2011, the board of directors approved authorized an increase in authorized shares of the Company’s common stock from 150,000,000 to 500,000,000 and authorized the 10,000,000 shares of blank-check preferred stock

**Conversion of Debt and Common Stock Payable and Accrued Interest**

During the period April 1, 2011 to May 23, 2011, noteholders converted common stock payable and notes as follows:

	Quantity		
Common stock payable	9,717,821	\$ 329,000	\$0.025 - \$0.043
Convertible debt	5,279,476	\$ 157,915	\$0.027 - \$0.030
Total	14,997,297	\$ 486,915	

**Issuance of Convertible Debt**

The Company issued convertible notes totaling \$649,900. These notes had the following provisions:

Interest rate 8% - 12%,

Notes are due between 20 days and 3 years from issuance,

Conversion rates equal to a variable percentage by applying a specified formula that utilizes the average of quoted closing prices; and

Unsecured

The investor is entitled at its option to convert all or part of the principal and accrued interest into shares of the Company's common stock at a conversion price as discussed above. The Company classified the embedded conversion feature as a derivative liability due to management's assessment that the Company may not have sufficient authorized number of shares of common stock required to net-share settle. The Company will compute the fair value of these instruments using a black-scholes option pricing model.

## **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 U.S. Securities and Exchange Commission 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 these 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 Quarter Ended March 31, 2011 (As Restated) Compared to March 31, 2010 (unaudited):*

	Three Months Ended March 31, 2011	
	Restated	2010
Sales - net	\$ 3,033,936	\$ 1,258,588
Cost of sales	2,401,534	873,632
Gross profit	632,402	384,956
General and administrative expenses	1,719,627	2,636,612
Loss from operations	(1,087,225 )	(2,251,656 )
Expense - net	(3,924,697 )	(358,060 )
Net loss	\$ (5,011,922 )	\$ (2,609,716 )
Net loss per share - basic and diluted	\$ (0.03 )	\$ (0.10 )
Weighted average number of common shares outstanding during the period – basic and diluted	146,560,444	26,113,000

### *Sales (restated)*

Sales were approximately \$3.0 million for the three months ended March 31, 2011, as compared to \$1.3 million for the comparable three months ended March 31, 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 three months ended March 31, 2010 to 21% during the three months ended March 31, 2011. The decrease in the gross profit percentage is primarily attributable to the restatement of advertising expenses as a discount to be netted with gross revenues of \$483,838 and samples of \$77,326 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 March 31, 2011, were \$1,719,627, as compared to \$2,636,612 for the comparable three months ended March 31, 2010. The \$916,985 decrease is mainly attributable to a substantial decrease in stock based compensation of \$435,866 and the restatement of advertising expenses as a discount to be netted with gross revenues of \$561,164 and non clearly identifiable samples reclassified from general and administrative expenses and added to cost of sales. The major decrease in stock based compensation was offset by a slight increase in employee compensation. The Company's employee headcount increased from 12 employees during the three months ended March 31, 2010, to 15 employees during the three months ended March 31, 2011.

***Loss from Operations***

Loss from operations for the three months ended March 31, 2011, was \$1,087,225 as compared to \$2,251,656 for the comparable three months ended March 31, 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 March 31, 2011 as compared to the three months ended March 31, 2010.

***Other expenses***

Other expenses for the three months ended March 31, 2011, were \$3,924,696, as compared to \$358,060 for the comparable three months ended March 31, 2010. The increase in other expenses of \$3,566,636 is primarily attributable features associated with the financing transactions the Company entered into during the three months ended March 31, 2011. The Company issued \$1,482,000 in convertible notes during the three months ended March 31, 2011. These notes bore interest at rates ranging from 8% to 12% per annum. Interest expense during the three months ended March 31, 2010, increased approximately \$161,000 as compared to the comparable three months ended March 31, 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 \$1,359,369 and on the date of remeasurement, which is March 31, 2011, a change in fair market value of \$131,717. There were no derivative liabilities recorded for the three months ended March 31, 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 \$1,914,689 as a result of these transactions.

**Net Loss**

Net loss for the three months ended March 31, 2011, was \$5,011,922 or loss per share of \$(0.03), as compared to \$2,609,716 or loss per share of \$(0.10) for the comparable three months ended March 31, 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 March 31, 2011 compared to December 31, 2010.

	March 31, 2011 (unaudited)	December 31, 2010 (audited)	Increase/Decrease
Current Assets	\$3,135,697	\$1,406,310	\$ 1,729,387
Current Liabilities	\$6,666,419	\$4,215,649	\$ 2,450,770
Working Capital (Deficit)	\$(3,530,722)	\$(2,809,339)	) \$ (721,383)

As March 31, 2011, we had a working capital deficit of \$3,530,722, as compared to a working capital deficit of \$2,809,339, at December 31, 2010, a decrease of \$(721,383). The decrease is primarily attributable to the Company issuing \$1,482,000 in convertible notes during the three months ended March 31, 2011. The Company continues to devote significant resources to continue aggressively market the product line.

Net cash used for operating activities for the three months ended March 31 2011 and 2010 was \$(868,808) and \$(605,628), respectively. The net loss for the three months ended March 31, 2011 and 2010 was \$(5,011,922) and \$(2,609,716), respectively.

Net cash used for investing activities for the three months ended March 31 2011 and 2010 was \$(253,823) and \$(650), respectively. The Company purchased gym and office equipment during the three months ended March 31, 2011.

Net cash obtained through all financing activities for the three months ended March 31, 2011 was \$1,412,300, as compared to \$606,278 for the three months ended March 31, 2010.

### **Going Concern**

As reflected in the accompanying unaudited interim consolidated financial statements, the Company had a net loss of \$5,011,922 and net cash used in operations of \$868,808 for the three months ended March 31, 2011, and a working capital deficit and stockholders' deficit of \$3,530,722 and \$2,130,839, respectively, at March 31, 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;
- increase product prices as well as reducing discounts and free samples;
- obtain manufacturing agreements which provide for lower production costs;
- 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 and other short term debt as discussed below.

During the three months ended March 31, 2011, the Company raised gross proceeds of \$677,000 through the sale of (10 day to 90 day) convertible notes at a conversion price of the average 10 day trade pricing divided by 200% of outstanding principal balance. The notes bear interest at a rate of 8%.

During the three months ended March 31, 2011, the Company raised gross proceeds of \$100,000 through the sale of (1 year) convertible notes at a conversion price of \$0.03 per share. The notes bear interest at an annual rate of 6%.

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During the three months ended March 31, 2011, the Company raised gross proceeds of \$130,000 through the sale of (9 months to 1 year) convertible notes 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%.

During the three months ended March 31, 2011, the Company raised gross proceeds of \$100,000 through the sale of (1 year) convertible notes at a conversion price of \$0.03 per share. The notes bear interest at an annual rate of 6%.

During the three months ended March 31, 2011, the Company raised gross proceeds of \$50,000 through the sale of (9 months to 1 year) convertible notes at a conversion price of 65% of the average of the lowest three closing prices in the 30 days preceding conversion. The notes bear interest at an annual rate of 8%.

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 execute the business plan.

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

Other than the operating leases, as of March 31, 2011, the Company did not have any off-balance sheet arrangements.

### **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. However, there were nominal returns for the three months ended March 31, 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**

In January 2010, the Financial Accounting Standards Board ("FASB") issued updated guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. This update requires new disclosures on significant transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy (including the reasons for these transfers) and the reasons for any transfers in or out of Level 3. This update also requires a reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, this update clarifies certain existing disclosure requirements. For example, this update clarifies that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities rather than each major category of assets and liabilities. This update also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. This update will become effective for the Company with the interim and annual reporting period beginning January 1, 2010, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will become effective for the Company with the interim and annual reporting period beginning January 1, 2011. The Company will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. Other than requiring additional disclosures, adoption of this update will not have a material effect on the Company's unaudited interim consolidated financial statements.

In August 2010, the FASB issued an exposure draft on lease accounting that would require entities to recognize assets and liabilities arising from lease contracts on the balance sheet. The proposed exposure draft states that lessees and lessors should apply a "right-of-use model" in accounting for all leases. Under the proposed model, lessees would recognize an asset for the right to use the leased asset, and a liability for the obligation to make rental payments over the lease term. The lease term is defined as the longest possible term that is "more likely than not" to occur. The accounting by a lessor would reflect its retained exposure to the risks or benefits of the underlying leased asset. A lessor would recognize an asset representing its right to receive lease payments based on the expected term of the lease. Comments on this exposure draft were due by December 15, 2010 and the final standard is expected to be issued in the second quarter of 2011. The Company believes that the proposed standard, as currently drafted, will have neither a material impact on its reported financial position and reported results of operations, nor a material impact on the liquidity of the Company.



In August 2010, the FASB issued Accounting Standards Update (“ASU”) No. 2010-05, Measuring Liabilities at Fair Value, or ASU 2010-05, which amends ASC 820 to provide clarification of a circumstance in which a quoted price in an active market for an identical liability is not available. A reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities (or similar liabilities when traded as assets) and/or 2) a valuation technique that is consistent with the principles of ASC 820. ASU 2010-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. The adoption did not have a material impact on our unaudited interim consolidated financial statements. In December 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2010-29, Business Combinations (Topic 805) – Disclosure of Supplementary Pro Forma Information for Business Combinations. This ASU requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. ASU 2010-29 affects any public entity as defined by Topic 805 that enters into business combinations that are material on an individual or aggregate basis. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company does not expect the provisions of ASU 2010-29 to have an effect on its financial position, results of operations or cash flows.

### **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.**

*Convertible Debt Issuances*

During the three months ended March 31, 2011, the Company raised gross proceeds of \$677,000 through the sale of (10 day to 90 day) convertible notes at a conversion price of the average 10 day trade pricing divided by 200% of 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.

During the three months ended March 31, 2011, the Company raised gross proceeds of \$525,000 through the sale of (6 month) convertible notes 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 15,560,000 common stock purchase warrants with an exercise price of \$0.025 - \$0.065 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.

During the three months ended March 31, 2011, the Company raised gross proceeds of \$130,000 through the sale of (9 months to 1 year) convertible notes 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.

During the three months ended March 31, 2011, the Company raised gross proceeds of \$100,000 through the sale of (1 year) convertible notes at a conversion price of \$0.03 per share. The notes bear interest at an annual rate of 6%. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

During the three months ended March 31, 2011, the Company raised gross proceeds of \$50,000 through the sale of (9 months to 1 year) convertible notes at a conversion price of 65% of the average of the lowest three closing prices in the 30 days preceding conversion. The notes bear interest at an annual 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.

*Conversion of Debt*

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During the three months ended March 31, 2011, a convertible note holder converted principal in the amount of \$90,000 into 3,208,080 shares of common stock at a conversion rate of \$0.024 - \$0.036/share. The issuance of such securities upon conversion was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

*Issuances for Services*

During the three months ended March 31, 2011, the Company issued consultants 1,182,592 shares of the Company's common stock for services rendered at a fair value of \$70,431 (\$0.053 - \$0.069/share) based upon the quoted closing price trading price. The issuance of such securities was exempt from registration pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder.

*Issuances for Prepaid Services*

During the three months ended March 31, 2011, the Company issued consultants 3,500,000 shares of the Company's common stock for services to be rendered at a fair value of \$228,000 (\$0.066 - \$0.078/share) based upon the quoted closing price trading price. 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 March 31, 2011.

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

**ITEM 5. OTHER INFORMATION.**

*Submission of Matters to a Vote of Security Holders*

On May 11, 2011, the Company held a special meeting of its stockholders (the "Special Meeting") at its corporate headquarters in Denver, CO. Brad J. Pyatt, Chief Executive Officer and Chairman of the Board of Directors of the Company, presided. At the Special Meeting, the Company's stockholders approved each of the following proposals set forth in the Company's Definitive Proxy Statement on Schedule 14A, which was filed with the U.S. Securities and Exchange Commission and mailed to stockholders on or about April 29, 2011.



*Proposal One:*

The Company's stockholders approved an amendment to the Company's Articles of Incorporation to increase the total authorized number of shares of common stock, par value \$0.001 per share, from 195,000,000 to 500,000,000, as set forth below:

Votes For	Votes Against	Abstentions
76,195,594	227,392	52,000

*Proposal Two:*

The Company's stockholders approved an amendment to the Company's Articles of Incorporation to authorize up to 10,000,000 shares, par value \$0.001 per share of "blank-check" preferred stock of the Company, as set forth below:

Votes For	Votes Against	Abstentions
76,192,344	230,642	52,000

*Amendments to Articles of Incorporation*

On May 11, 2011, pursuant to a majority vote of the shareholders of the Company, the Company amended its Articles of Incorporation (the "Amendment") in order to (i) increase the total authorized number of shares of common stock, par value \$0.001 per share, from 195,000,000 to 500,000,000 and (ii) authorize up to 10,000,000 shares, par value \$0.001 per share, of "blank-check" preferred stock of the Company. The Company filed the Amendment with the Secretary of State of the State of Nevada. A copy of the Amendment is attached hereto as Exhibit 3.1 to this Quarterly Report on Form 10-Q.

**ITEM 6. EXHIBITS.**

<b>Exhibit No.</b>	<b>Description</b>
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- 3.1 Amended Articles of Incorporation (as filed as Exhibit 3.1 on Form 10-Q, dated May 23, 2011).
- 10.1 Sponsorship Agreement, dated January 18, 2011, by and between MusclePharm Corporation and The Cincinnati Reds LLC (as filed as Exhibit 10.1 on Form 8-K, dated January 24, 2011).
- 31.1 Certification of Principal Executive Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 302 of 2002 \*
- 31.2 Certification of Principal Accounting Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 302 of 2002 \*
- 32.1 Certification of Principal Executive Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*
- 32.2 Certification of Principal Accounting Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*

\* filed herewith

**SIGNATURES**

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

**MUSCLEPHARM CORPORATION**

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

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