NUTRA PHARMA CORP
Form 10-Q
May 27, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 2016

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _________ to ________

Commission file numbers 000-32141

NUTRA PHARMA CORP.

(Name of registrant as specified in its charter)

California	**91-2021600**
(State or Other Jurisdiction of Organization)	(IRS Employer Identification Number)

12538 West Atlantic Blvd.,

Coral Springs, Florida	**33071**
(Address of principal executive offices)	(Zip Code)

(954) 509-0911

(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 þ 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 þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

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

The number of shares outstanding of the registrant s common stock, par value $0.001 per share, as of May 26, 2016, there was 106,894,580 shares of common stock.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NUTRA PHARMA CORP.

Nutra Pharma Corp. is referred to hereinafter as we , us or our

Forward Looking Statements

This Quarterly Report on Form 10-Q for the period ending March 31, 2016, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The words or phrases would be, will allow, intends to, will likely result, are expected to, will continue, is anticipated, es project, or similar expressions are intended to identify forward-looking statements. We are subject to risks detailed in Item 1(a). All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including: (a) any projections of revenue, gross margin, expenses, earnings or losses from operations, synergies or other financial items; and (b) any statements of the plans, strategies and objectives of management for future operations; and (c) any statement concerning developments, plans, or performance. Unless otherwise required by applicable law, we do not undertake and we specifically disclaim any obligation to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

NUTRA PHARMA CORP.

Condensed Consolidated Balance Sheets

		March 31, 2016 (Unaudited)		December 31, 2015
ASSETS				
Current assets:				
Cash	$	3,256	$	6,890
Accounts receivable		25,238		21,990
Inventory		52,923		54,034
Prepaid expenses and other current assets		173,019		266,579
Total current assets		254,436		349,493
Property and equipment, net		16,854		18,986
Other assets		15,550		19,164
Total assets	$	286,840	$	387,643
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Accounts payable	$	889,569	$	842,024
Accrued expenses		1,163,762		1,130,271
Due to officers		84,507		146,770
Derivative warrant liability		62,424		142,556
Other debt, net of debt discount of $44,507 and $46,523, respectively		1,793,483		1,492,369
Total current liabilities		3,993,745		3,753,990
Convertible debts		137,614		60,870
Legal settlement liability, long term portion		121,337		147,179
Total liabilities		4,252,696		3,962,039
Commitments and Contingencies (See Note 9)		-		-
Stockholders' deficit:				
Common stock, $0.001 par value, 2,000,000,000 shares authorized:106,194,580 and 79,770,782 shares issued and outstanding at March 31, 2016 and December 31, 2015		106,195		79,771
Additional paid-in capital		46,914,556		46,257,619
Accumulated deficit		(50,986,607)		(49,911,786)
Total stockholders' deficit		(3,965,856)		(3,574,396)
Total liabilities and stockholders' deficit	$	286,840	$	387,643

See the accompanying notes to the condensed consolidated unaudited financial statements.

NUTRA PHARMA CORP.

Condensed Consolidated Statements of Operations

(Unaudited)

	For the Three Months Ended March 31, 2016		2015
Net sales	$ 37,387		$ 120,998
Cost of sales	7,474		25,054
Gross profit	29,913		95,944
Operating expenses:			
Selling, general and administrative - including stock based compensation of $70,111 and $79,323, respectively	384,524		388,732
Total other costs and expenses	384,524		388,732
Net Loss from Operations	(354,611)		(292,788)
Other Expenses			
Rental Income	7,409		-
Interest expense	(63,167)		(52,956)
Change in fair value of derivatives	(682,624)		(18,270)
Gain (loss) on settlement of debt, net	18,172		-
Other Expenses	(720,210)		(71,226)
Net loss before income taxes	(1,074,821)		(364,014)
Provision for income taxes	-		-
Net loss	$ (1,074,821)		$ (364,014)
Net loss per share - basic and diluted	$ (0.01)		$ (0.01)
Weighted average number of shares outstanding during the period - basic and diluted	90,933,054		38,274,788

See the accompanying notes to the condensed consolidated unaudited financial statements.

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NUTRA PHARMA CORP.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Three Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Cash collected from customers	$ 63,696	$ 313,260
Cash paid for commission	(15,000)	(150,433)
Cash paid to suppliers	(3,501)	(15,919)
Cash paid to employees	(29,702)	(35,231)
Interest paid	(19,185)	(12,874)
Loan origination fees paid	-	(7,500)
Other operating cash payments	(269,451)	(208,277)
Cash collected from rental income	7,409	-
Net cash used in operating activities	(265,734)	(116,974)
Cash flows from investing activities:		
Acquisition of property and equipment	-	(718)
Net cash used in investing activities:	-	(718)
Cash flows from financing activities:		
Common stock sold for cash	55,000	-
Loans from officers	9,901	1,720
Repayment of officers loans	(74,905)	(54,000)
Repayments of notes payable-related party	(15,000)	(20,000)
Proceeds from convertible notes, net of debt discount and loan issuance cost of $10,870 and $7,250, respectively	150,000	115,000
Proceeds from other notes payable, net of debt discount of $0 and $54,000, respectively, and loan issuance cost of $0 and $10,130, respectively	200,000	147,370
Repayments of other notes payable	(62,896)	(87,818)
Net cash provided by financing activities	262,100	102,272
Net decrease in cash	(3,634)	(15,420)
Cash - beginning of period	6,890	15,530
Cash - end of period	$ 3,256	$ 110

Reconciliation of net loss to net cash used in operating activities:

Cash flows from operating activities:				
Net loss	$	(1,074,821)	$	(364,014)
Adjustments to reconcile net loss to net cash used in operating activities:				
Gain on settlement of debt		(18,172)		-
Depreciation		2,132		4,104
Stock-based compensation		70,111		79,323
Stock issued for loan extension and accounts payable		-		13,000
Change in fair value of derivative		682,624		18,270
Amortization of loan discount		24,769		23,706
Changes in operating assets and liabilities:				
Increase in accounts receivables		(3,248)		(9,824)
Decrease (Increase) in inventory		1,111		(1,382)
Increase in prepaid expenses and other assets		63		12,650
Increase in accounts payable		47,544		111,295
Increase (Decrease) in accrued expenses		2,153		(4,102)
Net cash used in operating activities		(265,734)		(116,974)
Supplemental Cash Flow Information:				
Cash paid for interest	$	(19,185)	$	(12,874)
Non cash Financing and Investing:				
Note issued in settlement of notes and accounts payable	$	19,900	$	-
Shares issued to satisfy debt	$	633,076	$	164,340
Shares issued to satisfy debt-related party	$	-	$	10,000
Discounts on notes payable	$	11,885	$	-

See the accompanying notes to the condensed consolidated unaudited financial statements.

NUTRA PHARMA CORP.

Notes to Condensed Consolidated Unaudited Financial Statements

March 31, 2016

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Nutra Pharma Corp. (Nutra Pharma), is a holding company that owns intellectual property and operates in the biotechnology industry. Nutra Pharma incorporated under the laws of the state of California on February 1, 2000, under the original name of Exotic-Bird.com.

Through its wholly-owned subsidiary, ReceptoPharm, Inc. (ReceptoPharm), Nutra Pharma conducts drug discovery research and development activities. In October 2009, Nutra Pharma launched its first consumer product called Cobroxin®, an over-the-counter pain reliever designed to treat moderate to severe chronic pain. In May 2010, Nutra Pharma launched its second consumer product called Nyloxin®, an over-the-counter pain reliever that is a stronger version of Cobroxin® and is designed to treat severe chronic pain. In December 2014, we launched Pet Pain-Away, an over-the-counter pain reliever designed to treat pain in cats and dogs.

Basis of Presentation and Consolidation

The Condensed Consolidated Unaudited Financial statements and notes are presented in accordance with the rules and regulations of the Securities and Exchange Commission and do not contain certain information included in the Company s Annual Report on Form 10-K for the year ended December 31, 2015. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Interim results are not necessarily indicative of results for a full year. Therefore, the interim Condensed Consolidated Unaudited Financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K.

The accompanying Condensed Consolidated Unaudited Financial Statements include the results of Nutra Pharma and its wholly-owned subsidiaries Designer Diagnostics Inc. and ReceptoPharm (collectively the Company , us , we or our). We operate as one reportable segment. All intercompany transactions and balances have been eliminated in consolidation.

Liquidity and Going Concern

Our Condensed Consolidated Unaudited Financial Statements are presented on a going concern basis, which contemplate the realization of assets and satisfaction of liabilities in the normal course of business. We have experienced recurring, significant losses from operations, and have an accumulated deficit of $50,986,607 at March 31, 2016. In addition, we had respective working capital and stockholders deficits at March 31, 2016 of $3,739,309 and $3,965,856, respectively.

There is substantial doubt regarding our ability to continue as a going concern which is contingent upon our ability to secure additional financing, increase ownership equity and attain profitable operations. In addition, our ability to continue as a going concern must be considered in light of the problems, expenses and complications frequently encountered in established markets and the competitive environment in which we operate.

As of March 31, 2016, we do not have sufficient cash to sustain our operations for the next year and will require additional financing in order to execute our operating plan and continue as a going concern. Since our sales are not currently adequate to fund our operations, we continue to rely principally on debt and equity funding; however proceeds from such funding have not been sufficient to execute our business plan. Our plan is to attempt to secure adequate funding until sales of our pain products are adequate to fund our operations. We cannot predict whether additional financing will be available, and/or whether any such funding will be in the form of equity, debt, or another form. In the event that these financing sources do not materialize, or if we are unsuccessful in increasing our revenues and profits, we will be unable to implement our current plans for expansion, repay our obligations as they become due and continue as a going concern.

The accompanying Condensed Consolidated Unaudited Financial Statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

Use of Estimates

The accompanying Condensed Consolidated Unaudited Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America which require management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense. Significant estimates include our ability to continue as going concern, the recoverability of inventories and long-lived assets, and the valuation of stock-based compensation and certain debt and warrant liabilities. Actual results could differ from those estimates. Changes in facts and circumstances may result in revised estimates, which would be recorded in the period in which they become known.

Revenue Recognition

In general, we record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. Provision for sales returns is estimated based on our historical return experience. Revenue is presented net of returns and allowances for returns.

The Company collects 100% of the cash proceeds from the sale of its product by its distributor, remits a portion of the cash proceeds received back to the distributor and records the sale on a net basis. In the three months ended March 31, 2016, the Company collected $63,696 in gross receipts and recorded $37,387 as net sales.

Accounting for Shipping and Handling Costs

The Company records shipping and handling costs incurred in cost of sales.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

The Company grants credit without collateral to its customers based on the Company s evaluation of a particular customer s credit worthiness. In addition, allowances for doubtful accounts are maintained for potential credit losses based on the age of the accounts receivable and the results of the Company s periodic credit evaluations of its customers financial condition. Accounts receivable are written off after collection efforts have been deemed to be unsuccessful. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts, while subsequent recoveries are netted against the provision for doubtful accounts expense. The Company generally does not charge interest on accounts receivable.

Accounts receivable are stated at estimated net realizable value. Accounts receivable are comprised of balances due from customers net of estimated allowances for uncollectible accounts.

Inventories

Inventories, which are stated at the lower of average cost or market, and consist of packaging materials, finished products, and raw venom that is utilized to make the API (active pharmaceutical ingredient). The raw unprocessed venom has an indefinite life for use. The Company regularly reviews inventory quantities on hand. If necessary it records a provision for excess and obsolete inventory based primarily on its estimates of component obsolescence, product demand and production requirements. Write-downs are charged to cost of goods sold. We performed evaluations of our inventory during the three months ended March 31, 2016 and determined no allowances need to be recorded.

Financial Instruments and Concentration of Credit Risk

Our financial instruments include cash, accounts receivable, accounts payable, accrued expenses, loans payable, due to officers and derivative financial instruments. Other than certain warrant and convertible instruments (derivative financial instruments) and liabilities to related parties (for which it was impracticable to estimate fair value due to uncertainty as to when they will be satisfied and a lack of similar type transactions in the marketplace), we believe the carrying values of our financial instruments approximate their fair values because they are short term in nature or payable on demand. Our derivative financial instruments are carried at a measured fair value.

Balances in various cash accounts may at times exceed federally insured limits. We have not experienced any losses in such accounts. We do not hold or issue financial instruments for trading purposes. In addition, for the three months ended March 31, 2016, no customers accounted for more than 10% of the Company s total revenues.

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. Management evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income. For option-based simple derivative financial instruments, the Company uses the Black-Scholes option-pricing model to value the derivative instruments at inception and subsequent valuation dates. For embedded derivatives, the Company uses a Dilution-Adjusted Black-Scholes method to value the derivative instruments at inception and subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Convertible Debt

The Company bifurcates the embedded derivative element in convertible debt which contain conversion features which are not considered to be conventional convertible debt. The convertible debt is recorded at the bifurcated amount after reducing the proceeds for the liability related to the embedded call provision which is accounted for separately in the accompanying balance sheets. After recording the initial amount of the debt, the discount related to the bifurcated embedded derivative is amortized as additional interest expense over the term of the debt with the resulting debt discount being accreted over the term of the note.

Property and Equipment and Long-Lived Assets

Property and equipment is recorded at cost. Expenditures for major improvements and additions are added to property and equipment, while replacements, maintenance and repairs which do not extend the useful lives are expensed. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of 3 7 years.

Property and equipment consists of the following at March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Computer equipment	$ 24,208	$ 24,208
Furniture and fixtures	34,757	34,757
Lab equipment	42,129	42,129
Telephone equipment	12,421	12,421
Office equipment other	16,856	16,856
Leasehold improvements	73,168	73,168
Total	203,539	203,539
Less: Accumulated depreciation	(186,685)	(184,553)
Property and equipment, net	$ 16,854	$ 18,986

We review our long-lived assets for recoverability if events or changes in circumstances indicate the assets may be impaired. At March 31, 2016, we believe the carrying values of our long-lived assets are recoverable. Depreciation expense for the three months ended March 31, 2016 and 2015 was $2,132 and $4,104, respectively.

Advertising

All advertising costs are expensed as incurred. Advertising costs were approximately $500 and $2,016 for the three months ended March 31, 2016 and 2015, respectively.

Income Taxes

We compute income taxes in accordance with Financial Accounting Standard Board (FASB) Accounting Standard Codification (ASC) Topic 740, *Income Taxes* (ASC Topic 740). Under ASC Topic 740, deferred taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Also, the effect on deferred taxes of a change in tax rates is recognized in income in the period that included the enactment date. Temporary differences between financial and tax reporting arise primarily from the use of different methods to record bad debts and /or sales returns, and inventory reserves.

On an annual basis, we evaluate tax positions that have been taken or are expected to be taken in our tax returns to determine if they are more than likely to be sustained if the taxing authority examines the respective position. As of March 31, 2016, we do not believe we have a need to record any liabilities for uncertain tax positions or provisions for interest or penalties related to such positions.

Since inception, we have been subject to tax by both federal and state taxing authorities. Until the respective statutes of limitations expire (which may be as much as 20 years while we have unused net operation losses), we are subject to income tax audits in the jurisdictions in which we operate. The Company s 2012 to 2015 tax returns are subject to examination by Internal Revenue Services and State Taxing Agency s.

On July 18, 2015, the Company received a notice of penalty charge of $35,296 from IRS for failure to file Forms W-2 for tax period ended at December 31, 2011. During February 2016, the Company signed a payment agreement to pay the penalty. No installment payments have been made as of March 31, 2016.

Stock-Based Compensation

We account for stock-based compensation in accordance with FASB ASC Topic 718, *Stock Compensation* (ASC Topic 718). ASC Topic 718, which requires that the cost resulting from all share-based transactions be recorded in the financial statements over the respective service periods. It establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement in accounting for share-based payment transactions with employees. The statement also establishes fair value as the measurement objective for transactions in which an entity acquires goods or services from non-employees in share-based payment transactions.

Net Loss Per Share

Net loss per share is calculated in accordance with ASC Topic 260, *Earnings per Share*. Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted loss per share is calculated by dividing net loss by the weighted average number of common shares and dilutive common stock equivalents outstanding. During periods in which we incur losses, common stock equivalents, if any, are not considered, as their effect would be anti-dilutive or have no effect on earnings per share. Any common shares issued as of a result of the exercise of stock options and warrants would come from newly issued common shares from our remaining authorized shares. As of March 31, 2016 and 2015, the following items were not included in dilutive loss as the effect is anti-dilutive:

	March 31, 2016	**March 31, 2015**
Options and warrants	25,116,667	1,606,667
Convertible notes payable	66,735,660	4,046,721
Total	91,852,327	5,653,388

Reclassifications

Certain amounts in the 2015 Condensed Consolidated Unaudited Financial Statements have been reclassified to conform to the current period presentation.

Recent Accounting Pronouncements

In April 2015, FASB issued Accounting Standards Update (ASU) No. 2015-03, Interest *Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* , is to simplify presentation of debt issuance costs by 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. The ASU does not affect the recognition and measurement guidance