

MusclePharm Corp
Form 10-Q
May 11, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 000-53166

MusclePharm Corporation

(Exact name of registrant as specified in its charter)

Nevada	77-0664193
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
4721 Ironton Street, Building A	
Denver, Colorado	80239
(Address of principal executive offices)	(Zip code)

(303) 396-6100

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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

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

Number of shares of the registrant's common stock outstanding at May 1, 2015: 13,492,191 excludes 875,621 common shares held in treasury.

MusclePharm Corporation

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Signatures

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

MusclePharm Corporation

Consolidated Balance Sheets

(In thousands, except share and per share data)

	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash	\$4,784	\$ 1,020
Accounts receivable, net of allowance for doubtful accounts of \$187 and \$159 as of March 31, 2015 and December 31, 2014	18,959	16,644
Inventory	13,872	21,069
Prepaid giveaways	1,474	1,228
Prepaid stock compensation, current	4,236	4,476
Prepaid sponsorship and endorsement fees	397	238
Prepaid expenses and other current assets	2,044	1,742
Total current assets	45,766	46,417
Property and equipment, net	7,470	7,805
Intangible assets, net	9,195	7,074
Prepaid stock compensation, long-term	5,282	4,952
Other assets	188	108
TOTAL ASSETS	\$67,901	\$66,356
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$28,826	\$27,761
Accrued liabilities	6,050	7,023
Line of credit	8,000	8,000
Term loan, current portion	1,271	—
Other debt obligations	46	46
Total current liabilities	44,193	42,830
Term loan, non-current portion	2,625	—
Other long-term liabilities	114	146
TOTAL LIABILITIES	46,932	42,976
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, par value of \$0.001 per share; 100,000,000 shares authorized as of March 31, 2015 and December 31, 2014; 14,367,812 and 13,996,007 shares issued as of March 31, 2015 and December 31, 2014; 13,492,191 and 13,120,386 shares outstanding as	14	14

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of March 31, 2015 and December 31, 2014		
Additional paid-in capital	134,278	129,130
Treasury stock, at cost; 875,621 shares as of March 31, 2015 and December 31, 2014	(10,039)	(10,039)
Accumulated other comprehensive loss	(146)	(66)
Accumulated deficit	(103,138)	(95,659)
TOTAL STOCKHOLDERS' EQUITY	20,969	23,380
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$67,901	\$66,356

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

MusclePharm Corporation

Consolidated Statements of Operations

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Revenue, net	\$41,322	\$50,209
Cost of revenue	26,938	32,336
Gross profit	14,384	17,873
Operating expenses:		
Advertising and promotion	7,225	6,328
Salaries and benefits	7,061	5,367
Selling, general and administrative	4,962	1,872
Research and development	965	1,097
Professional fees	1,455	785
Total operating expenses	21,668	15,449
(Loss) income from operations	(7,284)	2,424
Other (expense) income, net	(183)	344
(Loss) income before provision for income taxes	(7,467)	2,768
Provision for income taxes	12	32
Net (loss) income	\$(7,479)	\$2,736
Net (loss) income per share, basic	\$(0.56)	\$0.27
Net (loss) income per share, diluted	\$(0.56)	\$0.23
Weighted average shares used to compute net (loss) income per share, basic	13,333,868	10,307,350
Weighted average shares used to compute net (loss) income per share, diluted	13,333,868	11,951,923

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

MusclePharm Corporation

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net (loss) income	\$(7,479)	\$2,736
Other comprehensive (loss) income:		
Change in foreign currency translation adjustment	(80)	(4)
Comprehensive (loss) income	\$(7,559)	\$2,732

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

MusclePharm Corporation

Consolidated Statements of Stockholders' Equity

(In thousands, except share data)

(Unaudited)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss		Total Stockholders' Equity
	Shares	Amount			Accumulated Deficit		
Balance—December 31, 2014	13,120,386	\$ 14	\$ 129,130	\$(10,039)	\$ (66)	\$ (95,659)	\$ 23,380
Issuance of common stock warrants to third parties for services	—	—	33	—	—	—	33
Stock-based compensation related to issuance of restricted stock awards to employees, executives and directors	51,805	—	2,523	—	—	—	2,523
Stock issued in conjunction with energy drink agreements	150,000	—	1,198	—	—	—	1,198
Stock issued in conjunction with MusclePharm Apparel acquisition	170,000	—	1,394	—	—	—	1,394
Net loss	—	—	—	—	—	(7,479)	(7,479)
Change in foreign currency translation adjustment	—	—	—	—	(80)	—	(80)
Balance—March 31, 2015	13,492,191	\$ 14	\$ 134,278	\$(10,039)	\$ (146)	\$ (103,138)	\$ 20,969

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

MusclePharm Corporation

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$(7,479)	\$2,736
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	382	314
Amortization of intangible assets	225	285
Provision for doubtful accounts	30	76
Amortization of prepaid stock compensation	1,109	795
Amortization of prepaid sponsorship and endorsement fees	1,431	1,658
Accretion of discount on marketable securities	—	(15)
Amortization of debt issuance costs	9	—
Stock-based compensation	2,523	2,376
Issuance of common stock warrants to third parties for services	33	—
Gain on settlement of accounts payable	—	(5)
Loss (gain) on disposal of property and equipment	7	(2)
Change in fair value of derivative liabilities	—	(484)
Unrealized loss on derivative assets	—	119
Unrealized loss on marketable securities	—	60
Changes in operating assets and liabilities:		
Accounts receivable	(2,345)	(5,163)
Inventory	7,197	(41)
Prepaid giveaways	(247)	(113)
Prepaid sponsorship and endorsement fees	(1,590)	(968)
Prepaid expenses and other current assets	(272)	85
Other assets	(79)	3
Accounts payable	719	(2,874)
Accrued liabilities	(971)	390
Net cash provided by (used in) operating activities	682	(768)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(257)	(1,304)
Change in restricted cash balance	—	(1)
Proceeds from disposal of property and equipment	447	2
Purchase of MusclePharm Apparel Rights	(850)	—
Net cash used in investing activities	\$(660)	\$(1,303)

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

MusclePharm Corporation

Consolidated Statements of Cash Flows (Continued)

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	\$4,001	\$—
Payments on line of credit	(4,001)	—
Repayments of term loan	(103)	(3)
Proceeds from issuance of term loan	4,000	—
Issuance costs of term loan	(40)	—
Repayment of capital lease obligations	(35)	(18)
Net cash provided by (used in) financing activities	3,822	(21)
Effect of exchange rate changes on cash	(80)	(4)
NET INCREASE (DECREASE) IN CASH	3,764	(2,096)
CASH — BEGINNING OF PERIOD	1,020	5,412
CASH — END OF PERIOD	\$4,784	\$3,316
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$124	\$36
Cash paid for taxes	\$40	\$83
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Stock issued in conjunction with energy drink agreement	\$1,198	\$—
Stock issued in conjunction with MusclePharm Apparel acquisition	\$1,394	\$—
Issuance of common stock for BioZone acquisition	\$—	\$9,840
Common stock issued for board member compensation	\$—	\$115
Purchase of property and equipment included in accounts payable and accrued liabilities	\$244	\$—
Purchase of trademark registration included in accounts payable and accrued liabilities	\$102	\$—

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

MusclePharm Corporation

Notes to Consolidated Financial Statements

(Unaudited)

Note 1: Description of Business and Basis of Presentation

Description of Business

MusclePharm Corporation, or the Company, was incorporated in Nevada in 2006. The Company is a scientifically driven, performance lifestyle company that develops, manufactures, markets and distributes branded nutritional supplements. The Company is headquartered in Denver, Colorado and has the following wholly-owned operating subsidiaries: MusclePharm Canada Enterprises Corp (“MusclePharm Canada”), BioZone Laboratories, Inc. (“BioZone Labs”) and MusclePharm Ireland (“MusclePharm Ireland”).

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

Note 2: Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of MusclePharm Corporation and its wholly-owned subsidiaries. Acquisitions are included in the consolidated financial statements from the date of the acquisition. All significant intercompany balances and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying consolidated balance sheet as of March 31, 2015, and the consolidated statements of operations, comprehensive (loss) income, stockholder’s equity and cash flows for the three months ended March 31, 2014 and 2015 are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP). In our opinion, the unaudited interim consolidated financial statements include all adjustments of a normal recurring nature necessary for the fair presentation of our financial position as of March 31, 2015, our results of operations for the three months ended March 31, 2014 and 2015, and our cash flows for the three months ended March 31, 2014 and 2015. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for

the year ending December 31, 2015.

These unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on March 16, 2015.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. Such estimates include, but are not limited to, allowance for doubtful accounts and sales reserves, valuations of equity securities and intangible assets, fair value of derivatives and fair values of warrants and options, among others. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-03, Interest — Imputation of Interest (Subtopic 835-30) — Simplifying the Presentation of Debt Issuance Costs, which provides guidance on simplifying the presentation of debt issuance costs, requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This standard requires retrospective adoption and will be effective for the Company beginning in its first quarter of 2016. The Company does not expect this standard to have a material impact on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). ASU 2014-15 will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related footnote disclosure in certain circumstances. The new standard will be effective for all entities in the first annual period ending after December 15, 2016. Earlier adoption is permitted. The Company is currently evaluating the impact of the adoption of ASU 2014-15.

In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period ("ASU 2014-12"). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Accounting Standards Codification Topic No. 718, "Compensation – Stock Compensation", as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of ASU 2014-12 is not expected to have a material effect on the Company's consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which provides guidance for revenue recognition. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, "Revenue Recognition- Construction-Type and Production-Type Contracts." ASU 2014-09's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today's guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for the Company beginning January 1, 2017 and, at that time, the Company may adopt the new standard under the full retrospective approach or the modified retrospective approach. Early adoption is not permitted. The Company has not yet selected a transition method nor has determined the effect of ASU 2014-09 on its ongoing financial reporting.

Note 3: Fair Value of Financial Instruments

The Company's financial instruments consisted primarily of accounts receivable, accounts payable, accrued liabilities and debt. The Company's debt approximates fair value based upon current borrowing rates available to the Company for debt with similar maturities.

Note 4: Acquisition

Capstone Nutrition Agreement

Effective March 2, 2015, the Company and Capstone Nutrition ("Capstone") executed an amendment (the "Amendment") to the Manufacturing Agreement dated November 27, 2013. Pursuant to the Amendment, Capstone shall be the Company's nonexclusive manufacturer of dietary supplements and food products sold or intended to be sold by the Company (the "Products"). The Company shall purchase and take delivery from Capstone a minimum of \$90.0 million of Products per full contract year. The Amendment includes amended pricing for Products and payment terms. The initial term ends January 1, 2022 and will continue thereafter for three successive twenty-four month terms, unless Capstone notifies the Company of nonrenewal at least ninety days prior to the end of the then current term.

Payment and Rebates. The Company and Capstone agreed on certain payment terms and rebate programs.

Contribution toward Capstone Facility Build-Out. The Company agreed to pay to Capstone a non-refundable sum of \$2.5 million to be used by Capstone solely in connection with the expansion of its facility necessary to fulfill anticipated Company requirements under the Manufacturing Agreement and Amendment. Payment of the \$2.5 million is due in three (3) equal installments 30, 60 and 90 days from the effective date.

Capstone and the Company entered into a referral agreement (the "Referral Agreement") whereby the Company will refer customers to Capstone for the purchase of products, and Capstone will pay the Company a referral fee. The term of the Referral Agreement will continue as long as the Manufacturing Agreement between the Company and Capstone is in effect.

The Company and Capstone entered into a Class B Common Stock Warrant Purchase Agreement ("Warrant Agreement") whereby the Company may purchase 19.9% of Capstone's parent company, INI Parent, Inc. ("INI"), on a fully-diluted basis. Pursuant to the Warrant Agreement, INI issued to the Company a warrant (the "Warrant") to purchase shares of INI's Class B common stock, par value \$0.001 per share at an exercise price of \$0.01 per share (the "Warrant Shares").

The Company has the right to exercise the Warrant under certain circumstances: (i) the Warrant Agreement may only be exercised at the earlier of (A) immediately prior to, and in connection with the consummation of a sale of INI or (B) within five business days of the expiration of the initial terms of the Manufacturing Agreement; (ii) the Company has been and continues to be as of the date of the sale of INI in compliance with the terms of the Manufacturing Agreement; and (iii) the Company complies with the provisions of the Warrant Agreement, including its exercise conditions. The Warrant Agreement and Warrant Shares are not transferrable without the prior written consent of INI's Board of Directors.

In lieu of exercising the Warrant Agreement, the Company may elect to sell or terminate the Warrant Agreement provided that the Company makes such election by delivering written notice to INI pursuant to the terms and conditions of the Warrant Agreement.

In connection with the Warrant Agreement, the Company and INI entered into an option agreement (the "Option Agreement"). Subject to additional provisions and conditions set forth in the Option Agreement, at any time on or prior to June 30, 2016, the Company shall have the right to purchase for cash all of the remaining outstanding shares of INI's common stock not already owned by the Company after giving effect to the exercise of the Warrant on a fully-diluted basis, based on an aggregate enterprise value, equal to \$200 million. Such purchase is intended to be consummated pursuant to a definitive merger agreement whereby INI would merge with a subsidiary of the Company and survive the merger as a wholly-owned subsidiary to the Company. In April 2015, the Company made its first payment to Capstone pursuant to the Manufacturing Agreement and Amendment. The Company is in the process of completing the valuation of the various contract elements which are expected to be included in the results for the six months ended June 30, 2015.

Note 5: Balance Sheet Components

Inventory

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Inventory consisted of the following as of March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015	December 31, 2014
Raw materials	\$ 1,884	\$ 1,169
Work-in-process	305	101
Finished goods	11,683	19,799
Inventory	\$ 13,872	\$ 21,069

The Company writes down inventory for obsolete and slow moving inventory based on the age of the product as determined by the expiration date. Products within one year of their expiration dates are considered for write-off purposes. Historically, we have had minimal returns with established customers, and any damaged packaging is sent back to the manufacturer for replacement. We incurred insignificant inventory write-off during the three months ended March 31, 2015 and 2014.

Property and Equipment

Property and equipment consisted of the following as of March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015	December 31, 2014
Furniture and fixtures	\$ 3,954	\$ 4,041
Leasehold improvements	2,932	2,298
Manufacturing and lab equipment	1,536	1,388
Vehicles	470	470
Displays	486	488
Website	399	241
Office equipment and computers	141	—
Construction in process	561	1,511
Property and equipment, gross	10,479	10,437
Less: accumulated depreciation and amortization	(3,009)	(2,632)
Property and equipment, net	\$ 7,470	\$ 7,805

Depreciation and amortization expense related to property and equipment was \$382,000 and \$314,000 for the three months ended March 31, 2015 and 2014, which is included in the selling, general, and administrative in the consolidated statements of operations.

Intangible Assets

Intangible assets consist of the following (in thousands) and includes the acquisition of MusclePharm's apparel rights from Worldwide Apparel disclosed further in footnote 10:

	As of March 31, 2015		Weighted-Average Useful Lives	
	Gross Value	Accumulated Amortization	Net Carrying Value	(years)
Amortized Intangible Assets				
Customer relationships	\$3,130	\$ (261)	\$ 2,869	15.0
Non-compete agreements	69	(43)	26	0.8
Patents	2,211	(354)	1,857	7.8
Trademarks	692	(117)	575	6.3
Brand	4,020	(194)	3,826	9.2
Domain name	68	(26)	42	5.0
Total intangible assets	\$ 10,190	\$ (995)	\$ 9,195	

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As of December 31, 2014

	Gross Value	Accumulated Amortization	Net Carrying Value	Weighted-Average Useful Lives (years)
Amortized Intangible Assets				
Customer relationships	\$3,130	\$ (209)	\$ 2,921	15.0
Non-compete agreements	69	(35)	34	2.0
Patents	2,211	(293)	1,918	7.8
Trademarks	518	(20)	498	4.5
Brand	1,776	(118)	1,658	15.0
Domain name	68	(23)	45	5.0
Total intangible assets	\$7,772	\$ (698)	\$ 7,074	

Intangible amortization expense for the three months ended March 31, 2015 and 2014 was \$225,000 and \$285,000, which is recorded in the selling, general, and administrative in the consolidated statements of operations.

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As of March 31, 2015, the estimated future amortization expense of intangible assets is as follows (in thousands):

Year Ending December 31, The remainder of 2015	\$816
2016	1,054
2017	1,042
2018	1,031
2019	1,027
2020	983
Thereafter	3,242
Total amortization expense	\$9,195

Note 6: Other Income (Expense), net

During the three months ended March 31, 2015 and 2014, other income (expense), net consists of the following (in thousands):

	Three Months Ended March 31,	
	2015	2014
Other (expense) income, net:		
Interest income	\$—	\$223
Interest expense	(125)	(39)
Change in fair value of derivative liabilities	—	484
Gain on settlement of accounts payable	—	5
Loss on marketable securities	—	(386)
Foreign currency transaction loss	(64)	(30)
Other	6	87
Total other (expense) income, net	\$(183)	\$344

Note 7: Debt

In September 2014, the Company entered into a line of credit facility with a banking institution for up to \$8.0 million of borrowings. The line of credit matures in September 2017 and accrues interest at the prime rate plus 2%, currently 5.25%. The line of credit is secured by the Company's inventory, accounts receivable, intangible assets and equipment. As of March 31, 2015 and December 31, 2014, the Company had drawn down all \$8.0 million under the line of credit. The Company would not have been in compliance with certain financial covenants, including requiring the balance to be at or below \$3 million for a minimum of 14 non-consecutive days per quarter, under this facility as of March 31, 2015 and December 31, 2014, and received a written waiver from the bank until May 31, 2015.

In February 2015, the Company entered into a term loan agreement with the same banking institution for a principal amount of \$4.0 million. The term loan carries a fixed interest rate of 5.25% per annum, is repayable in 36 equal monthly installments of principal and interest, and matures in February 2018. Outstanding borrowings are subject to prepayment penalties of 1.0% of the prepayment amount. The Company also paid debt issuance cost of \$40,000 which was recorded in prepaid expenses in the consolidated balance sheets.

Borrowings on the term loan are secured by the Company's inventory, accounts receivable and other receivables, general intangible properties, and 860,900 shares of common stock held in treasury. The Company is also required to comply with certain negative covenants under the term loan, including restrictions on indebtedness, investments, asset dispositions, mergers or consolidations and other corporate activities. The Company would not have been in compliance with certain financial covenants and received a written waiver from the bank until May 31, 2015.

In December 2014, the Company entered into a fleet lease program providing for the Company approximately \$1.8 million in credit to lease up to 50 vehicles.

Note 8: Commitments and Contingencies

Operating Leases and Capital Leases

The Company leases office and warehouse facilities under operating leases which expire at various dates through 2029. For lease agreements that contain escalating rent provisions, lease expense is recorded on a straight-line basis over the lease term. Rent expense for the three months ended March 31, 2015 and 2014 amounted to \$383,000 and \$297,000, respectively.

The Company also leases manufacturing and warehouse equipment under capital leases which expire at various dates through 2017. As of March 31, 2015 and December 31, 2014, the Company had an outstanding balance on capital leases of \$229,000 and \$265,000 respectively, which were included as a component of accrued liabilities and other long-term liabilities in the consolidated balance sheets.

Contingencies

In the normal course of business, the Company may become involved in legal proceedings. The Company will accrue a liability for such matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. When only a range of possible loss can be established, the most probable amount in the range is accrued. If no amount within this range is a better estimate than any other amount within the range, the minimum amount in the range is accrued. The accrual for a litigation loss contingency might include, for example, estimates of potential damages, outside legal fees and other directly related costs expected to be incurred. As of March 31, 2015 and December 31, 2014, the Company was not involved in any material legal proceedings, except for the SEC investigation discussed below and routine litigation experienced in the ordinary course of its business.

SEC Investigation

In July 2013, the Company received a formal order of investigation (the "Investigation") from the Denver Regional Office of the SEC which is actively investigating various areas of potential violation of the federal securities laws involving the Company and its management. The SEC has issued subpoenas for documents and testimony and has deposed numerous witnesses in connection with the Investigation. As a result of a review undertaken by the Company's personnel in conjunction with the Audit Committee of the Board of Directors during 2014, the Company amended certain prior reports to revise various disclosures concerning executive compensation and disclosure of perquisites, among other things, and filed amendments to the annual reports on Form 10-K for the fiscal years ended December 31, 2013, 2012 and 2011. The Investigation remains ongoing. The Investigation could lead to the SEC seeking fines, penalties, injunctive relief and the adoption of corrective plans to establish reporting and other practices affecting the Company. The Company has reached an agreement in principle with the staff of the Enforcement Division of the SEC Denver Regional Office to resolve the investigation by the SEC, however, such agreement must be approved by the SEC Commissioners. Neither the nature of the relief, the amount of any monetary relief, nor the nature of the corrective actions, whether voluntary or imposed as a result of court proceedings that could be sought by the SEC, can be predicted. The result of any of the foregoing could have a material adverse effect on the Company or its management.

Product Liability

Additionally, as a manufacturer of nutritional supplements and other consumer products that are ingested by consumers, the Company may be subject to various product liability claims. The Company currently maintains product liability insurance with a deductible/retention of \$10,000 per claim with an aggregate cap on retained loss of \$20.0 million. As of March 31, 2015 and December 31, 2014, the Company had not recorded an accrual for product

liability claims. There can be no assurance that insurance coverage will be available for product liability claims or other claims experienced in the ordinary course of the Company's business.

Insurance Carrier Lawsuit

In an effort to recover SEC legal defense costs, the Company engaged with outside counsel to review, evaluate and advise on the current Director and Officer policy and corresponding coverages. On February 12, 2015, the Company filed a complaint and jury demand in the District Court, City and County of Denver, Colorado against Liberty Insurance Underwriters, Inc. This action arises from the wrongful and unreasonable denial of coverage by Liberty for the cost and expenses that the Company has incurred and will continue to incur in connection with the SEC investigation under the Company's Directors and Officers Insurance policies.

Sponsorship and Endorsement Contract Liabilities

The Company has various non-cancelable endorsement and sponsorship agreements with terms expiring through 2018. The total value of future contractual payments as of March 31, 2015 and December 31, 2014 was \$50.0 million and \$52.8 million. The total future contractual payments as of March 31, 2015 are as follows (in thousands):

	Year Ending December 31, Remainder						
	of 2015	2016	2017	2018	2019	Thereafter	Total
Outstanding Payments							
Endorsement	\$5,280	\$8,203	\$9,105	\$6,000	\$4,167	\$ 11,667	\$44,422
Sponsorship							