

FITLIFE BRANDS, INC.
Form 10-Q
November 14, 2017

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 September 30, 2017

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

Edgar Filing: FITLIFE BRANDS, INC. - Form 10-Q

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 November 13, 2017 |
|--------------------------------|----------------------------------|
| Common stock, \$0.01 par value | 10,623,522 |

FITLIFE BRANDS, INC.
INDEX TO FORM 10-Q FILING
FOR THE QUARTER ENDED SEPTEMBER 30, 2017

TABLE OF CONTENTS

| | PAGE |
|--|------|
| <u>PART I - FINANCIAL INFORMATION</u> | |
| <u>Item 1. Condensed Consolidated Financial Statements (unaudited)</u> | 1 |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31, 2016</u> | 2 |
| <u>Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2017 and 2016 (unaudited)</u> | 3 |
| <u>Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2017 and 2016 (unaudited)</u> | 4 |
| <u>Condensed Consolidated Statement of Stockholders' Equity as of and for the nine months ended September 30, 2017 (unaudited)</u> | 5 |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u> | 6 |
| <u>Item 2. Management Discussion & Analysis of Financial Condition and Results of Operations</u> | 12 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 16 |
| <u>Item 4. Controls and Procedures</u> | 17 |
| <u>PART II - OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | 18 |
| <u>Item 1A. Risk Factors</u> | 18 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 19 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 19 |
| <u>Item 5. Other Information</u> | 19 |
| <u>Item 6. Exhibits</u> | 19 |

CERTIFICATIONS

31.1

Edgar Filing: FITLIFE BRANDS, INC. - Form 10-Q

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.

31.2

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.

32.1

Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.

32.2

Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q. Therefore, they do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, cash flows, and stockholders' equity in conformity with generally accepted accounting principles. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that can be expected for the year ending December 31, 2017.

Table of ContentsFITLIFE BRANDS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | (Unaudited) | |
|---|---------------------|---------------------|
| ASSETS: | September 30, | December 31, |
| | 2017 | 2016 |
| CURRENT ASSETS | | |
| Cash | \$1,104,872 | \$1,293,041 |
| Accounts receivable, net | 3,380,984 | 2,792,649 |
| Security deposits | 24,956 | 24,956 |
| Inventory | 2,869,383 | 3,756,716 |
| Note receivable, current portion | 48,727 | 2,782 |
| Prepaid income tax | 120,000 | 120,000 |
| Prepaid expenses and other current assets | 184,958 | 136,014 |
| Total current assets | 7,733,880 | 8,126,158 |
| PROPERTY AND EQUIPMENT, net | 145,910 | 171,004 |
| Note receivable, net of current portion | - | 52,696 |
| Deferred taxes | 689,000 | 689,000 |
| Intangibles assets, net | 6,212,193 | 6,507,505 |
| TOTAL ASSETS | \$14,780,983 | \$15,546,363 |
| LIABILITIES AND STOCKHOLDERS' EQUITY: | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$2,476,417 | \$1,596,748 |
| Accrued expenses and other liabilities | 590,756 | 539,765 |
| Line of credit | 1,950,000 | 1,950,000 |
| Term loan agreement, current portion | 506,889 | 544,825 |
| Notes payable | 4,131 | 12,700 |
| Total current liabilities | 5,528,193 | 4,644,038 |
| LONG-TERM DEBT, net of current portion | - | 369,177 |
| TOTAL LIABILITIES | 5,528,193 | 5,013,215 |

| | | |
|--|---------------------|---------------------|
| CONTINGENCIES AND COMMITMENTS | - | - |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized as of | | |
| September 30, 2017 and December 31, 2016: | | |
| Preferred stock Series A; 10,000,000 shares authorized; no shares issued | | |
| and outstanding as of September 30, 2017 and December 31, 2016 | - | - |
| Preferred stock Series B; 1,000 shares authorized; no shares issued | | |
| and outstanding as of September 30, 2017 and December 31, 2016 | - | - |
| Preferred stock Series C; 500 shares authorized; no shares issued | | |
| and outstanding as of September 30, 2017 and December 31, 2016 | - | - |
| Common stock, \$.01 par value, 150,000,000 shares authorized; | | |
| 10,623,533 and 10,483,389 issued and outstanding | | |
| as of September 30, 2017 and December 31, 2016, respectively | 106,235 | 104,495 |
| Subscribed common stock | - | 339 |
| Treasury stock | - | (44,416) |
| Additional paid-in capital | 30,988,947 | 30,919,289 |
| Accumulated deficit | (21,842,392) | (20,446,559) |
| Total stockholders' equity | \$9,252,790 | \$10,533,148 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$14,780,983 | \$15,546,363 |

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

Table of Contents

FITLIFE BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

| | (Unaudited) Three Months Ended September 30 | | (Unaudited) Nine Months Ended September 30 | |
|-------------------------------|---|-------------|--|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenue | \$4,025,580 | \$5,340,616 | \$14,637,273 | \$21,615,605 |
| Cost of Goods Sold | 2,550,760 | 3,353,224 | 9,718,670 | 12,469,081 |
| Gross Profit | 1,474,820 | 1,987,392 | 4,918,603 | 9,146,524 |
| OPERATING EXPENSES: | | | | |
| General and administrative | 1,030,215 | 1,131,692 | 3,200,218 | 3,854,128 |
| Selling and marketing | 828,829 | 1,088,400 | 2,689,587 | 3,138,323 |
| Depreciation and amortization | 98,917 | 125,751 | 335,566 | 376,502 |
| Total operating expenses | 1,957,961 | 2,345,843 | 6,225,371 | 7,368,953 |
| OPERATING INCOME (LOSS) | (483,141) | (358,451) | (1,306,768) | 1,777,571 |
| OTHER (INCOME) AND EXPENSES | | | | |
| Interest expense | 28,243 | 27,417 | 83,920 | 84,016 |
| Other expense (income) | - | (150) | 5,145 | (2,917) |
| Total other (income) expense | 28,243 | 27,267 | 89,065 | 81,099 |
| INCOME TAXES (BENEFIT) | - | (25,000) | - | 164,000 |
| NET INCOME (LOSS) | \$(511,384) | \$(360,718) | \$(1,395,833) | \$1,532,472 |
| NET INCOME (LOSS) PER SHARE: | | | | |
| Basic | \$(0.05) | \$(0.03) | \$(0.13) | \$0.15 |
| Diluted | \$(0.05) | \$(0.03) | \$(0.13) | \$0.13 |

Edgar Filing: FITLIFE BRANDS, INC. - Form 10-Q

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 10,537,805 | 10,446,954 | 10,488,135 | 10,413,703 |
| Diluted | 10,537,805 | 10,446,954 | 10,488,135 | 11,515,169 |

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

Table of Contents

FITLIFE BRANDS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

| | (Unaudited) | |
|--|---------------|-------------|
| | 2017 | 2016 |
| Net income (loss) | \$(1,395,833) | \$1,532,472 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 335,566 | 376,502 |
| Common stock issued for services | 82,001 | 105,501 |
| Warrants and options issued for services | 33,474 | 45,028 |
| Loss on disposal of property and equipment | 5,145 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (588,335) | (1,369,673) |
| Inventory | 887,333 | 357,326 |
| Deferred tax asset | - | 123,879 |
| Prepaid income tax | - | 151,000 |
| Prepaid expenses | (48,944) | 145,167 |
| Note receivable | 6,751 | 9,985 |
| Accounts payable | 879,669 | (666,806) |
| Accrued liabilities | 50,991 | (369,941) |
| Litigation reserve | - | (95,775) |
| Income tax payable | - | 13,000 |
| Net cash provided by operating activities | 247,818 | 357,665 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (20,305) | (21,619) |
| Long-term investment | - | 2,027 |
| Net cash used in investing activities | (20,305) | (19,592) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from draw down on credit line | - | 520,000 |
| Payments for redemption of preferred stock | - | - |
| Repayments of note payable | (415,682) | (404,261) |
| Net cash provided by (used in) financing activities | (415,682) | 115,739 |
| INCREASE (DECREASE) IN CASH | (188,169) | 453,812 |
| CASH, BEGINNING OF PERIOD | 1,293,041 | 1,532,550 |
| CASH, END OF PERIOD | \$1,104,872 | \$1,986,362 |

Supplemental disclosure operating activities

| | | |
|------------------------|----------|----------|
| Cash paid for interest | \$83,920 | \$84,016 |
|------------------------|----------|----------|

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

-4-

Table of Contents

FITLIFE BRANDS, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

| | Common Stock | | Subscribed Common | Treasury | Additional Paid-in | Accumulated | |
|---|--------------|-----------|-------------------|------------|--------------------|----------------|--------------|
| | Shares | Amount | Stock | Stock | Capital | Deficit | Total |
| DECEMBER 31, 2016 | 10,483,389 | \$104,495 | \$339 | \$(44,416) | \$30,919,289 | \$(20,446,559) | \$10,533,148 |
| Common stock issued for services | 182,064 | 1,820 | | | 80,180 | | 82,001 |
| Cancellation of treasury stock | (41,920) | (419) | | 44,416 | (43,997) | | - |
| Issuance of subscribed common stock | | 339 | (339) | | | | - |
| Fair value of options issued for services | | | | | 33,474 | | 33,474 |
| Net loss | | | | | | (1,395,833) | (1,395,833) |
| SEPTEMBER 30, 2017 | 10,623,533 | \$106,235 | \$- | \$- | \$30,988,947 | \$(21,842,392) | \$9,252,790 |

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

Table of Contents

FITLIFE BRANDS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

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™ (“NDS”) (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 and maintains an office in Golden, Colorado. 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 nine-month period ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. 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, 2016 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.

-6-

Table of Contents

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 expenses 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 revenues, costs and expenses and valuations of long term assets, deferred tax assets and 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.

Impairment of Long-Lived Assets

The Company had goodwill and intangible assets with a carrying value of \$6,212,193 and \$6,507,505, respectively, as of September 30, 2017 and December 31, 2016. In accordance with ASC Topic 350 – Goodwill and Other Intangible Assets, the Company assesses the carrying value of such intangible assets for impairment on a periodic basis and records an impairment charge if the carrying value of such intangible assets exceeds the estimated fair value of the reporting unit, which in this case is the Company. The Company performed its annual goodwill impairment test as of December 31, 2016, which did not indicate the existence of an impairment at that time. While the fiscal year-to-date financial performance have not met our expectations, and the enterprise value of the Company based on the current price of our common stock may fluctuate at or near the recorded levels of goodwill and indefinite-lived intangible assets, Management does not consider these results to be a triggering event requiring the performance of an interim goodwill impairment test. The Company will continue to monitor its operating results for indicators of impairment and perform additional tests as necessary. The Company's fiscal 2017 annual impairment test will be performed as of December 31, 2017, which could result in an impairment charge to goodwill depending on the Company's finalized forecast for fiscal 2018 and other market conditions.

Customer Concentration

Gross sales prior to reduction for vendor funded discounts and coupons to GNC during the period ended September 30, 2017 and 2016 were \$15,569,430 and \$20,696,007, respectively, representing 81.0% and 82.5% of total revenue, respectively. Accounts receivable attributable to GNC as of September 30, 2017 and September 30, 2016 were \$2,679,885 and \$3,201,464, respectively, representing 77.7% and 79.4% of the Company's total accounts receivable balance, respectively.

Share Based Payment

The Company issues stock options, warrants and common stock as share-based compensation to employees and non-employees. The Company accounts for its share-based compensation to employees in accordance with FASB ASC718 "Compensation - Stock Compensation." Stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the requisite service period.

The Company accounts for share-based compensation issued to non-employees and consultants in accordance with the provisions of FASB ASC 505-50 "Equity - Based Payment to Non-Employees." Measurement of share-based payment transactions with non-employees is based on the fair value of whichever is more reliably measurable: (a) the goods or services received; or (b) the equity instruments issued. The final fair value of the share-based payment transaction is determined at the performance completion date. For interim periods, the fair value is estimated and the percentage of completion is applied to that estimate to determine the cumulative expense recorded.

The Company values stock compensation based on the market price on the measurement date. For employees this is the date of grant, and for non-employees, this is the date of performance completion. The Company values stock options and warrants using the Black-Scholes option pricing model.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. Under ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has recently issued ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, ASU 2016-20, and ASU 2017-05, all of which clarify certain implementation guidance within ASU 2014-09. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted only in annual reporting periods beginning after December 15, 2016, including interim periods therein. The standard can be adopted either retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company is currently in the process of analyzing the information necessary to determine the impact of adopting this new guidance on its financial position, results of operations, and cash flows.

Table of Contents

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 – INVENTORIES

The Company's inventories as of September 30, 2017 and December 31, 2016 are as follows:

| | September 30, 2017 | December 31, 2016 |
|----------------|-----------------------|----------------------|
| Finished goods | \$2,237,607 | \$3,069,531 |
| Components | 631,776 | 687,185 |
| Total | \$2,869,383 | \$3,756,716 |

NOTE 5 - PROPERTY AND EQUIPMENT

The Company's fixed assets as of September 30, 2017 and December 31, 2016 are as follows:

| | September 30, 2017 | December 31, 2016 |
|--------------------------|-----------------------|----------------------|
| Equipment | \$807,061 | 792,930 |
| Accumulated depreciation | (661,151) | (621,926) |
| Total | \$145,910 | 171,004 |

Depreciation expense for the nine months ended September 30, 2017 was \$40,254 as compared to \$60,003 for the nine-month period ended September 30, 2016. During the period ended September 30, 2017, the Company disposed an equipment with a cost of \$6,174 and accumulated depreciation of \$1,029 which resulted in a loss of \$5,145.

NOTE 6 – NOTES PAYABLE

Notes payable consist of the following as of September 30, 2017 and December 31, 2016:

| | September 30, 2017 | December 31, 2016 |
|---|--------------------------|-------------------------|
| Revolving line of credit of \$3.0 million from U.S. Bank National Association ("U.S. Bank"), dated April 9, 2009, as amended July 15, 2010, May 25, 2011, August 22, 2012, April 29, 2013, May 22, 2014, June 25, 2014, May 15, 2015, August 15, 2016 and August 28, 2017, at an effective interest rate equal to the prime rate announced from time to time by U.S. Bank plus 0.50%. The line of credit matured on June 15, 2017; however, U.S. Bank extended the maturity date of the line of credit until December 15, 2017. The line of credit is secured by substantially all the assets of the Company. As a result of the August 28, 2017 amendment, the Company agreed to amended and additional loan covenants and certain additional terms. Advances to the Company under the line of credit are now based solely on 80% of the eligible receivables of the Company. The Company pays interest only on this line of credit. As disclosed in Note 11, the Company has received a notice of default from U.S. Bank resulting from a violation of a loan covenant set forth in the amended line of credit. | \$1,950,000 | \$1,950,000 |
| Term loan of \$2,600,000 from US Bank, dated September 4, 2013, at a fixed interest rate of 3.6%. The term loan amortizes evenly on a monthly basis and matures August 15, 2018. | 506,889 | 914,002 |
| Notes payable for warehouse equipment | 4,131 | 12,700 |
| Total of notes payable and advances | 2,461,021 | 2,876,703 |
| Less current portion | (2,461,021) | (2,507,526) |
| Long-term portion | \$- | \$369,177 |

Table of Contents

The U.S. Bank revolving line of credit and term loan are subject to certain financial covenants for which the Company was not in compliance at September 30, 2017 (see Note 11).

The Company is currently in violation of a loan covenant set forth in the Company's revolving line of credit of \$3.0 million from U.S. Bank as modified by that certain loan modification agreement dated August 28, 2017, of which approximately \$1.95 million is due and owing as of September 30, 2017. On October 27, 2017, the Company received a notice of default from U.S. Bank related to the line of credit and term loan. The maturity date of the line of credit is currently December 15, 2017, and the Company currently does not anticipate that such line of credit will be extended or renewed. Although no assurances can be given, management is currently negotiating with alternative lenders to replace the line of credit and term loan currently with U.S. Bank. In the event the Company is unable to enter into a loan agreement with an alternate lender prior to December 15, 2017, the Company's financial condition will be negatively affected, and such affect will be material.

NOTE 7 - NET INCOME / (LOSS) PER SHARE

Basic net income per share is calculated by dividing the net income attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share also includes the weighted average number of outstanding warrants and options in the denominator. In the event of a loss, the diluted loss per share is the same as basic loss per share. Because of the net loss, the weighted average number of diluted shares of common stock outstanding for the three and nine months ended September 30, 2017 did not include 60,620 shares of common stock issuable upon the exercise of outstanding common stock purchase warrants, and 893,361 shares of common stock issuable upon the exercise of outstanding options to purchase common stock due to its anti-dilutive effect. The following table represents the computation of basic and diluted income and (losses) per share for the three and nine months ended September 30, 2017 and 2016.

| | Three months ended | | Nine months ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Income / (Losses) available for common shareholders | \$(511,384) | \$(360,718) | \$(1,395,833) | \$1,532,472 |
| Basic weighted average common shares outstanding | 10,537,805 | 10,446,954 | 10,488,135 | 10,413,703 |
| Basic income / (loss) per share | \$(0.05) | \$(0.03) | \$(0.13) | \$0.15 |
| Diluted weighted average common shares outstanding | 10,537,805 | 10,446,954 | 10,488,135 | 11,515,169 |
| Diluted income / (loss) per share | \$(0.05) | \$(0.03) | \$(0.13) | \$0.13 |

Table of Contents

NOTE 8 - EQUITY

Common Stock

The Company is authorized to issue 150.0 million shares of common stock, \$0.01 par value, of which 10,623,533 common shares were issued and outstanding as of September 30, 2017. During the period ended September 30, 2017, the Company issued 182,064 shares of common stock with a fair value of \$82,001 to employees and directors for services rendered. The shares were valued at the respective date of issuance.

Preferred Stock

The Company is authorized to issue 10,000,000 shares of Series A Convertible Preferred Stock, \$0.01 par value, 1,000 shares of its 10% Cumulative Perpetual Series B Preferred Stock, \$0.01 par value, and 500 shares of its Series C Convertible Preferred Stock, par value \$0.01, none of which were issued and outstanding as of September 30, 2017.

Options

As of September 30, 2017, options to purchase 877,725 shares of common stock of the Company were issued and outstanding, additional information about which is included in the following table.

| Outstanding | Exercise Price | Issuance Date | Expiration Date | Vesting |
|-------------|----------------|---------------|-----------------|---------|
| 50,000 | \$0.90 | 01/16/13 | 01/16/18 | No |
| 10,000 | \$1.00 | 03/04/13 | 03/04/18 | No |
| 217,614 | \$1.39 | 05/09/16 | 05/09/21 | Yes |
| 4,330 | \$1.44 | 09/29/15 | 09/29/25 | No |
| 40,000 | \$2.20 | 04/11/14 | 04/11/19 | No |
| 370,000 | \$2.30 | 02/23/15 | 02/23/20 | No |
| 93,503 | \$3.31 | 02/16/12 | 02/16/22 | No |
| 19,424 | \$4.62 | 05/13/15 | 05/13/25 | Yes |
| 4,330 | \$5.49 | 04/08/15 | 04/08/25 | No |
| 1,732 | \$5.81 | 03/05/15 | 03/05/25 | No |
| 33,774 | \$5.89 | 03/23/15 | 03/23/25 | Yes |
| 8,660 | \$12.13 | 09/17/13 | 09/17/23 | Yes |
| 7,038 | \$12.99 | 11/14/12 | 09/27/22 | No |
| 17,320 | \$14.43 | 01/16/13 | 11/30/22 | No |
| 877,725 | | | | |

During the nine-month period ended September 30, 2017 and 2016, the Company recognized compensation expense of \$33,474 and \$45,028, respectively, to account the fair value of stock options that vested during the period.

There was no intrinsic value for all the outstanding options at September 30, 2017 since the exercise price of these options were greater than the September 30, 2017 closing stock price of \$0.35 per share.

Warrants

Edgar Filing: FITLIFE BRANDS, INC. - Form 10-Q

As of September 30, 2017, warrants to purchase 60,620 shares of common stock of the Company were issued and outstanding, additional information about which is included in the following table:

| Outstanding | Exercise Price | Issuance Date | Expiration Date | Vesting |
|-------------|----------------|---------------|-----------------|---------|
| 17,320 | \$12.99 | 10/01/13 | 01/01/18 | No |
| 43,300 | \$12.99 | 07/16/13 | 07/16/18 | No |
| 60,620 | | | | |

There was no intrinsic value for all the outstanding warrants at September 30, 2017 since the exercise price of these warrants was greater than the September 30, 2017 closing stock price of \$0.35 per share.

Table of Contents

NOTE 9 – INCOME TAXES

No federal tax provision has been provided for the period ended September 30, 2017 due to the loss incurred during such periods. There was no income tax provision provided for the period ended September 30, 2016 based on the Company's net income for the period and projected annual effective tax rate.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

On December 31, 2014, various plaintiffs, individually and on behalf of a purported nationwide and sub-class of purchasers, filed a lawsuit in the U.S. District Court for the Northern District of California, captioned Ryan et al. v. Gencor Nutrients, Inc. et al., Case No.: 4:14-CV-05682. The lawsuit includes claims made against the manufacturer and various producers and sellers of products containing a nutritional supplement known as Testofen, which is manufactured and sold by Gencor Nutrients, Inc. ("Gencor"). Specifically, the Ryan plaintiffs allege that various defendants have manufactured, marketed and/or sold Testofen, or nutritional supplements containing Testofen, and in doing so represented to the public that Testofen had been clinically proven to increase free testosterone levels. According to the plaintiffs, those claims are false and/or not statistically proven. Plaintiffs seek relief under violations of the Racketeering Influenced Corrupt Organizations Act, breach of express and implied warranties, and violations of unfair trade practices in violation of California, Pennsylvania, and Arizona law. NDS utilizes Testofen in a limited number of nutritional supplements it manufactures and sells pursuant to a license agreement with Gencor.

On February 19, 2015, this matter was transferred to the Central District of California to the Honorable Manuel Real. Judge Real had previously issued an order dismissing a previously filed but similar lawsuit that had been filed by the same lawyer who represents the plaintiffs in the Ryan matter. The United States Court of Appeals recently reversed part of the dismissal issued by Judge Real and remanded the case back down to the district court for further proceedings. As a result, the parties in the Ryan matter recently issued a joint status report and that matter is again active.

On February 28, 2017, Kevin Fahey, through his attorney, and on behalf of himself and the citizens of the District of Columbia, file a Complaint in the Superior Court of the District of Columbia Civil Division captioned Fahey vs. BioGenetic Laboratories, Inc., et al, case No.2017 CA 001240. The Complaint was filed against BioGenetics, a division of the Company, and various General Nutrition Center ("GNC") entities. Fahey asserts in his Complaint that the labeling and marketing materials of the product HCG Activator are fraudulent, false and misleading with respect to certain weight loss and hunger suppression claims. Fahey claims these actions violate the District of Columbia Consumer Protection Procedures Act Section 28-3901 et seq., and has asked the court for direct treble damages, punitive damages, disgorgement of profits, attorneys' fees and injunctive relief. This matter was resolved and the lawsuit was dismissed June 27, 2017. The resolution did not have a material impact on the Company, its financial condition or results from operations.

We are currently not involved in any litigation except noted above that we believe could have a material adverse effect on our financial condition or results of operations. Other than described above, there is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of the Company or any of its subsidiaries, threatened against or affecting the Company, our common stock, any of our subsidiaries or of the Company's or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

NOTE 11 – SUBSEQUENT EVENTS

The Company is currently in violation of a loan covenant set forth in the Company's revolving line of credit of \$3.0 million from U.S. Bank, as modified by that certain loan modification agreement dated August 28, 2017, of which approximately \$1.95 million is due and owing as of September 30, 2017. On October 27, 2017, the Company received a notice of default from U.S. Bank related to the line of credit and term loan, totaling approximately \$2.4 million. The maturity date of the line of credit is currently December 15, 2017, and the Company currently does not anticipate that such line of credit will be extended or renewed. Although no assurances can be given, management is currently negotiating with alternative lenders to replace the line of credit and term loan currently with U.S. Bank. In the event the Company is unable to enter into a loan agreement with an alternative lender prior to December 15, 2017, the Company's financial condition will be negatively affected, and such affect will be material.

Table of Contents

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

Forward-Looking Statements

Management’s Discussion and Analysis contains various “forward looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, regarding future events or the future financial performance of the Company that involve risks and uncertainties. Certain statements included in this Form 10-Q, including, without limitation, statements related to anticipated cash flow sources and uses, and words including but not limited to “anticipates”, “believes”, “plans”, “expects”, “future” and similar statements or expressions, identify forward looking statements. Any forward-looking statements herein are subject to certain risks and uncertainties in the Company’s business, including but not limited to, reliance on key customers and competition in its markets, market demand, product performance, technological developments, maintenance of relationships with key suppliers, difficulties of hiring or retaining key personnel and any changes in current accounting rules, all of which may be beyond the control of the Company. The Company adopted at management’s discretion, the most conservative recognition of revenue based on the most astringent guidelines of the SEC. Management will elect additional changes to revenue recognition to comply with the most conservative SEC recognition on a forward going accrual basis as the model is replicated with other similar markets. The Company’s actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth therein.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in the section titled “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

In addition, the foregoing factors may affect generally our business, results of operations and financial position. Forward-looking statements speak only as of the date the statement was made. We do not undertake and specifically decline any obligation to update any forward-looking statements.

Overview

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™ (“NDS”) (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 merger with iSatori, Inc. (“iSatori”) on September 30, 2015, which became effective on October 1, 2015, described below (the “Merger”), 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.

FitLife Brands is headquartered in Omaha, Nebraska and maintains an office in Golden, Colorado, which it acquired in connection with the Merger. 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.

Table of Contents

Results of Operations

Comparison of Three and Nine Months Ended September 30, 2017 to the Three and Nine Months Ended September 30, 2016

Net Sales. Revenue for the three months ended September 30, 2017 decreased 24.6% to \$4,025,580 as compared to \$5,340,616 for the three months ended September 30, 2016. Revenue for the nine months ended September 30, 2017 decreased 32.3% to \$14,637,273 as compared to \$21,615,605 for the nine months ended September 30, 2016. Revenue for the nine months ended September 30, 2017 included a one-time non-recurring adjustment of \$700,000 related to a margin support credit memorandum entered into between the Company and GNC in April 2017 as well as certain other elements deemed non-recurring by management.

Revenue attributable to the Company's NDS Nutrition division for the three months ended September 30, 2017 was \$3,215,372 as compared to \$4,206,557 for the three months ended September 30, 2016. Revenue attributable to the Company's NDS Nutrition division for the nine months ended September 30, 2017 was \$10,938,272, as compared to \$15,463,141 for the nine months ended September 30, 2016. The decrease in total revenue attributable to NDS products in the three month and nine months ended September 30, 2017 compared to the comparable period last year is principally attributable to the impact of convention revenue during the second quarter in 2016 and the Company's election not to attend the convention in 2017, as well as efforts of the Company's largest distribution partner to reduce average existing inventory levels to fulfill product demand in the short term, which resulted in an unprecedented divergence of wholesale purchases compared to product movement at retail.

Revenue attributable to the Company's iSatori operating division for the three months ended September 30, 2017 was \$810,208, as compared to \$1,134,058 for the three months ended September 30, 2016. Revenue attributable to the Company's iSatori operating division for the nine months ended September 30, 2017 was \$3,699,001, as compared to \$6,152,464 for the nine months ended September 30, 2016. The decrease in total revenue attributable to iSatori products in the three and nine months ended September 30, 2017 compared to the comparable periods last year is attributable to several factors, principally to fewer new product introductions during the period as compared to the prior year and the restructuring and reorganization at iSatori's largest third-party distributor. The impact of both are expected to stabilize in the coming quarters and management anticipates that it will continue to benefit from new product introductions going forward as a key element of its strategic growth plan for both iSatori and NDS.

Cost of Goods Sold. Cost of goods sold for the three months ended September 30, 2017 decreased to \$2,550,760 as compared to \$3,353,224 for the three months ended September 30, 2016. The decrease during the three-month period is principally attributable to lower sales in the period. Cost of goods sold for the nine months ended September 30, 2017 decreased to \$9,718,670 as compared to \$12,469,081 for the nine months ended September 30, 2016. The decrease during the nine-month period is principally attributable to lower sales in the period. Notwithstanding the decrease, cost of goods sold was negatively impacted during the nine months ended September 30, 2017 by an unusually large amount of inventory write-offs totaling approximately \$376,000, of which \$276,000 related to the write off of all remaining inventory of product containing picamilion.

General and Administrative Expense. General and administrative expense for the three months ended September 30, 2017 decreased to \$1,030,215 as compared to \$1,131,692 for the three months ended September 30, 2016. General and administrative expense for the nine months ended September 30, 2017 decreased to \$3,200,218 as compared to \$3,854,128 for the nine months ended September 30, 2016. The decrease in general and administrative expense for the three and nine months ended September 30, 2017 is principally attributable to ongoing cost reduction initiatives as well as the continued integration efforts at the iSatori division.

Table of Contents

Selling and Marketing Expense. Selling and marketing expense for the three months ended September 30, 2017 decreased to \$828,829 as compared to \$ 1,088,400 for the three months ended September 30, 2016. Selling and marketing expense for the nine months ended September 30, 2017 decreased to \$2,689,587 as compared to \$ 3,138,323 for the nine months ended September 30, 2016. The decrease in selling and marketing expense for the three and nine and month periods ended September 30, 2017 is principally the result of budgetary controls and efficiencies gained through the acquisition of iSatori.

Depreciation and Amortization. Depreciation and amortization for the three months ended September 30, 2017 decreased to \$98,917 as compared to \$125,751 for the three months ended September 30, 2016. Depreciation and amortization for the nine months ended September 30, 2017 decreased to \$335,566 as compared to \$376,502 for the nine months ended September 30, 2016.

Net Income/(Loss). We generated a net loss of \$(511,384) for the three-month period ended September 30, 2017 as compared to a net loss of \$(360,718) for the three months ended September 30, 2016. The increase in net loss for the three-month period ended September 30, 2017 compared to the comparable period last year is principally attributable to lower sales volumes due to a variety of factors discussed above. We generated a net loss of \$(1,395,833) for the nine-month period ended September 30, 2017 as compared to a net income of \$1,532,472 for the nine months ended September 30, 2016, which was principally attributable to a one-time non-recurring adjustment of \$700,000 related to a margin support credit memorandum entered into between the Company and GNC in April 2017, lower sales volumes, increased write-off activity and the decision to not participate in 2017 annual franchise convention.

Liquidity and Capital Resources

At September 30, 2017, we had positive working capital of approximately \$2,205,687, compared to positive working capital of approximately \$3,482,120 at December 31, 2016. Our principal sources of liquidity at September 30, 2017 consisted of \$1,104,872 of cash and \$3,380,984 from accounts receivable. The decrease in working capital is principally attributable to our net loss incurred during the quarter ending September 30, 2017.

The Company has historically financed its operations primarily through equity and debt financings, and more recently, cash flow from operations. The Company has also provided for its cash needs by issuing common stock, options and warrants for certain operating costs, including consulting and professional fees. Although the anticipated cash derived from operations and existing cash resources are expected to provide for the Company's liquidity for the next 12 months, our line of credit with U.S. Bank National Bank Association ("U.S. Bank") matures on December 15, 2017, at which time all amounts owed U.S. Bank will be due and payable. The Company has received a notice of default from U.S. Bank relating to its line of credit. The Company is currently negotiating with alternative lenders to replace U.S. Bank, and to satisfy our obligations to U.S. Bank under the line of credit and our term note. In the event the Company is unable to enter into a loan agreement with an alternative lender prior to maturity of the current line of credit with U.S. Bank, or in the event that all amounts due U.S. Bank, totalling approximately \$2.4 million, are accelerated as a result of the event of default, the Company's financial condition will be negatively affected, and such affect will be material.

Cash Provided by (Used in) Operations. Our cash provided by operating activities for the nine months ended September 30, 2017 was \$247,818, as compared to cash provided by operating activities of \$357,665 for the nine months ended September 30, 2016. The decrease is principally attributable to a decrease in revenue during the nine-month period, and variations in certain working capital accounts consistent with normal business practices and outcomes. Net working capital decreased to \$2,205,687 as of the quarter ended September 30, 2017 compared to \$4,758,923 as of September 30, 2016.

Cash Used in Investing Activities. Cash used in investing activities for the nine months ended September 30, 2017 was \$(20,305) as compared to \$(19,592) used in investing activities for the nine months ended September 30, 2016.

Cash Provided by (Used in) Financing Activities. Our cash used in financing activities for the nine months ended September 30, 2017 was \$(415,681), as compared to cash provided by financing activities of \$115,739 during the nine months ended September 30, 2016. The primary difference was that we drew down \$520,000 during the nine months ended September 30, 2016 from our existing line of credit with U.S. Bank and made no draw downs on the line of credit during the nine months ended September 30, 2017. The line of credit matured on June 15, 2017; however, U.S. Bank agreed to extend the maturity date of the line of credit until December 15, 2017. The line of credit is secured by substantially all of the assets of the Company. In connection with an amendment to the line of credit dated August 28, 2017, the Company agreed to additional loan covenants, one of which the Company was in violation of as of September 30, 2017. Although no assurances can be given, we currently intend to replace the line of credit with U.S. Bank with an alternative lender, and therefore pay U.S. Bank all amounts due U.S. Bank, totaling approximately \$2.5 million at September 30, 2017, at maturity inclusive of both the revolving line of credit and outstanding term loan (see Item 3).

Table of Contents

Goodwill and Indefinite-Lived Intangible Assets

The Company had goodwill and indefinite-lived intangible assets with a carrying value of \$6,212,193 and \$6,507,505, respectively, as of the quarter ended September 30, 2017 and December 31, 2016. In accordance with ASC Topic 350 – Goodwill and Other Intangible Assets, in lieu of amortizing such amounts the Company assesses the carrying value of such intangible assets for impairment on a periodic basis and records an impairment charge if the carrying value of such intangible assets exceeds the estimated fair value of the reporting unit, which in this case is the Company. The Company performed its annual goodwill impairment test as of December 31, 2016, which did not indicate the existence of an impairment at that time. While the fiscal year-to-date financial performance has not met our expectations, and the enterprise value of the Company based on current price of the stock the Company may fluctuate at or near the recorded levels of goodwill and indefinite-lived intangible assets, Management does not consider these results to be a triggering event requiring the performance of an interim goodwill impairment test. The Company will continue to monitor its operating results for indicators of impairment and perform additional tests as necessary. The Company's fiscal 2017 annual impairment test will be performed as of December 31, 2017, which could result in an impairment charge to goodwill depending on the Company's finalized forecast for fiscal 2018 and other market conditions.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements and related disclosures requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, expenses, and related disclosure of contingent assets and liabilities. We evaluate, on an on-going basis, our estimates and judgments, including those related to the useful life of the assets. We base our estimates on historical experience and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results that we report in our consolidated financial statements. The SEC considers an entity's most critical accounting policies to be those policies that are both most important to the portrayal of a company's financial condition and results of operations and those that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about matters that are inherently uncertain at the time of estimation. For a more detailed discussion of the accounting policies of the Company, see Note 3 of the Notes to the Condensed Consolidated Financial Statements, "Summary of Significant Accounting Policies".

We believe the following critical accounting policies, among others, require significant judgments and estimates used in the preparation of our consolidated financial statements.

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 expenses 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 revenues, costs and expenses and valuations of long term assets, deferred tax assets and 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.

Table of Contents

Impairment of Long-Lived Assets

The Company had goodwill and intangible assets with a carrying value of \$6,212,193 and \$6,507,505, respectively, as of September 30, 2017 and December 31, 2016. In accordance with ASC Topic 350 – Goodwill and Other Intangible Assets, the Company assesses the carrying value of such intangible assets for impairment on a periodic basis and records an impairment charge if the carrying value of such intangible assets exceeds the estimated fair value of the reporting unit, which in this case is the Company. The Company performed its annual goodwill impairment test as of December 31, 2016, which did not indicate the existence of an impairment at that time. While the fiscal year-to-date financial performance have not met our expectations, and the enterprise value of the Company based on the current price of our common stock may fluctuate at or near the recorded levels of goodwill and indefinite-lived intangible assets, Management does not consider these results to be a triggering event requiring the performance of an interim goodwill impairment test. The Company will continue to monitor its operating results for indicators of impairment and perform additional tests as necessary. The Company's fiscal 2017 annual impairment test will be performed as of December 31, 2017, which could result in an impairment charge to goodwill depending on the Company's finalized forecast for fiscal 2018 and other market conditions.

Share Based Payment

The Company issues stock options, warrants and common stock as share-based compensation to employees and non-employees. The Company accounts for its share-based compensation to employees in accordance with FASB ASC 718 "Compensation - Stock Compensation." Stock-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the requisite service period.

The Company accounts for share-based compensation issued to non-employees and consultants in accordance with the provisions of FASB ASC 505-50 "Equity - Based Payment to Non-Employees." Measurement of share-based payment transactions with non-employees is based on the fair value of whichever is more reliably measurable: (a) the goods or services received; or (b) the equity instruments issued. The final fair value of the share-based payment transaction is determined at the performance completion date. For interim periods, the fair value is estimated and the percentage of completion is applied to that estimate to determine the cumulative expense recorded.

The Company values stock compensation based on the market price on the measurement date. For employees this is the date of grant, and for non-employees, this is the date of performance completion. The Company values stock options and warrants using the Black-Scholes option pricing model.

Recent Accounting Policies

See Footnote 3 in the accompanying financial statements for a discussion of recent accounting policies.

WHERE YOU CAN FIND MORE INFORMATION

You are advised to read this Quarterly Report on Form 10-Q in conjunction with other reports and documents that we file from time to time with the SEC. In particular, please read our Quarterly Reports on Form 10-Q, Annual Report on Form 10-K, and Current Reports on Form 8-K that we file from time to time. You may obtain copies of these reports directly from us or from the SEC at the SEC's Public Reference Room at 100 F. Street, N.E. Washington, D.C. 20549, and you may obtain information about obtaining access to the Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains information for electronic filers at its website <http://www.sec.gov>.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our business is currently conducted principally in the United States. As a result, our financial results are not affected by factors such as changes in foreign currency exchange rates or economic conditions in foreign markets. We do not engage in hedging transactions to reduce our exposure to changes in currency exchange rates, although as the geographical scope of our business broadens, we may do so in the future.

Our exposure to risk for changes in interest rates relates primarily to our investments in short-term financial instruments. Investments in both fixed rate and floating rate interest earning instruments carry some interest rate risk. The fair value of fixed rate securities may fall due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Partly as a result of this, our future interest income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that have fallen in estimated fair value due to changes in interest rates. However, as substantially all of our cash equivalents consist of bank deposits and short-term money market instruments, we do not expect any material change with respect to our net income as a result of an interest rate change.

We do not hold any derivative instruments and do not engage in any hedging activities.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures were designed to provide reasonable assurance that the controls and procedures would meet their objectives. As required by SEC Rule 13a-15(b), our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining adequate internal control over our financial reporting. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control — Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Our system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has used the framework set forth in the report entitled Internal Control-Integrated Framework published by the COSO to evaluate the effectiveness of our internal control over financial reporting. Based on this assessment, our Chief Executive Officer and Chief Financial Officer have concluded that our internal control over financial reporting was effective as of September 30, 2017. This Quarterly Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Our internal control over financial reporting was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this Quarterly Report. There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

(b) Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal controls over financial reporting or in other factors that could materially affect, or are reasonably likely to affect, our internal controls over financial reporting during the quarter ended September 30, 2017. There have not been any significant changes in the Company's critical accounting policies identified since the Company filed its Annual Report on Form 10-K as of December 31, 2016.

Table of Contents

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On December 31, 2014, various plaintiffs, individually and on behalf of a purported nationwide and sub-class of purchasers, filed a lawsuit in the U.S. District Court for the Northern District of California, captioned Ryan et al. v. Gencor Nutrients, Inc. et al., Case No.: 4:14-CV-05682. The lawsuit includes claims made against the manufacturer and various producers and sellers of products containing a nutritional supplement known as Testofen, which is manufactured and sold by Gencor Nutrients, Inc. (“Gencor”). Specifically, the Ryan plaintiffs allege that various defendants have manufactured, marketed and/or sold Testofen, or nutritional supplements containing Testofen, and in doing so represented to the public that Testofen had been clinically proven to increase free testosterone levels. According to the plaintiffs, those claims are false and/or not statistically proven. Plaintiffs seek relief under violations of the Racketeering Influenced Corrupt Organizations Act, breach of express and implied warranties, and violations of unfair trade practices in violation of California, Pennsylvania, and Arizona law. NDS utilizes Testofen in a limited number of nutritional supplements it manufactures and sells pursuant to a license agreement with Gencor.

On February 19, 2015 this matter was transferred to the Central District of California to the Honorable Manuel Real. Judge Real had previously issued an order dismissing a previously filed but similar lawsuit that had been filed by the same lawyer who represents the plaintiffs in the Ryan matter. The United States Court of Appeals recently reversed part of the dismissal issued by Judge Real and remanded the case back down to the district court for further proceedings. As a result, the parties in the Ryan matter recently issued a joint status report and that matter is again active.

On February 28, 2017, Kevin Fahey, through his attorney, and on behalf of himself and the citizens of the District of Columbia, file a Complaint in the Superior Court of the District of Columbia Civil Division captioned Fahey vs. BioGenetic Laboratories, Inc., et al, case No.2017 CA 001240. The Complaint was filed against BioGenetics, a division of the Company, and various General Nutrition Center (“GNC”) entities. Fahey asserts in his Complaint that the labeling and marketing materials of the product HCG Activator are fraudulent, false and misleading with respect to certain weight loss and hunger suppression claims. Fahey claims these actions violate the District of Columbia Consumer Protection Procedures Act Section 28-3901 et seq., and has asked the court for direct treble damages, punitive damages, disgorgement of profits, attorneys’ fees and injunctive relief. This matter was resolved and the lawsuit was dismissed June 27, 2017. The resolution did not have a material impact on the Company, its financial condition or results from operations.

We are currently not involved in any litigation except noted above that we believe could have a material adverse effect on our financial condition or results of operations. Other than described above, there is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of the Company or any of its subsidiaries, threatened against or affecting the Company, our common stock, any of our subsidiaries or of the Company’s or our subsidiaries’ officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

ITEM 1A. RISK FACTORS

Our results of operations and financial condition are subject to numerous risks and uncertainties described in our Annual Report on Form 10-K for our fiscal year ended December 31, 2016, filed on April 17, 2017. You should

carefully consider these risk factors in conjunction with the other information contained in this Quarterly Report. Should any of these risks materialize, our business, financial condition and future prospects could be negatively impacted. As of September 30, 2017, there have been the following changes to the disclosures made in the above-referenced Form 10-K.

-18-

Table of Contents

We have received a notice of default from U.S. Bank relating to our line of credit with U.S. Bank. Although U.S. Bank has elected not to exercise its rights and remedies relating to the default, in the event U.S. Bank declares all amounts due U.S. Bank caused by the default immediately due and payable prior to maturity, or approximately \$2.4 million, or we are otherwise unable to replace the line of credit with an alternative lender, our financial condition will be materially and negatively affected.

The Company is currently in violation of a loan covenant set forth in the Company's revolving line of credit of \$3.0 million from U.S. Bank, as modified by that certain loan modification agreement dated August 28, 2017. Approximately \$2.4 million is due and owing U.S. Bank as of September 30, 2017 under the revolving line of credit and a term note issued to U.S. Bank. The maturity date of the line of credit is currently December 15, 2017, and the Company currently does not anticipate that such line of credit will be extended or renewed. On October 27, 2017, the Company received a notice of default from U.S. Bank related to the line of credit and term loan. As such, if the Company is unable to enter into a loan agreement with an alternative lender prior to December 15, 2017, or in the event that all amounts due U.S. Bank are accelerated, the Company's financial condition will be negatively affected, and such affect will be material.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

On October 27, 2017, the Company received a notice of default (the "Notice") from U.S. Bank related to certain promissory notes in the aggregate principal amount of approximately \$2.4 million (as amended, the "Notes" and together with all other instruments and agreements executed by the Company and US Bank, the "Loan Documents").

The Notice was precipitated by the Company's failure to comply with certain loan covenants set forth in the Loan Documents related to the maintenance of minimum EBITDA for the one month period ended August 31, 2017 and the two-month period ending September 30, 2017.

As a result of the default, U.S. Bank has elected not to exercise its available rights and remedies under the Loan Documents at this time, which includes declaring all principal, interest and other sums owed U.S. Bank under the terms of the Notes immediately due and payable in full, but reserves the right to do so in the future.

The Company is currently in active discussions with potential new lending partners to satisfy all obligations due under the terms of the Notes to U.S. Bank, however, no assurances can be given that the Company will be successful in its efforts to replace U.S. Bank with a new lending partner.

ITEM 5. OTHER INFORMATION

There is no information with respect to which information is not otherwise called for by this form.

ITEM 6. EXHIBITS

| | |
|-------------|---|
| <u>31.1</u> | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act. |
| <u>31.2</u> | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act. |

Edgar Filing: FITLIFE BRANDS, INC. - Form 10-Q

| | |
|-------------|---|
| <u>32.1</u> | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act. |
| <u>32.2</u> | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant FitLife Brands, Inc.

Date: November 14, 2017 By: /s/ John Wilson
John Wilson
Chief Executive
Officer and Director
(Principal Executive
Officer)

Registrant FitLife Brands,
Inc.

Date: November 14, 2017 By: /s/ Michael
Abrams
Michael Abrams
Chief Financial
Officer and Director
(Principal Financial
Officer)