FITLIFE BRANDS, INC.
Form 10-Q
August 14, 2018

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 June 30, 2018

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

For the transition period from N/A to N/A
Commission File No. 000-52369

FITLIFE BRANDS, INC.
(Name of small business issuer as specified in its charter)

Nevada	20-3464383
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

5214 S. 136th Street, Omaha, NE 68137
(Address of principal executive offices)

(402) 884-1894
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required 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 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 (Sec.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, a non-accelerated filer, smaller reporting company or emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non–Accelerated filer	Small reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 13, 2018
Common stock, $0.01 par value	10,997,958

FITLIFE BRANDS, INC.
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FOR THE QUARTER ENDED JUNE 30, 2018

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I of this report, includes forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “proposed,” “intended,” or “continue” or the negative of these te other comparable terminology. You should read statements that contain these words carefully, because they discuss our expectations about our future operating results or our future financial condition or state other “forward-looking” information. There may be events in the future that we are not able to accurately predict or control. Before you invest in our securities, you should be aware that the occurrence of any of the events described in this Quarterly Report could substantially harm our business, results of operations and financial condition, and that upon the occurrence of any of these events, the trading price of our securities could decline and you could lose all or part of your investment. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, growth rates, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report to conform these statements to actual results.

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements
FITLIFE BRANDS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
ASSETS:	June 30,	December 31,
	2018	2017
CURRENT ASSETS		
Cash	$940,000	$1,262,000
Accounts receivable, net of allowance of doubtful accounts and sales returns of $743,000 and $1,264,000, respectively		
- Trade	382,000	1,958,000
- Factored	1,466,000	-
Inventories, net of allowance for obsolescence of $24,000 and $49,000, respectively	2,757,000	2,874,000
Note receivable	-	5,000
Prepaid expenses	82,000	221,000
Total current assets	5,627,000	6,320,000
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $710,000 and $677,000 respectively	257,000	296,000
Goodwill	225,000	225,000
Security deposits	22,000	22,000
TOTAL ASSETS	$6,131,000	$6,863,000
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	$3,017,000	$2,974,000
Accrued expenses and other liabilities	538,000	612,000
Secured payable to Factor	1,159,000	-
Line of credit	-	1,950,000
Term loan agreement	-	415,000
Total current liabilities	4,714,000	5,951,000

CONTINGENCIES AND COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value, 150,000,000 shares authorized; 10,997,958 and 10,681,710 issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	110,000	107,000
Additional paid-in capital	31,127,000	31,013,000
Accumulated deficit	(29,820,000)	(30,208,000)
Total stockholders' equity	1,417,000	912,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$6,131,000	$6,863,000

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

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FITLIFE BRANDS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	(Unaudited)		(Unaudited)	
	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
Revenue	$4,379,000	$5,022,000	$8,993,000	$10,612,000
Cost of Goods Sold	2,573,000	3,499,000	5,271,000	7,168,000
Gross Profit	1,806,000	1,523,000	3,722,000	3,444,000
OPERATING EXPENSES:				
General and administrative	856,000	1,010,000	1,709,000	2,170,000
Selling and marketing	718,000	913,000	1,523,000	1,861,000
Depreciation and amortization	18,000	117,000	38,000	237,000
Total operating expenses	1,592,000	2,040,000	3,270,000	4,268,000
OPERATING INCOME (LOSS)	214,000	(517,000)	452,000	(824,000)
OTHER (INCOME) AND EXPENSES				
Interest expense	44,000	29,000	65,000	56,000
Other expense (income)	-	5,000	(1,000)	4,000
Total other (income) expense	44,000	34,000	64,000	60,000
INCOME TAXES	-	-	-	-
NET INCOME (LOSS)	$170,000	$(551,000)	$388,000	$(884,000)
NET INCOME (LOSS) PER SHARE:				
Basic and diluted	$0.02	$(0.05)	$0.04	$(0.08)
Basic and diluted weighted average common shares	10,955,099	10,470,158	10,840,905	10,455,814

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

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FITLIFE BRANDS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2018

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
December 31, 2017	10,681,710	$107,000	$31,013,000	$(30,208,000)	$912,000
Common stock issued for services	316,248	3,000	95,000		98,000
Fair value of options issued for services			19,000		19,000
Net income				388,000	388,000
June 30, 2018	10,997,958	$110,000	$31,127,000	$(29,820,000)	$1,417,000

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

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FITLIFE BRANDS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

	(Unaudited)	
	2018	2017
Net income (loss)	$388,000	$(884,000)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,000	237,000
Allowance for doubtful accounts	(521,000)	-
Allowance for inventory obsolescence	(25,000)	(119,000)
Common stock issued for services	98,000	35,000
Fair value of options issued for services	19,000	23,000
Loss (gain) on disposal of assets	(1,000)	5,000
Changes in operating assets and liabilities:		
Accounts receivable – trade	2,097,000	(884,000)
Accounts receivable - factored	(1,466,000)	-
Inventories	142,000	1,311,000
Prepaid expenses	139,000	14,000
Customer note receivable	5,000	5,000
Accounts payable	43,000	552,000
Accrued liabilities and other liabilities	(74,000)	129,000
Net cash provided by operating activities	882,000	424,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(10,000)
Proceeds from the sale of assets	2,000	-
Net cash provided (used) in investing activities	2,000	(10,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of line of credit	(1,950,000)	-
Secured payable to Factor	1,159,000	
Repayments of term loan	(415,000)	(276,000)
Net cash used in financing activities	(1,206,000)	(276,000)
NET CHANGE IN CASH	(322,000)	138,000
CASH, BEGINNING OF PERIOD	1,262,000	1,293,000
CASH, END OF PERIOD	$940,000	$1,431,000

Supplemental disclosure operating activities

Cash paid for interest	$65,000	$56,000
Non-cash investing and financing activities		
Cancellation of Treasury Stock	$-	$44,000

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

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FITLIFE BRANDS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017 (Unaudited)

NOTE 1 - DESCRIPTION OF BUSINESS

Summary

FitLife Brands, Inc. (the "Company") is a national provider of innovative and proprietary nutritional supplements for health-conscious consumers marketed under the brand names NDS Nutrition Products™ (www.ndsnutrition.com), PMD™ (www.pmdsports.com), SirenLabs™ (www.sirenlabs.com), CoreActive™ (www.coreactivenutrition.com), and Metis Nutrition™ (www.metisnutrition.com) (together, "NDS Products"). With the consummation of the acquisition of iSatori, Inc. ("iSatori") on October 1, 2015, the Company added several brands to its product portfolio, including iSatori (www.isatori.com), BioGenetic Laboratories, and Energize (together, "iSatori Products"). The NDS Products are distributed principally through franchised General Nutrition Centers, Inc. ("GNC") stores located both domestically and internationally, and, with the addition of Metis Nutrition, through corporate GNC stores in the United States. The iSatori Products are sold through more than 25,000 retail locations, which include specialty, mass, and online.

The Company was incorporated in the State of Nevada on July 26, 2005. In October 2008, the Company acquired the assets of NDS Nutritional Products, Inc., a Nebraska corporation, and moved those assets into its wholly owned subsidiary NDS Nutrition Products, Inc., a Florida corporation ("NDS"). The Company's NDS Products are sold through NDS and the iSatori Products are sold through iSatori, Inc., a Delaware corporation and a wholly owned subsidiary of the Company, which the Company acquired in October 2015.

The Company is headquartered in Omaha, Nebraska. For more information on the Company, please go to http://www.fitlifebrands.com. The Company's common stock currently trades under the symbol "FTLF" on the OTC:PINK market.

NOTE 2 - BASIS OF PRESENTATION

The accompanying interim condensed unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation are included. Operating results for the three and six month periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. While management of the Company believes the disclosures presented herein are adequate and not misleading, these interim condensed consolidated financial statements should be read in conjunction with the audited condensed consolidated financial statements and the footnotes thereto for the fiscal year ended December 31, 2017, as filed with the Securities and Exchange Commission as an exhibit to our Annual Report on Form 10-K.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. Significant accounting policies are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in the consolidated condensed financial statements.

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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and (iii) the reported amount of net sales and expense recognized during the periods presented. Adjustments made with respect to the use of estimates often relate to improved information not previously available. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements; accordingly, actual results could differ from these estimates.

These estimates and assumptions also affect the reported amounts of accounts receivable, inventories, goodwill revenue, costs and expense and valuations of long term assets, realization of deferred tax assets and fair value of equity instruments issued for services during the reporting period. Management evaluates these estimates and assumptions on a regular basis. Actual results could differ from those estimates.

Basic and Diluted Income (loss) per share

Our computation of earnings per share (“EPS”) includes basic and diluted EPS. Basic EPS is measured as the income (loss) available to common stockholders divided by the weighted average common shares outstanding for the period. Diluted income (loss) per share reflects the potential dilution, using the treasury stock method, that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income (loss) of the Company as if they had been converted at the beginning of the periods presented, or issuance date, if later. In computing diluted income (loss) per share, the treasury stock method assumes that outstanding options and warrants are exercised and the proceeds are used to purchase common stock at the average market price during the period. Options and warrants may have a dilutive effect under the treasury stock method only when the average market price of the common stock during the period exceeds the exercise price of the options and warrants. Potential common shares that have an antidilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

Income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the respective periods. Basic and diluted (loss) per common share is the same for periods because all warrants and stock options outstanding are anti-dilutive. At June 30, 2018 and 2017, we excluded the all outstanding options and warrants which entitle the holders thereof to acquire shares of common stock as their effect would have been anti-dilutive. The following securities that were excluded are as follows:

	June 30, 2018	June 30, 2017
Options	687,087	899,375
Warrants	43,300	60,620
Total	730,387	959,996

Goodwill

The Company had goodwill of $225,000, as of June 30, 2018 and December 31, 2017, respectively, as a result of the acquisition of NDS in October 2008. The Company adopted ASC Topic 350 – Goodwill and Other Intangible Assets. In accordance with ASC Topic 350, goodwill, which represents the excess of purchase price and related costs over the value assigned to net tangible and identifiable intangible assets of businesses acquired and accounted for under the purchase method, acquired in business combinations is assigned to reporting units that are expected to benefit from the synergies of the combination as of the acquisition date. Under this standard, goodwill and intangibles with indefinite useful lives are no longer amortized. The Company assesses goodwill and indefinite-lived intangible assets for impairment annually during the fourth quarter, or more frequently if events and circumstances indicate impairment may have occurred in accordance with ASC Topic 350. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Company records an impairment loss equal to the difference. ASC Topic 350 also requires that the fair value of indefinite-lived purchased intangible assets be estimated and compared to the carrying value. The Company recognizes an impairment loss when the estimated fair value of the indefinite-lived purchased intangible assets is less than the carrying value.

As of June 30, 2018 and December 31, 2017, there were no indicators of impairment for the recorded goodwill of $225,000, respectively.

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Customer Concentration

Gross sales prior to reduction for vendor funded discounts and coupons to GNC during the six month period ended June 30, 2018 and 2017 were $8,380,000 and $11,546,000, respectively, representing 80.3% and 81.9% of total revenue, respectively. Gross accounts receivable attributable to GNC as of June 30, 2018 and June 30, 2017 were $2,015,000 and $3,115,000, respectively, representing 78.6% and 84.7% of the Company's total accounts receivable balance, respectively.

Revenue Recognition

The Company's revenue is comprised of sales of nutritional supplements to consumers, primarily through GNC stores.

In September 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09 (ASU No. 2014-09) regarding revenue recognition. The new standard provides authoritative guidance clarifying the principles for recognizing revenue and developing a common revenue standard for U.S. generally accepted accounting principles. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the entity expects to be entitled in the exchange for those goods. The ASU became effective January 1, 2018.

Due to the nature of the products sold by the Company, the adoption of the new standard has had no quantitative effect on the financial statements. However, the guidance requires additional disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized.

The Company previously recognized revenue when risk of loss transferred to our customers and collection of the receivable was reasonably assured, which generally occurs when the product is shipped. A product is not shipped without an order from the customer and credit acceptance procedures performed. The Company allows for returns within 30 days of purchase from end-users. GNC may return purchased products to the Company under certain circumstances, which include expired or soon to be expired products located in GNC corporate stores or at any of its distribution centers, and products that are subject to a recall or that contain an ingredient or ingredients that are subject to a recall by the FDA.

Under the new guidance, revenue is recognized when control of promised goods is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods. The Company reviews its sales transactions to identify contractual rights, performance obligations, and transaction prices, including the allocation of prices to separate performance obligations, if applicable. Revenue and costs of sales are recognized once products are delivered to the customer's control and performance obligations are satisfied.

All products sold by the Company are distinct individual products and consist of nutritional supplements and related supplies. The products are offered for sale solely as finished goods, and there are no performance obligations required post-shipment for customers to derive the expected value from them. Other than promotional activities, which can vary from time to time but nevertheless are entirely within the Company's control, contracts with customers contain no incentives or discounts that could cause revenue to be allocated or adjusted over time.

Control of products we sell transfers to customers upon shipment from our facilities, and the Company's performance obligations are satisfied at that time. Shipping and handling activities are performed before the customer obtains control of the goods and therefore represent a fulfillment activity rather than promised goods to the customer. Payment for sales are generally made by check, credit card, or wire transfer. Historically the Company has not experienced any significant payment delays from customers.

We provide a 30-day right of return for our products. A right of return does not represent a separate performance obligation, but because customers are allowed to return products, the consideration to which the Company expects to be entitled is variable. Upon evaluation of returns, the Company determined that substantially less than 5% of products are returned, and therefore believes it is probable that such returns will not cause a significant reversal of revenue in the future. We assess our contracts and the reasonableness of our conclusions on a quarterly basis.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases. This update will require the recognition of a right-of-use asset and a corresponding lease liability, initially measured at the present value of the lease payments, for all leases with terms longer than 12 months. For operating leases, the asset and liability will be expensed over the lease term on a straight-line basis, with all cash flows included in the operating section of the statement of cash flows. For finance leases, interest on the lease liability will be recognized separately from the amortization of the right-of-use asset in the statement of comprehensive income and the repayment of the principal portion of the lease liability will be classified as a financing activity while the interest component will be included in the operating section of the statement of cash flows. ASU 2016-02 is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its financial statements and related disclosures.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company’s present or future financial statements.

NOTE 4 – MERCHANT AGREEMENT

In December 2017, the Company, through NDS and iSatori (together, the “Subsidiaries”), entered into a Merchant Agreement with Compass Bank, d/b/a Commercial Billing Service (“Compass”) (“Factor”). Under the terms of the Merchant Agreement, subject to the satisfaction of certain conditions to funding, the Subsidiaries agreed to sell to Compass, and Compass agreed to purchase from the Subsidiaries, certain accounts owing from customers of such Subsidiaries, including GNC. All amounts due under the terms of the Merchant Agreement, totaling up to $5.0 million, are guaranteed by the Company under the terms of a Continuing Guarantee. The Company pays a fee calculated based on the London Interbank Offering Rate (LIBOR) plus 550 basis points, which fee is based on the outstanding gross amount of accounts receivable factored in excess of total cash collected by Compass from customers against such amounts. The applicable LIBOR rate as of June 30, 2018 was 2.1%. Additionally, the Company is charged a non-utilization fee by which the average outstanding amount of obligations is less than $2.0 million. The Company has pledged collateral of all present and future inventory, accounts, accounts receivable, general intangibles and returned goods, together with all reserves, balances, deposits, and property at any time owing to the credit of the Company with Compass and any and all substitutions, accessions, additions, parts, accessories, attachments, replacements, proceeds and products of, for and to inventory, whether now or hereafter owned, existing, created, arising or acquired. The Merchant Agreement renews automatically unless either party terminates with a written notice within thirty days of the anniversary date.

Under the terms of the Merchant Agreement, all factored receivables are sold with recourse, which requires the Company to repurchase any receivables, if demanded, not paid on time causing such receivables to be accounted for as a secured financing arrangement and not as a sale of financial assets. Receivables are presented net of allowance for doubtful accounts with the recourse amount potentially due Compass in the event of untimely payment presented under current liabilities as a secured financing obligation. There were no invoices factored under this Merchant Agreement during the year ended December 31, 2017.

During the six month period ended June 30, 2018, the Company sold to the factor, on a recourse basis, an aggregate of $8,152,000 of invoices, net of credit memos, for cash proceeds of $7,784,000. In addition, the Company also incurred fees and other charges in the aggregate of $61,000 which was reflected as part of interest expense in the accompanying statement of operations. As of June 30, 2018, total due from Factor amounted to $307,000 which represents the 20% holdback for invoices it had not yet collected.

For financial statement presentation purposes, since the receivables were sold with recourse, the Company reflected the amount due from Factor on the accompanying balance sheet as follows:

Accounts Receivable - Factor	$1,466,000
Secured Payable to Factor	(1,159,000)
	$307,000

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NOTE 5 – INVENTORIES

The Company’s inventories as of June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018 (unaudited)	December 31, 2017
Finished goods	$2,200,000	$2,511,000
Components	581,000	412,000
Allowance for obsolescence	(24,000)	(49,000)
Total	$2,757,000	