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MusclePharm Corp
Form 10-Q
November 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

Quarterly report pursuant section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2010

Transition report pursuant section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 000-53166

MUSCLEPHARM CORPORATION
(Exact name of registrant as specified in its charter)

Nevada
(State or Other Jurisdiction of Incorporation) 77-0664193
(I.R.S. Employer Identification No.)

4721 Ironton Street, Denver, CO 80239
(Address of Principal Executive Offices)

(800) 210-7369
(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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the issuer has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. NOT APPLICABLE

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. On November 5, 2010, there were 63,451,577 Common Shares issued outstanding.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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. (Check one):

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

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MUSCLEPHARM CORPORATION FORM 10-Q

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PART I. FINANCIAL INFORMATION

MUSCLEPHARM CORPORATION Consolidated Balance Sheets

| | September 30, 2010 | December 31, 2009 |
|-----------------------------------------------------------------------------|-----------------------|----------------------|
| ASSETS | ----- (Unaudited) | ----- |
| Current assets | | |
| Cash | \$ 10,657 | \$ - |
| Accounts receivable, net of allowance of \$7,592 and \$821, respectively | 556,345 | 111,476 |
| Inventory | 186,027 | 4,245 |
| Deposits on product | 36,600 | 32,115 |

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| | | |
|-------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------|
| Prepaid expenses and other current assets | 25,476 | 76,686 |
| | ----- | ----- |
| Total Current Assets | 815,105 | 224,522 |
| Fixed assets, net | 59,380 | 39,815 |
| Other assets | 54,933 | 2,665 |
| | ----- | ----- |
| Total Assets | \$ 929,418 | \$ 267,002 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities | | |
| Accounts payable | \$ 2,014,170 | \$ 765,534 |
| Accrued liabilities | 469,509 | 103,519 |
| Bank overdrafts | - | 17,841 |
| Customer deposits | 55,474 | 15,018 |
| Due to related parties | 46,529 | 85,820 |
| Notes payable | 808,290 | 459,864 |
| | ----- | ----- |
| Total Current Liabilities | 3,393,972 | 1,447,596 |
| | ----- | ----- |
| Stockholders' Deficit | | |
| Series A convertible preferred stock, \$.001 par value, 833,333 shares authorized, 10,402 and 0 shares issued and outstanding | 10 | - |
| Common stock, \$.001 par value, 195,000,000 shares authorized, 50,329,260 and 26,000,000 shares issued and outstanding | 50,330 | 26,000 |
| Additional paid in capital | 9,031,141 | 1,099,508 |
| Services prepaid with common stock | (564,703) | - |
| Accumulated deficit | (10,981,332) | (2,306,102) |
| | ----- | ----- |
| Total Stockholders' Deficit | (2,464,554) | (1,180,594) |
| | ----- | ----- |
| Total Liabilities and Stockholders' Deficit | \$ 929,418 | \$ 267,002 |
| | ===== | ===== |

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

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MUSCLEPHARM CORPORATION
Consolidated Statements of Operations
(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|-----------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| | ----- | ----- | ----- | ----- |
| Sales of product, net | \$ 1,409,016 | \$ 232,488 | \$ 3,135,712 | \$ 669,345 |
| Cost of sales | 927,506 | 247,628 | 2,120,113 | 530,653 |
| | ----- | ----- | ----- | ----- |
| Gross Margin | 481,510 | (15,140) | 1,015,599 | 138,692 |

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| | | | | |
|--------------------------------------------------------|----------------|--------------|----------------|----------------|
| Operating Expenses: | | | | |
| Advertising and promotion | 1,143,663 | 379,893 | 4,199,173 | 737,107 |
| Salaries and benefits | 279,026 | 77,892 | 1,434,730 | 149,436 |
| Professional fees | 1,024,149 | 72,554 | 2,208,554 | 90,611 |
| General and administrative | 178,440 | 67,478 | 437,488 | 168,413 |
| Research & Development | 129,500 | - | 129,500 | - |
| Depreciation and amortization | 4,375 | 1,656 | 10,830 | 4,968 |
| | ----- | ----- | ----- | ----- |
| Total Operating Expenses | 2,759,153 | 599,473 | 8,420,275 | 1,150,535 |
| | ----- | ----- | ----- | ----- |
| Operating Loss | (2,277,643) | (614,613) | (7,404,676) | (1,011,843) |
| | ----- | ----- | ----- | ----- |
| Other Expenses | | | | |
| Interest expense | 231,739 | 4,669 | 900,886 | 8,608 |
| Other expense | 364,472 | - | 369,668 | - |
| | ----- | ----- | ----- | ----- |
| Total Other Expense | 596,211 | 4,669 | 1,270,554 | 8,608 |
| | ----- | ----- | ----- | ----- |
| Net Loss | \$ (2,873,854) | \$ (619,282) | \$ (8,675,230) | \$ (1,020,451) |
| | ===== | ===== | ===== | ===== |
| Basic and diluted loss per share | | | | |
| | \$ (.08) | \$ (.02) | \$ (.28) | \$ (.04) |
| Weighted average shares outstanding, basic and diluted | | | | |
| | 35,923,947 | 25,962,921 | 30,473,190 | 25,885,841 |

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

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MUSCLEPHARM CORPORATION Consolidated Statements of Cash Flows (Unaudited)

| | Nine months ended September 30, | |
|---------------------------------------------------------------------------------|---------------------------------|----------------|
| | 2010 | 2009 |
| | ----- | ----- |
| Operating Activities: | | |
| Net Loss | \$ (8,675,230) | \$ (1,020,451) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 10,830 | 4,968 |
| Allowance for bad debt | 6,771 | 5,631 |
| Amortization of debt discount and debt issue costs | 714,430 | - |
| Non-cash interest expense | 126,000 | - |
| Loss on extinguishment of debt | 402,739 | - |
| Loss on sale of accounts receivable | 51,644 | - |
| Gain on settlement of payables | (84,715) | - |
| Common stock issued for services | 3,582,595 | - |
| Stock based compensation expense | 630,990 | - |
| Cash provided by (used in) changes in operating assets and liabilities: | | |
| Accounts receivable | (730,131) | (1,742) |

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| | | |
|--------------------------------------------------------------------------|-------------|-----------|
| Inventory | (181,782) | 51,569 |
| Deposits on products | (4,485) | 45,815 |
| Prepaid expenses and other current assets | 49,417 | 11,231 |
| Other assets | (52,268) | (1,207) |
| Accounts payable | 1,333,351 | 301,326 |
| Accrued liabilities | 411,141 | 50,688 |
| Customer deposits | 40,456 | 112,731 |
| Due to related parties | (39,291) | 5,515 |
| | ----- | ----- |
| Net cash used in operating activities | (2,407,538) | (433,926) |
| | ----- | ----- |
| Investing Activities: | | |
| Purchases of fixed assets | (30,395) | (5,510) |
| | ----- | ----- |
| Net cash used in investing activities | (30,395) | (5,510) |
| | ----- | ----- |
| Financing Activities: | | |
| Proceeds from issuance of notes payable | 1,259,000 | 346,711 |
| Proceeds from issuance of common stock | 1,005,692 | - |
| Proceeds from sale of accounts receivable | 226,847 | - |
| Capital contributions | - | 87,500 |
| Payments for recapitalization from merger | (25,108) | - |
| Bank overdrafts | (17,841) | 5,193 |
| | ----- | ----- |
| Net cash provided by financing activities | 2,448,590 | 439,404 |
| | ----- | ----- |
| Net decrease in cash | 10,657 | (32) |
| Beginning cash | - | 32 |
| | ----- | ----- |
| Ending cash | \$ 10,657 | \$ - |
| | ===== | ===== |
| Non-cash Investing and Financing Activities: | | |
| Beneficial conversion features on convertible notes payable | \$ 426,000 | \$ - |
| Conversions of convertible debt and accrued interest | \$ 564,037 | \$ - |
| Settlement of debt and accrued interest through issuance of common stock | \$ 678,325 | \$ - |
| Conversion of preferred stock | \$ 73 | \$ - |

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

MUSCLEPHARM CORPORATION
Consolidated Statement of Changes in Stockholders' Deficit
(Unaudited)

| Preferred Stock Shares | Amount | Common Stock Shares | Amount | Additional Paid-in Capital | Services Prepaid With Common Stock | Ac |
|---------------------------|--------|------------------------|--------|----------------------------------|------------------------------------------------|-------|
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |

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| | | | | | | | |
|-------------------------------------------------------------|----------|-------|-------------|----------|-------------|--------------|----------------|
| Balance, January 1, 2010 | - | \$ - | 26,000,000 | \$26,000 | \$1,099,508 | \$ - | \$ - |
| Recapitalization resulting from merger | 83,333 | 83 | 70,838 | 71 | (25,262) | - | - |
| Surrender of common stock for re-distribution | - | - | (2,425,000) | (2,425) | 2,425 | - | - |
| Common stock re-issued for services | - | - | 2,425,000 | 2,425 | 1,307,075 | (270,000) | (270,000) |
| Common stock issued for services | - | - | 2,941,215 | 2,941 | 2,834,857 | (633,423) | (633,423) |
| Conversions of convertible notes payable | - | - | 1,821,029 | 1,821 | 562,216 | - | - |
| Beneficial conversion features on convertible notes payable | - | - | - | - | 426,000 | - | - |
| Common stock issued for notes payable extensions | - | - | 130,000 | 130 | 95,370 | - | - |
| Common stock issued for settlement of notes payable | - | - | 1,965,571 | 1,966 | 1,079,098 | - | - |
| Common stock issued with notes payable | - | - | 50,000 | 50 | 30,450 | - | - |
| Conversion of preferred stock | (72,931) | (73) | 14,586,200 | 14,586 | (14,513) | - | - |
| Issuance of common stock for cash | - | - | 2,764,407 | 2,765 | 1,002,927 | - | - |
| Amortization of prepaid services | - | - | - | - | - | 338,720 | 338,720 |
| Stock based compensation | - | - | - | - | 630,990 | - | - |
| Net loss | - | - | - | - | - | - | - |
| Balance, September 30, 2010 | 10,402 | \$ 10 | 50,329,260 | \$50,330 | \$9,031,141 | \$ (564,703) | \$ (1,000,000) |

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

MUSCLEPHARM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

On February 18, 2010, in accordance with a Securities Exchange Agreement dated February 1, 2010, Tone in Twenty, a Nevada Corporation, acquired all the outstanding equity and voting interests of Muscle Pharm, LLC ("MusclePharm"), a Colorado limited liability corporation formed on April 22, 2008), for an aggregate of 26,000,000 shares of our common stock. In addition, pursuant to the terms and conditions of the Securities Exchange Agreement ("share exchange"), MusclePharm paid \$25,000 to the former president of Tone in Twenty for his 366,662 shares of common stock, and these shares were cancelled. Upon closing of the transaction, MusclePharm became a wholly owned subsidiary of Tone in Twenty. Also concurrent with the closing of the acquisition, the Tone in Twenty's President and Director issued his resignation. The board of directors was reconstituted to consist of the two original founders and initial members of MusclePharm. Following the share exchange and related transactions, a total of 26,070,838 shares of Tone in Twenty's common stock was issued and outstanding, with MusclePharm members owning approximately 99.7% of the outstanding common stock. The share

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exchange is being accounted for as a "reverse acquisition," as the members of MusclePharm owned a majority of the outstanding shares of Tone in Twenty common stock immediately following the share exchange and now control the board of directors. Tone in Twenty was deemed to be the legal acquirer in the reverse acquisition, while MusclePharm was deemed to be the accounting acquirer. Also, as a result of the completion of the reverse acquisition, Tone in Twenty amended its articles of incorporation to change its name to MusclePharm Corporation (the "Company"), and also changed its fiscal year from August 31 to December 31. Upon completion of the share exchange, the operations of Tone in Twenty ceased.

The Company currently manufactures and markets eight branded sports nutrition products with the trade name: Combat Powder[R], Assault[TM], Battle Fuel[TM], Bullet Proof[R], Shred Matrix[TM], Recon[R], Energel Shot[TM] and MuscleGel[TM].

The consolidated financial statements are presented as a continuation of the financial statements of MusclePharm. As such, for all disclosures referencing shares authorized, issued, outstanding, per share amounts and other disclosures related to equity, amounts have been retroactively adjusted to reflect the legal capital of the legal acquirer (Tone in Twenty). The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The balance sheet at December 31, 2009, has been derived from the audited financial statements at that date but does not include all of the information and disclosures required by U.S. GAAP for complete financial statements. For further information, refer to the financial statements and

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notes thereto included in the Company's Annual Report on Form 8-K for the year ended December 31, 2009.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to US GAAP and have been consistently applied in the preparation of the financial statements.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements have been prepared on the basis of U.S. GAAP and include the accounts of the Company and its subsidiary. Intercompany accounts and transactions have been eliminated.

USE OF ESTIMATES

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure

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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's significant estimates made in connection with the preparation of the accompanying financial statements include allowance for doubtful accounts, value of long lived assets and the valuation of stock options and warrants.

CASH AND CASH EQUIVALENTS

The Company considers cash and cash equivalents to include highly liquid investments with original maturities of 90 days or less. Those are readily convertible into cash and not subject to significant risk from fluctuations in interest rates and market trends. The recorded amounts for cash equivalents approximate fair value due to the short-term nature of these financial instruments.

CONCENTRATION OF CREDIT RISK AND ACCOUNTS

Financial instruments that potentially subject the Company to significant concentrations of credit risk include cash equivalents, trade accounts receivable, inventory and deposits on product. The Company maintains its cash and investment balances in the form of bank demand deposits and money market accounts with financial institutions that management believes to be of high credit quality. Accounts receivable are typically unsecured and are derived from transactions with customers primarily located in the United States. For the nine months ended September 30, 2010, the Company had made sales to 30 customers. Six of these customers represent approximately 84% of the Company's gross sales during this period.

At September 30, 2010, the Company was using two vendors to manufacture the Company's inventory.

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ACCOUNTS RECEIVABLE

The Company performs ongoing evaluations of its customer's financial condition and generally does not require collateral. Management reviews accounts receivable periodically and reduces the carrying amount by a valuation allowance that reflects management's best estimate of amounts that may not be collectible. Allowances, if any, for uncollectible accounts receivable are determined based upon information available and historical experience.

INVENTORY

Inventory is stated at the lower of cost or market. Costs are determined by the first-in first-out or average cost methods. Cost includes all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition.

SHIPPING AND HANDLING

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

FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation. Included in fixed assets are website development costs which represent capitalized costs of design, configuration, coding, installation, and testing of the Company's

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website. Depreciation is computed on the straight-line method over the asset's useful lives which range from three to five years. Maintenance and repairs are charged to expense as incurred; improvements and betterments are capitalized.

LONG-LIVED ASSETS

The Company's primary long-lived assets are fixed assets. The Company assesses the recoverability of its long-lived assets whenever events and circumstances indicate the carrying value of an asset or asset group may not be recoverable from estimated future cash flows expected to result from its use and eventual disposition. Management does not believe that its long-lived assets are impaired, and no impairment charges have been recorded as of September 30, 2010.

FAIR VALUE MEASUREMENT

Financial instruments consist of cash, accounts receivable, inventory, deposits on product, prepaid expenses, accounts payable and accrued expenses. The carrying amount of these financial instruments approximates fair value due to their short-term nature or the current rates at which the Company could borrow funds with similar remaining maturities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial statements.

STOCK BASED COMPENSATION

ASC Topic 718, "Stock Compensation," establishes fair value as the measurement objective in accounting for share based payment arrangements, and

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requires all entities to apply a fair value based measurement method in accounting for share based payment transactions with employees. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the period during which the holder is required to provide services in exchange for the award, i.e., the vesting period.

ADVERTISING

The Company expenses the cost of advertising when incurred. Advertising expenses are included with advertising and promotions in the accompanying consolidated statements of operations.

REVENUE RECOGNITION

The Company recognizes revenue when persuasive evidence of a revenue arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured.

The Company has been developing its presence in the marketplace and establishing distribution channels for its products, and therefore the Company has incurred significant costs for sales allowances, and discounts provided. For the three and nine months ended September 30, 2010, the Company recorded discounts and allowances of \$43,338 and \$128,247 respectively. For the three and nine months ended September 30, 2009, the Company recorded discounts and allowances of \$29,998 and \$232,721, respectively.

SPONSORSHIP AND ENDORSEMENT AGREEMENTS

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As a component of its marketing strategy, the Company enters into sponsorship and endorsement agreements with prominent athletes, trainers, and other high profile individuals that provide the Company ongoing sources of exposure to its products. The agreements sometimes specify certain contingencies that must be met to receive payments; others may require regular or periodic payments with no specified service or events that trigger payments under an agreement, or a combination of both. Agreements that are contingent upon the successful completion of an event prior to payment are considered unearned until the completion of the triggering event, and as such, no expense or liability is recorded until the successful completion of the triggering event. Where agreements are based on time and not on specific triggering events, the services are considered to be earned ratably over the period of the agreement, and as such expenses and liabilities are recorded ratably over the term of the agreement.

INCOME TAXES

As discussed elsewhere in this report, on February 18, 2010 the Company completed a reverse merger with Tone in Twenty which had a fiscal year ending August 31. MusclePharm is deemed to be the accounting acquirer in the merger, while Tone in Twenty is deemed the legal acquirer. As such, the combined entity subsequently changed the fiscal year end to December 31. As a result of the reverse merger, the Company will be subject to corporate U.S. federal, state, and local taxes beginning in February 2010. The Company is currently evaluating the effects of the reverse acquisition to its income taxes.

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EARNINGS PER COMMON SHARE

Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to common shareholders for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed based on the weighted average number of common shares and potentially dilutive common shares outstanding. The calculation of diluted net income (loss) per share excludes potential common shares if the effect would be anti-dilutive. Potential common shares consist of incremental common shares issuable upon the exercise of outstanding stock options and stock purchase warrants or other financial instruments considered to be common stock equivalents.

At September 30, 2010 the Company had common stock equivalents of 6,700,362 which are excluded from the calculation of diluted loss per share as the effect would be anti-dilutive.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

There were various accounting standards and interpretations issued in 2010, none of which are expected to have a material impact on the Company's financial position, operations or cash flows.

NOTE 3 - GOING CONCERN

The accompanying financial statements have been prepared in conformity with US GAAP, which contemplates continuation of the Company as a going concern. However, the Company has negative working capital and stockholders' deficits, and has incurred net losses, which raises substantial doubt about its ability to continue as a going concern. In view of these matters, realization of certain of the assets in the accompanying balance sheet is dependent upon its ability to meet its financing requirements, raise additional capital, and the success of its future operations. There is no assurance that future capital

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raising plans will be successful in obtaining sufficient funds to assure its eventual profitability. Management believes actions planned and presently being taken provide the opportunity for the Company to continue as a going concern, including:

- * Increasing prices of products;
- * Reducing discounts and free samples;
- * Obtaining manufacturers which have substantially decreased manufacturing costs, and
- * Securing additional working capital through additional sales of debt or equity to investors.

The financial statements do not include any adjustments that might result from these uncertainties.

NOTE 4 - RELATED PARTY TRANSACTIONS

Certain members of the Company have utilized personal credit cards owned by them and immediate family members to assist in financing its operations. As of September 30, 2010 the Company owed \$8,880 on these credit cards. The balance owed at September 30, 2010 represents an amount owed to the Company's President. The Company does not plan to use such credit in the future.

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As of September 30, 2010, the Company has a payable of \$37,649 due to investors who paid various legal and accounting fees and other administrative expenses on behalf of the company.

NOTE 5 - NOTES PAYABLE

| | |
|---------------------------------|------------|
| Convertible notes payable | \$ 680,000 |
| Less discount | (89,210) |
| | ----- |
| Convertible notes discount, net | 590,790 |
| Original issue discount notes | 187,500 |
| Unsecured notes payable | 30,000 |
| | ----- |
| Total Notes Payable | \$ 808,290 |
| | ===== |

Convertible Notes Payable

During the nine months ended September 30, 2010, the Company sold convertible secured promissory notes ("convertible notes") in the amount of \$446,000 to various investors. All the convertible notes accrue interest at 8% per annum and are convertible to common stock by the note holder under terms designed in the convertible note agreements which are either to (1) provide the holder with a dollar amount of common stock equal to a designated percentage of the note amount plus any accrued interest, ranging from 120% to 350% or (2) convertible at 60% of the average market price (as defined in the agreement). In accordance with ASC 470, the conversion terms are considered beneficial conversion features, and as such for the nine months ended September 30, 2010, the Company recorded an additional debt discount of \$426,000 representing the intrinsic value of the beneficial conversion features. The debt discount is being accreted to interest expense over the term of the convertible notes. All the convertible notes are collateralized by all the assets of the Company and have maturity dates ranging from March 2010 to June 2011. On September 21, 2010, the Company issued 100,000 shares of common stock as consideration for extension of the maturity dates of \$200,000 of the convertible notes where 50% of each loan is payable on September 15, 2010 and

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50% payable on November 1, 2010. See Note 6 for further discussion. Convertible notes totaling \$320,000 have matured as of September 30, 2010 and are currently in default. As of the date of this report, none of the note holders have presented demands for payment or conversion notices to the Company.

At September 30, 2010, the total interest accrued on the convertible notes, net of amounts previously converted, was \$30,146. For the three and nine months ended September 30, 2010 a total of \$118,286 and \$675,137, respectively, of the debt discount was accreted and is included in interest expense in the accompanying consolidated statements of operations.

During the nine months ended September 30, 2010, convertible notes totaling \$663,500, together with \$29,826 of accrued interest, and \$129,289 of un-accreted discounts on the convertible notes converted, were converted to 1,821,029 shares of the Company's common stock.

Original Issue Discount Notes

In February 2010, the Company issued two Original Issue Discount Secured Promissory Notes (the "OID Notes") to two accredited investors. The first OID

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Note was issued on February 18, 2010 with a face value of \$125,000 and maturity date of May 18, 2010. The second Note was issued on February 26, 2010 with a face value of \$62,500 and a maturity of May 26, 2010. The OID Notes are secured by all the Company's accounts receivable. The total proceeds from the issuance of the OID Notes were \$150,000. The discount of \$37,500 was amortized to interest expense over the life of the OID Notes. For the nine months ended September 30, 2010, \$37,500 of the discount was amortized and is included in interest expense in the accompanying consolidated statement of operations. At September 30, 2010, the OID Notes are in default and the Company is in discussion with the OID Notes' holders to extend the maturity dates.

As prescribed in the OID Note agreements the investors who purchase the OID Notes also will receive one share of common stock for each \$3.00 invested. As such, during the nine months ended September 30, 2010, the Company issued 50,000 shares of common stock to the OID Note holders. For the three and nine months ended September 30, 2010, the fair value of the common stock of \$30,500 was recorded to interest expense.

Unsecured Notes Payable

During the nine months ended September 30, 2010, the Company issued unsecured notes payable to an investor in the aggregate of \$648,000. These notes bear interest at the rate of 8% per year and require no periodic principal or interest payments. The notes mature on March 31, 2011 and June 29, 2011 at which times all unpaid principal and interest is due. On September 29, 2010, the Company issued 1,890,571 shares of common stock for forgiveness of \$661,700, the aggregate amount of these unsecured notes payable plus accrued interest. As a result, for the three and nine months ending September 30, 2010, the Company recorded a loss from extinguishment of debt of \$378,114, included in other expense in the accompanying consolidated statement of operations.

The Company has short term uncollateralized promissory notes in the amount of \$30,000 (the "promissory notes") The promissory notes accrue interest at 10% per annum, require no periodic payments, and matured on March 2, 2010. On May 5, 2010, the Company issued 30,000 shares of common stock as

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consideration for an extension of the maturity date of the promissory notes to September 2, 2010.

On September 29, 2010, the Company issued 75,000 shares of common stock for forgiveness of \$15,000 of the promissory notes, plus \$1,625 accrued interest. As a result, for the three and nine months ending September 30, 2010, the Company recorded a loss from extinguishment of debt of \$24,625, included in other expense in the accompanying consolidated statement of operations. As of September 30, 2010 the remaining promissory note is in default and is currently being negotiated.

During the nine months ended September 30, 2010, the Company issued an additional \$15,000 uncollateralized promissory note (the "new promissory note"). The new promissory note accrues interest at 8% per annum, requires no periodic payments, and matures on June 30, 2011.

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NOTE 6 - STOCKHOLDERS' DEFICIT

MusclePharm founders and initial investors

There were two initial founders of MusclePharm, both of whom are current officers and directors of the Company. One founder received a 60% interest in the original privately owned entity in exchange for his contribution of formulations for potential products, contacts with GNC Canada and other potential customers, and contacts with professional athletes. The other initial founder received a 40% interest in the original privately owned entity in exchange for his contacts with key contacts including potential distributors, professional athletes and potential investors. No accounting value was placed on these respective contributions since it was considered immaterial.

During 2008 and 2009, MusclePharm sold to various other investors' equity interests totaling \$562,000 to provide working capital during its development. These other investor equity interests represented a 10% interest at the time of the share exchange. Upon completion of the share exchange, the original founders of MusclePharm received 23,377,782 shares of the Tone in Twenty's common stock, with the other equity investors receiving a total of 2,622,218 shares of Tone in Twenty's common stock, for a total of 26,000,000 shares issued in the share exchange to the MusclePharm equity interests.

Series A Convertible Preferred Stock

As of September 30, 2010, the Company has issued 83,333 shares of Series A Convertible Preferred Stock ("Convertible Preferred Stock"). The Convertible Preferred Stock is non-voting, and has no dividend or liquidation rights. Each share is convertible into two hundred (200) shares of Common Stock, provided, however, no holder of the Convertible Preferred Stock will have the right to convert any of such shares to the extent that after giving effect to such conversion, the beneficial owner of such shares would beneficially own in excess of 4.9% of the shares of the common stock outstanding immediately after giving effect to such conversion.

During the nine months ended September 30, 2010, 72,931 shares of the Convertible Preferred Stock were converted into 14,586,200 shares of the Company's common stock. At September 30, 2010, the Company had 10,402 outstanding shares the Convertible Preferred Stock which were convertible into 2,080,400 shares of common stock (without giving effect to the aforementioned limitation on conversion).

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Common Stock

Immediately prior to the share exchange, Tone in Twenty had 437,500 shares issued and outstanding. Concurrent with the share exchange, MusclePharm purchased a total of 366,662 shares of the outstanding common stock owned by a prior executive of Tone in Twenty for total consideration of \$25,000. These shares were subsequently retired. With the issuance of 26,000,000 shares of common stock to the MusclePharm founders and equity investors as discussed above, immediately after the completion of the share exchange, the Company had 26,070,838 shares issued and outstanding.

During the nine months ended September 30, 2010, the Company's two founders and executive officers surrendered an aggregate of 2,425,000 shares of common

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stock. The surrendered shares were immediately re-issued to various individuals who had provided services to the Company during its development, and to certain athletes as a component to their endorsement agreements with the Company. Absent market data, the fair value of the shares was determined to be \$0.54 per share based on conversion terms of convertible debt issuances and considering other issuances of common stock including the private placement as discussed in subsequent events below. As a result, for the nine months ended September 30, 2010, the Company recorded expenses of \$1,039,500 with \$54,000 recorded in advertising and promotion expense and \$985,500 recorded in professional fees in the accompanying consolidated statement of operations. In addition, \$270,000 was recorded to services prepaid with common stock as part of an unearned endorsement agreement. The endorsement agreement begins on June 1, 2010 and expires on May 31, 2011, and as such will be earned ratably over the term of the agreement. For the nine months ended September 30, 2010, the company recorded \$90,000 of advertising and promotion expense related to this endorsement agreement.

Also during the nine months ended September 30, 2010, the Company issued 2,941,215 shares of common stock for services. As a result, for the nine months ended September 30, 2010, the Company recorded expenses of \$2,204,375 with \$1,072,740 recorded in advertising and promotion expense, \$1,029,135 recorded in professional fees and \$102,500 recorded in research and development in the accompanying consolidated statement of operations. The advertising and promotion expense of \$1,072,740 included \$731,290 related to endorsement agreements, \$312,000 relates to stock issued to the manufacturer and a customer to build relationships and \$29,450 for print advertising. In addition, \$633,423 was recorded to services prepaid with common stock related to unearned endorsement agreements with advertising and promotion expense will be recognized ratably over the terms of the endorsement agreements. For the nine months ended September 30, 2010, the company recorded \$248,720 of advertising and promotion expense related to these endorsement agreements.

During the nine months ended September 30, 2010, the Company issued 30,000 shares of common stock as consideration for an extension of the maturity date of a promissory note and issued 100,000 shares of common stock as consideration for extension of the maturity dates of certain convertible notes. The common stock was valued at the price on the date of issuance which was \$95,500.

On September 21, 2010, the Company issued 50,000 shares of common stock to the OID Note holders. The common stock was valued at the price on the date of issuance which was \$30,500.

On September 29, 2010, the Company issued 1,890,571 shares of common stock

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for forgiveness of unsecured notes payable and accrued interest in the amount of \$661,700 and issued 75,000 shares of common stock for forgiveness of a promissory note and accrued interest in the amount of \$16,625. The common stock was valued at the price on the date of issuance which was \$1,081,064.

In May 2010, the Company entered into Subscription Agreements with accredited investors in connection with the two private issuance and sales of 1,000,000 shares of the Company's common stock at \$.50 per share (the "1,000,000 share private placement") and 300,000 shares of the Company's common stock at \$.35 per share (the "300,000 share private placement"). On June 30, 2010, the Company's Board of Directors increased the number of shares under the 300,000 share private placement to 1,000,000 shares and then on September 30, 2010, the Company's Board of Directors increased the number of shares under the

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300,000 share private placement to 5,000,000 shares. As of September 30, 2010, the Company sold 90,000 shares under the 1,000,000 share private placement and 2,174,407 shares under the 300,000 share private placement for net proceeds of \$793,192 (net of offering costs of \$12,850).

On April 16, 2010 the Company's board of directors authorized the sale of up to 2,000,000 units at \$.50 per unit. Each unit consists of one share of the Company's common stock, and one and one-half stock purchase warrants. Each warrant is exercisable into one share of restricted common stock at an exercise price of \$1.50 per share, and expires five years after issuance. As of September 30, 2010, the Company has sold 500,000 units in connection with this offering for total gross proceeds of \$250,000 (less offering costs of \$35,750), which was allocated to the common stock and warrants based on their relative fair values.

The holder of the Company's Series A Convertible Preferred Stock is helping to facilitate this offering by selling free trading shares of the Company's common stock, which it owns by conversions of the preferred stock as discussed above, to the investors in the same amount and at the same price as the Company is selling the units. Related to this offering, the holder of the preferred stock had received gross proceeds of \$250,000 from the sale of 500,000 shares of common stock.

Warrants

As discussed above, during the nine months ended September 30, 2010, the company issued common stock purchase warrants to acquire 750,000 shares of common stock at \$1.50 per share. The warrants were valued using the Black-Scholes method. Under the Black-Scholes method using an expected life of 2.5 years, volatility of 70.5% to 74.8% and a risk-free interest rate of 0.8% to 1.2%, the Company determined the warrants had fair values of \$.32 to \$.44 as of the date of the issuances. The relative fair value of the warrants of approximately \$76,715 was recorded as additional paid in capital.

A summary of warrant activity for the nine months ended September 30, 2010 is as follows:

| | Warrants Outstanding and Exercisable | Weighted Average Exercise Price |
|------------------------------------------|--------------------------------------------|---------------------------------------|
| | ----- | ----- |
| Warrants outstanding, January 1, 2010 | - | \$ - |
| Warrants issued | 750,000 | 1.50 |
| Warrants expired/forfeited | - | - |
| | ----- | ----- |
| Warrants outstanding, September 30, 2010 | 750,000 | \$1.50 |

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NOTE 7 - STOCK BASED COMPENSATION

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

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requirements of Section 422 of the Internal Revenue Code of 1986, as amended. Only stock options granted to employees qualify for incentive stock option treatment. No incentive stock option shall be granted after February 1, 2020, which is 10 years from the date the 2010 Plan was initially adopted. A stock option may be exercised in whole or in installments, which may be cumulative. Shares of common stock purchased upon the exercise of a stock option must be paid for in full at the time of the exercise in cash or such other consideration determined by the compensation committee. Payment may include tendering shares of common stock or surrendering of a stock award, or a combination of methods.

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

Stock options

On April 2, 2010 the Company's board of directors authorized the issuance of a total of 2,767,500 stock purchase options. The grant consisted of 2,250,000 of non-qualified stock options and 517,500 incentive stock options. All the stock options were issued to current employees, are exercisable at \$.50 per share, vest immediately, and expire on April 2, 2015. The fair value of each option grant during the nine months ended September 30, 2010 was estimated on the grant date using the Black-Scholes option-pricing model with an expected life of 2.5 years, volatility of 74.8% and a risk-free interest rate of 1.4%. The weighted average fair value of the options granted in the nine months ended September 30, 2010 was \$0.23. At September 30, 2010, all of the 2,767,500 stock options were exercisable.

A summary of stock option activity for the nine months ended September 30, 2010 is as follows:

| | Number of Shares | Weighted Average Exercise Price |
|---------------------------------------|---------------------|------------------------------------|
| | ----- | ----- |
| Options outstanding, February 1, 2010 | - | \$ - |

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| | | |
|-----------------------------------------|-----------|--------|
| Options granted | 2,767,500 | 0.50 |
| Options exercised | - | - |
| Options expired/forfeited | - | - |
| | ----- | ----- |
| Options outstanding, September 30, 2010 | 2,767,500 | \$0.50 |
| | ===== | ===== |

For the nine months ended September 30, 2010, compensation expense of \$630,990 was recorded related to the stock options.

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NOTE 8 - COMMITMENTS AND CONTINGENCIES

As a component of the Company's overall marketing strategy, it has entered into various sponsorship and endorsement agreements with professional athletes, fitness trainers, and other high profile individuals. These agreements generally provide for payments to the athletes and trainers based on pre-determined events in which the athlete or trainer agree to provide exposure of the Company and its products through media exposure and coverage of specific athletic events. Some agreements are not contingent upon the completion of pre-determined events, and as such are expensed ratably over the period of the agreement. During the three and the nine months ended September 30, 2010, the Company recorded expenses of \$829,393 and \$2,510,010 related to these agreements which are included in advertising and promotion expense in the accompanying consolidated statements of operations. At September 30, 2010 the Company estimates future obligations under its existing sponsorship and endorsement agreements is approximately \$730,000 assuming all contingencies contained in the agreements occur, of which there can be no assurance. This estimate does not include amounts for reimbursements for travel and expenses that are included in certain of the agreements.

In August 2010, the Company entered into a long-term non-cancelable operating lease agreement to lease approximately 30,302 square feet of space. The lease is effective as of August 1, 2010 and expires on December 31, 2015. Under the lease agreement, rent escalation is \$0.20 per square foot per year and provides five months of rent abatement. Future minimum rental payments by year and in the aggregate, under non-cancelable operating leases with initial or remaining terms of one year or more, consisted of the following as of September 30, 2010:

| | |
|----------------------------------------|-----------|
| 2010 (3 months) | \$ 13,383 |
| 2011 | 66,917 |
| 2012 | 86,361 |
| 2013 | 92,421 |
| 2014 | 98,481 |
| 2015 | 104,542 |
| | ----- |
| Total minimum operating lease payments | \$462,105 |
| | ===== |

At September 30, 2010 the Company has accrued a liability of approximately \$255,923 representing delinquent payroll taxes. The Company plans to resolve this liability with the appropriate agencies, but no resolution of these matters has occurred as of the date of this report. A contingency exists with respect to this matter, the ultimate resolution of which can not presently be determined.

In April 2010, the Company entered into a factoring agreement (the

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"Agreement") with FT Trade Financial Corp ("FT Trade"). Under the Agreement the Company sells its accounts receivables to FT Trade who in return advances cash of approximately 85% of the total amount of the accounts receivable factored. FT Trade retains 15% of the outstanding factored accounts receivable as a reserve, which it holds until the customer pays the factored invoice to FT Trade. The Company pays fees for this service to FT Trade. For the three and nine months ended September 30, 2010, the Company has recognized losses on the sale of accounts receivable of \$51,644 and paid fees

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of \$5,963 related to the sale of approximately \$266,880 of accounts receivables.

NOTE 9 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date which the financial statements were available to be issued. In addition to events as described elsewhere in this report, the following subsequent events are noted.

Subsequent to September 30, 2010, the Company issued 1,901,117 shares of common stock under the 300,000 share private placement, 1,216,200 shares of common stock were issued for services and 10,000,000 shares of common stock were issued to two executive officers as bonuses.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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Certain statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical facts are forward-looking statements such as statements relating to future operating results, existing and expected competition, financing and refinancing sources and availability and plans for future development or expansion activities and capital expenditures. Such forward-looking statements involve a number of risks and uncertainties that may significantly affect our liquidity and results in the future and, accordingly, actual results may differ materially from those expressed in any forward-looking statements. Such risks and uncertainties include, but are not limited to, those related to effects of competition, leverage and debt service financing and refinancing efforts, and general economic conditions. The following discussion and analysis should be read in conjunction with the financial statements and notes thereto included elsewhere in this report.

Acquisition

On February 18, 2010, in accordance with a Securities Exchange Agreement dated February 1, 2010, Tone in Twenty, a Nevada Corporation, acquired all the outstanding equity and voting interests of Muscle Pharm, LLC ("MusclePharm"), a Colorado limited liability corporation formed on April 22, 2008), for an aggregate of 26,000,000 shares of our common stock. In addition, pursuant to the terms and conditions of the Securities Exchange Agreement ("share exchange"), MusclePharm paid \$25,000 to the former president of Tone in Twenty for his 366,662 shares of common stock, and these shares were cancelled. Upon closing of the transaction, MusclePharm became a wholly owned subsidiary of Tone in Twenty. Also concurrent with the closing of the acquisition, the Tone in Twenty's President and Director issued his resignation. The board of directors was reconstituted to consist of the two original founders and initial members of MusclePharm. Following the share exchange and related transactions, a total of 26,070,838 shares of Tone in Twenty's common stock was issued and outstanding, with MusclePharm members owning approximately 99.7% of the outstanding common stock. The share exchange is being accounted for as a "reverse acquisition," as the members of MusclePharm owned a majority of the outstanding shares of Tone in Twenty common stock immediately following the share exchange and now control the board of directors. Tone in Twenty was deemed to be the legal acquirer in the reverse acquisition, while MusclePharm was deemed to be the accounting acquirer. Also, as a result of the completion of the reverse acquisition, Tone in Twenty amended its articles of incorporation to change its name to MusclePharm Corporation (the "Company"), and also changed its fiscal year from August 31 to December 31. Upon completion of the share exchange, the operations of Tone in Twenty ceased.

The consolidated financial statements are presented as a continuation of the financial statements of MusclePharm. As such, for all disclosures referencing shares authorized, issued, outstanding, per share amounts and other disclosures related to equity, amounts have been retroactively adjusted to reflect the legal capital of the legal acquirer (Tone in Twenty).

Overview

We are a sports nutrition company. We currently manufacture and market eight branded sports nutrition products, designed to meet the nutritional needs of

athletes of all experience levels. Our products, Assault[™], Battle Fuel[™], Bullet Proof[R], Combat Powder[R], Energel Shot[™], MuscleGel[™], Recon[R], and Shred Matrix[™], are comprised of safe, naturally occurring

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food supplement ingredients, including amino acids, herbs and proteins. Each of our high-performance nutritional supplements was designed to safely and naturally enhance the effects of exercise, repair muscles, and to nourish the body to optimize overall health and fitness of the active individual.

All of the products we sell are sold under the MusclePharm brand, and are designed and marketed to target athletes, body builders and health minded individuals seeking a high degree of physical fitness. Our products fall into the general definition of vitamins, minerals, herbs and dietary supplements and are regulated by the U.S. Food and Drug Administration (FDA). Each product undergoes the scrutiny of our 6-Stage Research and Testing Protocol, involving our vast resources of scientific, clinical and real-world expertise, to ensure the highest level of efficacy and quality possible.

Our Medical Advisory Team includes two of the leading sports nutrition clinician/researchers in the world, who contribute directly to the formulation and development and testing of all products. Our Chief Medical Director and Formulator is Dr. Eric Serrano, MD; and our Chief Medical Researcher is Dr. Jeffrey Stout, Ph.D., researcher and professor of exercise physiology at the University of Oklahoma. Dr. Ron Sekura, will join the board of directors as the Director of Therapeutic Research. Dr. Sekura will be assisting in the development of the Company's therapeutic indication and application for patients with HIV experiencing catabolic cachexia.

MusclePharm products are currently available through several distribution channels throughout the U.S. and 120 countries worldwide. The larger distribution channels include over 1000 GNC locations, over 400 Vitamin Shoppes, the largest international sports nutrition distributors Sportika and several independent sports nutrition retail outlets and fitness centers. Our products are also available on over 100 Internet sites.

Our marketing strategy entails the branding of MusclePharm as the "must-have" nutritional supplement line for serious, high performance athletes. Endorsements have been completed with several Mixed Martial Arts fighters, Rashad Evans and Lyoto Machida, bodybuilding, fitness professionals, and current NFL notables, Joey Porter, Chris Johnson and Shawne Merriman. Another endorsement agreement is TJ Lavin as the host of MTV's Real World. Additionally, endorsement agreements are currently being negotiated with several other athletes of high-visibility and notoriety. We believe that top-level athletes from all sports are viewed as leaders and role models to many people. The objective of our athlete endorsement program is to build consumer awareness and confidence in the MusclePharm brand to help drive consumer demand for our products in retail outlets and health clubs.

At MusclePharm, we believe we are a look at the future where science meets sports nutrition. From the laboratory to the playing field, our products are held to the most rigorous standards, because the expectations of our customers are high. Our products contain no banned substances, are 100% hardcore, and proven effective. MusclePharm is currently in the approval process for NSF certification, which will allow us to sell our products to professional and college sports teams nationwide. Our manufacturing facility is GMP compliant and EU certified and our processes stand up to the most stringent industry standards. We firmly believe in our mission: to improve our customer's lives, increase their ability to excel, utilize cutting-edge

science to develop the best nutritional supplements on the market, and to provide a safe option for athletes of all levels seeking to be the best athlete they can be. We are MusclePharm, The Athlete's Company[TM].

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Liquidity and Capital Resources

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.

At September 30, 2010, the Company had cash of \$10,657 and a working capital deficit of \$2,578,866, compared to overdrawn bank accounts of \$17,841 and a working capital deficit of \$1,223,074 at December 31, 2009. The working capital deficit increase of \$1,355,792 is primarily attributed to the operating losses incurred for the nine months ended September 30, 2010.

Cash used in operating activities was \$2.4 million for the nine months ended September 30, 2010, as compared to cash used in operating activities of \$0.4 million for the nine months ended September 30, 2009. The increase in cash used in operating activities for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 was primarily the result of the net operating loss net of non-cash expenses, for the current nine month period.

Cash used in investing activities was \$30,395 for the nine months ended September 30, 2010, as compared to cash used in investing activities of \$5,510 for the nine months ended September 30, 2009. The increase in cash used in investing activities represents purchases of various fixed assets. We also maintain a website (<http://www.musclepharm.com>), designed for customers and investors. Future investments in equipment and other fixed assets, as well as further development of our Internet presence will largely depend on available capital resources.

Cash flows provided by financing activities were \$2.4 million for the nine months ended September 30, 2010, as compared to cash flows provided by financing activities of \$0.4 million for the nine months ended September 30, 2009.

In February 2010, the Company issued two Original Issue Discount Secured Promissory Notes (the "OID Notes") to two accredited investors. The first OID Note was issued on February 18, 2010 with a face value of \$125,000 and maturity date of May 18, 2010. The second Note was issued on February 26, 2010 with a face value of \$62,500 and a maturity of May 26, 2010. The OID Notes are secured by all the Company's accounts receivable. The total proceeds from the issuance of the OID Notes were \$150,000. The discount of \$37,500 was amortized to interest expense over the life of the OID Notes. For the nine months ended September 30, 2010, \$37,500 of the discount was amortized and is included in interest expense in the accompanying consolidated statement of operations. At September 30, 2010, the OID Notes are in default and the Company is in discussion with the OID Notes' holders to extend the maturity dates.

During the nine months ended September 30, 2010, the Company sold convertible secured promissory notes ("convertible notes") in the amount of \$446,000 to various investors. All the convertible notes accrue interest at 8% per annum and are convertible to common stock by the note holder under terms designed in the convertible note agreements which are either to (1) provide the holder

with a dollar amount of common stock equal to a designated percentage of the note amount plus any accrued interest, ranging from 120% to 350% or (2) convertible at 60% of the average market price (as defined in the agreement). All the convertible notes are collateralized by all the assets of the Company and have maturity dates ranging from March 2010 to June 2011. On September

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21, 2010, the Company issued 100,000 shares of common stock as consideration for extension of the maturity dates of \$200,000 of the convertible notes where 50% of each loan is payable on September 15, 2010 and 50% payable on November 1, 2010. Convertible notes totaling \$320,000 have matured as of September 30, 2010 and are currently in default. As of the date of this report, none of the note holders have presented demands for payment or conversion notices to the Company.

During the nine months ended September 30, 2010, convertible notes totaling \$663,500, together with \$29,826 of accrued interest, and \$129,289 of un-accreted discounts on the convertible notes converted, were converted to 1,821,029 shares of the Company's common stock.

During the nine months ended September 30, 2010, the Company issued unsecured notes payable to an investor in the aggregate of \$648,000. These notes bear interest at the rate of 8% per year and require no periodic principal or interest payments. The notes mature on March 31, 2011 and June 29, 2011 at which times all unpaid principal and interest is due. On September 29, 2010, the Company issued 1,890,571 shares of common stock for forgiveness of \$661,700, the aggregate amount of these unsecured notes payable plus accrued interest. As a result, for the three and nine months ending September 30, 2010, the Company recorded a loss from extinguishment of debt of \$378,114, included in other expense in the accompanying consolidated statement of operations.

The Company has short term uncollateralized promissory notes in the amount of \$30,000 (the "promissory notes") The promissory notes accrue interest at 10% per annum, require no periodic payments, and matured on March 2, 2010. On May 5, 2010, the Company issued 30,000 shares of common stock as consideration for an extension of the maturity date of the promissory notes to September 2, 2010.

On September 29, 2010, the Company issued 75,000 shares of common stock for forgiveness of \$15,000 of the promissory notes, plus \$1,625 accrued interest. As a result, for the three and nine months ending September 30, 2010, the Company recorded a loss from extinguishment of debt of \$24,625, included in other expense in the accompanying consolidated statement of operations. As of September 30, 2010 the remaining promissory note is in default and is currently being negotiated.

During the nine months ended September 30, 2010, the Company issued an additional \$15,000 uncollateralized promissory note (the "new promissory note"). The new promissory note accrues interest at 8% per annum, requires no periodic payments, and matures on June 30, 2011.

On April 16, 2010 the Company's board of directors authorized the sale of up to 2,000,000 units at \$.50 per unit. Each unit consists of one share of the Company's common stock, and one and one-half stock purchase warrants. Each warrant is exercisable into one share of restricted common stock at an exercise price of \$1.50 per share, and expires five years after issuance. As of September 30, 2010, the Company has sold 500,000 units in connection with

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this offering for total gross proceeds of \$250,000 (less offering costs of \$35,750).

In May 2010, the Company entered into Subscription Agreements with accredited investors in connection with the two private issuance and sales of 1,000,000 shares of the Company's common stock at \$.50 per share (the "1,000,000 share private placement") and 300,000 shares of the Company's common stock at \$.35

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per share (the "300,000 share private placement"). On June 30, 2010, the Company's Board of Directors increased the number of shares under the 300,000 share private placement to 1,000,000 shares and then on September 30, 2010, the Company's Board of Directors increased the number of shares under the 300,000 share private placement to 5,000,000 shares. As of September 30, 2010, the Company sold 90,000 shares under the 1,000,000 share private placement and 2,174,407 shares under the 300,000 share private placement for net proceeds of \$793,192 (net of offering costs of \$12,850).

On September 29, 2010, the Company issued 1,890,571 shares of common stock for forgiveness of unsecured notes payable and accrued interest in the amount of \$661,700 and issued 75,000 shares of common stock for forgiveness of a promissory note and accrued interest in the amount of \$16,625. The common stock was valued at the price on the date of issuance which was \$1,081,064.

Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

Revenues from the sale of products, net were \$1.4 million for the three months ended September 30, 2010 as compared to revenues from the sale of products of \$0.2 million for the three months ended September 30, 2009. Sales during the three months ended September 30, 2010 increased due to the change in manufacturers which provided more consistent shipments to customers and to the increase in advertising and promotion.

Cost of sales for the three months ended September 30, 2010 were \$0.9 million or 66% of revenue as compared to \$0.2 million or 107% of revenue for the three months ended September 30, 2009. The cost of goods sold as percent of revenue decreased due to the change in manufacturers as we begin to realize savings offered for quantity discounts.

Operating Expenses for the three months ended September 30, 2010 were \$2.8 million as compared to \$0.6 million for the three months ended September 30, 2009. The \$2.2 million increase is largely due to the increase in advertising and promotion of approximately \$0.8 million and an increase in professional fees of approximately \$1.0 million. For the three months ended September 30, 2010, \$0.3 million was included in advertising and promotion and \$1.0 million was included in professional fees for the value of stock issued for services.

Operating Loss for the three months ended September 30, 2010 was \$2.3 million as compared to \$0.6 million for the three months ended September 30, 2009.

Interest expense for the three months ended September 30, 2010 was \$0.2 million as compared to \$4,669 for the three months ended September 30, 2009. The increase in interest expense primarily relates to amortization of the debt discount of \$0.1 million and interest on the convertible debts of \$70,760.

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Other expense for the three months ended September 30, 2010 was \$0.4 million as compared to \$0 for the three months ended September 30, 2009. The increase in other expense is primarily due to loss on extinguishment of debt of \$0.4 million.

Net Loss for the three months ended September 30, 2010 was \$2.9 million or loss per share of \$.08 as compared to the net loss of \$0.6 million or loss per share of \$.02 for the three months ended September 30, 2009.

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Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

Revenues from the sale of products, net were \$3.1 million for the nine months ended September 30, 2010 as compared to revenues from the sale of products of \$0.7 million for the nine months ended September 30, 2009. Sales during the nine months ended September 30, 2010 increased due to the change in manufacturers which provided more consistent shipments to customers and to the increase in advertising and promotion.

Cost of sales for the nine months ended September 30, 2010 were \$2.1 million or 68% of revenue as compared to \$0.5 million or 79% of revenue for the nine months ended September 30, 2009. The cost of goods sold as percent of revenue decreased due to the change in manufacturers as we begin to realize savings offered for quantity discounts.

Operating Expenses for the nine months ended September 30, 2010 were \$8.4 million as compared to \$1.2 for the nine months ended September 30, 2009. The \$7.3 million increase is largely due to an increase in adverting and promotion of approximately \$3.5 million, an increase in professional fees of approximately \$2.1 million and an increase in salaries and benefits of approximately \$1.3 million. For the nine months ended September 30, 2010, \$1.1 million was included in advertising and promotion and \$2.0 million was included in professional fees for the value of stock issued for services.

Operating Loss for the nine months ended September 30, 2010 was \$7.4 million as compared to \$1.0 million for the nine months ended September 30, 2009.

Interest expense for the nine months ended September 30, 2010 was \$0.9 million as compared to \$8,608 for the nine months ended September 30, 2009. The increase in interest expense primarily relates to amortization of the debt discount of \$0.7 million and interest on the convertible debts of \$0.1 million.

Other expense for the nine months ended September 30, 2010 was \$0.4 million as compared to \$0 for the nine months ended September 30, 2009. The increase in other expense is primarily due to loss on extinguishment of debt of \$0.4 million.

Net Loss for the nine months ended September 30, 2010 was \$8.7 million or loss per share of \$.28 as compared to the net loss of \$1.0 million or loss per share of \$.04 for the nine months ended September 30, 2009.

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.

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Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with US 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

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and the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from those estimates. The Company's significant estimates made in connection with the preparation of the accompanying financial statements include allowance for doubtful accounts, value of long lived assets and the valuation of stock options and warrants.

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 liquidity and capital resources.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

Our chief executive officer and chief financial officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act). Disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, the Certifying Officers have concluded that due to certain design deficiencies, the Company's disclosure controls and procedures are not effective. The Company is currently reviewing those deficiencies and formulating plans for remediation. Notwithstanding our conclusions, the Certifying Officers do not believe that these deficiencies have resulted in deficient financial reporting because the chief financial officer is aware of his responsibilities under the SEC's reporting requirements and personally certifies financial reports.

(b) Changes in Internal Control over Financial Reporting

On February 18, 2010 in accordance with a Securities Exchange Agreement ("share exchange") dated February 1, 2010, the Company completed a reverse acquisition as discussed in more detail elsewhere in this report. As a result of the reverse acquisition, all previous management and accounting systems of the legal acquirer (Tone in Twenty) were replaced by the management and accounting systems of the accounting acquirer (Muscle Pharm,

LLC). In addition to the Certifying Officers' conclusion that our disclosure controls and procedures are not effective, management has identified the following material weaknesses in the design of the Company's internal controls over financial reporting. First, the Company has installed accounting software that does not prevent erroneous or unauthorized changes to previous reporting periods and does not provide an adequate audit trail of entries made in the accounting software. Second, due to insufficient numbers of personnel, certain duties including cash management and accounts receivable have not been appropriately segregated. These material weaknesses were first identified by our chief financial officer after the share exchange and as a result of us becoming a public reporting company, we are discussing

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a remediation plan for these control deficiencies and will implement such a plan when resources allow.

(c) Limitations of any Internal Control Design

Our certifying officers do not expect that our disclosure controls or internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the system are 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 the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented if there exists in an individual a desire to do so. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

Not Applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

In May 2010, the Company entered into Subscription Agreements with accredited investors in connection with the two private issuance and sales of 1,000,000 shares of the Company's common stock at \$.50 per share (the "1,000,000 share private placement") and 300,000 shares of the Company's common stock at \$.35 per share (the "300,000 share private placement"). On June 30, 2010, the Company's Board of Directors increased the number of shares under the 300,000 share private placement to 1,000,000 shares and then on September 30, 2010,

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the Company's Board of Directors increased the number of shares under the 300,000 share private placement to 5,000,000 shares. As of September 30, 2010, the Company sold 90,000 shares under the 1,000,000 share private placement and 2,174,407 shares under the 300,000 share private placement for net proceeds of \$793,192 (net of offering costs of \$12,850). These shares were sold without registration under the Securities Act of 1933, as amended (the "Act"), or state securities laws, in reliance on the exemptions provided by Section 4(2) of the Act and Regulation D promulgated thereunder. Because the common stock has not been registered, such shares may not be sold, transferred, assigned or otherwise dispose of by the investors absent registration or an applicable exemption from registration requirements, such as the exemption afforded by Rule 144 under the Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

ITEM 5. OTHER INFORMATION.

Not Applicable

ITEM 6. EXHIBITS.

Exhibit No. Description

- | | |
|------|------------------------------------------------------------------------------------------------------------------------------------|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) - Filed herewith electronically |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) - Filed herewith electronically |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Filed herewith electronically |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Filed herewith electronically |

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SIGNATURES

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

MUSCLEPHARM CORPORATION

Date: November 15, 2010

By: /s/ Brad J. Pyatt
Brad J. Pyatt, Chief Executive Officer

By: /s/ Larry Meer
Larry Meer, Chief Financial Officer

