MusclePharm Corp
Form POS AM
October 05, 2012

As filed with the Securities and Exchange Commission on October 5, 2012

Registration No. 333-178427

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT No. 1

(Amendment No. 2)

TO

FORM S-1

REGISTRATION STATEMENT UNDER

THE SECURITIES ACT OF 1933

MUSCLEPHARM CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	2834	77-0664193
(State or other jurisdiction of incorporation)	(Primary Standard Industrial Classification Code Number)	I.R.S. Employer Identification No.)

4721 Ironton Street, Building A

Denver, CO 80239

Tel: (303) 396-6100

(Address and telephone number of registrant's principal

executive offices and principal place of business)

Brad Pyatt

5348 Vegas Dr.

Las Vegas, NV 89108

Tel: (702) 953-1890

(Name, address and telephone number of agent for service)

Communication Copies to:

Lucosky Brookman LLP

33 Wood Avenue South, 6th Floor

Iselin, New Jersey 08830

Tel No.: (732) 395-4400

Fax No.: (732) 395-4401

Approximate date of commencement of proposed sale to the public: **As soon as practicable after this Registration Statement becomes effective.**

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act registration Statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

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

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SUCH SECTION 8(a), MAY DETERMINE.

EXPLANATORY NOTE

On January 26, 2012, the U.S. Securities and Exchange Commission declared effective the registration statement on Form S-1 (the "Registration Statement") filed by MusclePharm Corporation (the "Company"). The Company is filing this post-effective amendment to the Registration Statement for the purpose of updating its financial and other disclosures.

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The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the U.S. Securities and Exchange Commission (“SEC”) is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion, dated October 5, 2012

MUSCLEPHARM CORPORATION

74,400,000 SHARES OF COMMON STOCK

This prospectus relates to the resale of 74,400,000 Shares of our common stock, par value $0.001 per share, by the selling security holders (the “Selling Security Holders”), including (i) 42,000,000 Purchase Shares (as defined herein), and (ii) 32,400,000 Warrant Shares (as defined herein, and together with the Purchase Shares, the “Shares”).

We will not receive any proceeds from the sale of the Shares. However, we will receive proceeds from the exercise of the Warrant Shares. The proceeds will be used for working capital or general corporate purposes. We will bear all costs associated with the registration of the Shares under the Securities Act.

Our common stock is quoted on the OTCBB under the symbol “MSLP.OB.” The Shares registered hereunder are being offered for sale by the Selling Security Holders at prices established on the OTCBB during the term of this offering. On October 4, 2012, the closing bid price of our common stock was $0.01 per share. These prices will fluctuate based on the demand for our common stock.

This investment involves a high degree of risk. You should purchase shares only if you can afford a complete loss. See “Risk Factors” beginning on page 9.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2012

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that which is contained in this prospectus. This prospectus may be used only where it is legal to sell these securities. The information in this prospectus may only be accurate on the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of securities. This prospectus contains important information about us that you should read and consider carefully before you decide whether to invest in our common stock. If you have any questions regarding the information in this prospectus, please contact Brad Pyatt, our Chief Executive Officer, at: MusclePharm Corporation, 4721 Ironton Street, Denver, CO 80239, or by phone at (303) 396-6100.

PROSPECTUS SUMMARY

This summary highlights certain information contained elsewhere in this prospectus. Because it is a summary, it may not contain all of the information that is important to you. Before investing in our common stock, you should read this entire prospectus carefully, especially the sections entitled Risk Factors" beginning on page 9 and Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 36, as well our financial statements and related notes included elsewhere in this prospectus. In this prospectus, the terms MusclePharm," Company," we," us" and our" refer to MusclePharm Corporation.

Overview

MusclePharm Corporation was initially incorporated in the State of Nevada on August 4, 2006, under the name Tone in Twenty, for the purpose of engaging in the business of providing personal fitness training using isometric techniques (Tone in Twenty"). Tone in Twenty was never able to raise the level of funding necessary to commence operations. On February 18, 2010, the Company acquired all of the issued and outstanding equity and voting interests of Muscle Pharm, LLC, a Colorado limited liability company, in exchange for 26,000,000 shares of the Company's common stock. The shares were issued pursuant to that certain Securities Exchange Agreement, dated February 1, 2010 (the Securities Exchange Agreement"). As a result of this transaction, Muscle Pharm, LLC became a wholly owned subsidiary of the Company. The 26,000,000 shares represented approximately 99.7% of the common stock outstanding following the closing of this transaction. As part of this transaction, the Company's former President sold his 366,662 shares to Muscle Pharm, LLC for $25,000 and these shares were then cancelled.

As part of the Securities Exchange Agreement, the Company agreed to seek shareholder approval of an amendment to the Company's Articles of Incorporation changing the name of the Company to MusclePharm Corporation." This amendment was approved by a majority of the Company's shareholders and the name change became effective on March 1, 2010.

MusclePharm currently manufactures and markets wide-ranging variety of high-quality sports nutrition products, including: Assault™, Battle Fuel™, Bullet Proof™, Combat™, SHRED Matrix®, and Re-con®. These products are comprised of amino acids, herb, and proteins scientifically tested and proven as safe and effective for the overall health of athletes. These nutritional supplements were created to enhance the effects of workouts, repair muscles, and nourish the body for optimal physical fitness.

Sales & Recent Developments

MusclePharm is an expanding healthy life-style company that develops and distributes a full line scientifically approved nutritional supplements that are 100% free of any banned substances. Based on years of research, MusclePharm products are developed through an advanced six-stage research process involving the expertise of top nutritional scientists and field tested by more than 100 elite professional athletes from various sports including the National Football League, mixed martial arts, and Major League Baseball. The Company's propriety and award winning products address all categories of an active lifestyle, including muscle building, weight loss, and maintaining general fitness through a daily nutritional supplement regimen. MusclePharm products are sold in over 120 countries and available in over 5,000 U.S. retail outlets, including GNC, Vitamin Shoppe, and Vitamin World. The Company also sells its products in over 100 online stores, including bodybuilding.com, amazon.com and vitacost.com.

For the six months ended June 30, 2012, two customers accounted for approximately 46% of net sales. Our largest customer for the six months ended June 30, 2012 accounted for 35% of our sales. For the year ended December 31, 2011, two customers accounted for approximately 55% of net sales. Our largest customer for the year ended December 31, 2011 represented 41% of our sales. For the year ended December 31, 2010, three customers accounted for approximately 67% of our sales and the largest customer accounted for 45% of our sales.

Where You Can Find Us

Our principal executive office is located at 4721 Ironton Street, Denver, CO 80239, and our telephone number is (303) 396-6100. Our Internet address is www.musclepharm.com.

The Offering

Common Stock Offered by the Selling Security Holders	74,400,000 shares of common stock.
Common Stock Outstanding Before the Offering	2,321,005,466 shares of common stock as of October 4, 2012.
Common Stock Outstanding After the Offering (1)	2,321,005,466 shares of common stock.
Terms of the Offering	The selling security holder will determine when and how they will sell the common stock offered in this prospectus.
Termination of the Offering	This offering will terminate at the earlier of (i) the date all of the shares of common stock are sold by the selling security holders or (ii) twenty-four (24) months after the registration statement to which this prospectus is made a part is declared effective by the SEC.
Use of Proceeds	We will not receive any proceeds from the sale of the shares of common stock offered by the Selling Security Holders. However, we will receive proceeds from the exercise of certain outstanding warrants. We intend to use net proceeds for working capital and general corporate purposes. See "Use of Proceeds."
Risk Factors	The common stock offered hereby involves a high degree of risk and should not be purchased by investors who cannot afford the loss of their entire investment. See "Risk Factors" beginning on page 9.
OTCBB Symbol	MSLP

(1) This number does not include the 32,400,000 Warrant Shares. The 42,000,000 Purchase Shares being registered hereunder have already been issued.

SUMMARY OF FINANCIAL INFORMATION

The following selected financial information is derived from the Company's Financial Statements appearing elsewhere in this Prospectus and should be read in conjunction with the Company's Financial Statements, including the notes thereto, appearing elsewhere in this Prospectus.

Summary of Statements of Operations

For the Years Ended December 31 (audited):

	2011	2010
Sales	$17,212,636	$3,202,687
Loss from operations	$(16,220,160)	$(18,251,836)
Other expense	$(7,060,790)	$(1,317,501)
Net loss	$(23,280,950)	$(19,569,337)
Net loss per common share - basic and diluted	$(.08)	$(.48)
Weighted average number of common shares outstanding - basic and diluted	281,484,658	41,141,549

For the Three Months Ended June 30 (unaudited):

	2012	2011
Sales	$15,429,340	$3,397,742
Loss from operation	$(1,664,341)	$(1,893,768)
Other income (expense)	$7,846,245	$(5,542,855)
Net income (loss)	$6,181,904	$(7,436,623)
Other comprehensive income	$40,719	$-
Total comprehensive income (loss)	$6,222,623	$(7,436,623)
Net income (loss) per common share - basic and diluted	$0.00	$(0.04)
Weighted average number of common shares outstanding - basic and diluted	1,388,624,267	201,864,655

For the Six Months Ended June 30 (unaudited):

	2012	2011
Sales	$31,990,020	$6,431,678
Loss from operation	$(2,391,634)	$(2,980,993)
Other income (expense)	$(7,461,755)	$(9,467,552)
Net income (loss)	$(9,853,389)	$(12,448,545)
Other comprehensive income	$40,719	$-
Total comprehensive income (loss)	$(9,812,670)	$(12,448,545)
Net income (loss) per common share - basic and diluted	$(0.01)	$(0.07)

Weighted average number of common shares outstanding - basic and diluted	1,301,222,184	174,365,323

Statement of Financial Position

For the Years Ended December 31 (audited):

	2011	2010
Cash	$659,764	$43,704
Total assets	$5,046,128	$2,720,981
Working Capital (Deficit)	$(13,693,267)	$(1,721,207)
Long term debt	$307,240	$250,000
Stockholders' deficit	$(12,971,212)	$(1,744,667)

	June 30, 2012 (unaudited)	December 31, 2011 (audited)
Cash	$291,971	$659,764
Cash - restricted	$52,744	$-
Total assets	$4,725,828	$5,046,128
Working capital (deficit)	$(12,668,017)	$(13,693,267)
Long term debt	$114,682	$307,240
Stockholders' deficit	$(11,013,113)	$(12,971,212)

RISK FACTORS

The following discussion and analysis should be read in conjunction with the other financial information and consolidated financial statements and related notes appearing in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results will depend upon a number of factors beyond our control and could differ materially from those anticipated in the forward-looking statements. Some of these factors are discussed below and elsewhere in this prospectus.

Risks Related to Our Business and Industry

OUR INDEPENDENT AUDITORS HAVE EXPRESSED SUBSTANTIAL DOUBT ABOUT OUR ABILITY TO CONTINUE AS A GOING CONCERN, WHICH MAY HINDER OUR ABILITY TO OBTAIN FUTURE FINANCING.

As reflected in the accompanying financial statements, the Company had a net loss of $23,280,950 and net cash used in operations of $5,801,761 for the year ended December 31, 2011, and a working capital deficit and stockholders' deficit of $13,693,267 and $12,971,212, respectively, at December 31, 2011. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The ability of the Company to continue its operations is dependent on management's plans, which include the raising of capital through debt and/or equity markets with some additional funding from other traditional financing sources, including term notes, until such time that funds provided by operations are sufficient to fund working capital requirements. The Company may need to incur liabilities with certain related parties to sustain the Company's existence.

The Company will require additional funding to finance the growth of its current and expected future operations as well as to achieve its strategic objectives. The Company believes its current available cash along with anticipated revenues may be insufficient to meet its cash needs for the near future. There can be no assurance that financing will be available in amounts or terms acceptable to the Company, if at all.

In response to these problems, management has taken the following actions:

- seeking additional third party debt and/or equity financing;
- execute a plan to recapitalize the company;
- continue with the implementation of the business plan;
- generate new sales from international customers; and
- allocate sufficient resources to continue with advertising and marketing efforts.

In their report dated April 13, 2012, our independent auditors stated that our financial statements for the period ended December 31, 2011, were prepared assuming that we would continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

WE WILL NEED TO RAISE ADDITIONAL CAPITAL TO CARRY OUT OUR BUSINESS PLAN.

We will need to raise additional capital to fund the growth of our business. There is no guarantee that we will be able to access additional capital at rates and on terms which are attractive to us, if at all. Without the additional funding needed to fund our growth we may not be able to grow as planned.

OUR FAILURE TO APPROPRIATELY RESPOND TO COMPETITIVE CHALLENGES, CHANGING CONSUMER PREFERENCES AND DEMAND FOR NEW PRODUCTS COULD SIGNIFICANTLY HARM OUR CUSTOMER RELATIONSHIPS AND PRODUCT SALES.

The nutritional sports supplement industry is characterized by intense competition for product offerings and rapid and frequent changes in consumer demand. Our failure to accurately predict product trends could negatively impact our products and inventory levels and cause our revenues to decline.

Our success with any particular product offering (whether new or existing) depends upon a number of factors, including our ability to:

- deliver products in a timely manner in sufficient volumes;
- accurately anticipate customer needs and forecast accurately to the manufacturer in a rapidly expanding business;
- differentiate our product offerings from those of our competitors;
- competitively price our products; and
- develop and/or acquire new products.

Products often have to be promoted heavily in stores or in the media to obtain visibility and consumer acceptance. Acquiring distribution for products is difficult and often expensive due to slotting and other promotional charges mandated by retailers. Products can take substantial periods of time to develop consumer awareness, consumer acceptance and sales volume. Accordingly, some products fail to gain or maintain sufficient sales volume and as a result have to be discontinued. In a highly completive marketplace it may be difficult to have retailers open stock-keeping units (sku’s) for new products.

OUR INDUSTRY IS HIGHLY COMPETITIVE, AND OUR FAILURE TO COMPETE EFFECTIVELY COULD ADVERSELY AFFECT OUR MARKET SHARE, FINANCIAL CONDITION AND FUTURE GROWTH.

The sports supplement industry is highly competitive with respect to:

- price;
- shelf space and store placement;
- brand and product recognition;
- new product introductions; and
- raw materials.

Several of our competitors are larger, more established and possess greater financial, personnel, distribution and other resources. We face competition in the health food channel from a limited number of large nationally known manufacturers, private label brands and many smaller manufacturers of dietary supplements.

WE RELY ON A LIMITED NUMBER OF CUSTOMERS FOR A SUBSTANTIAL PORTION OF OUR SALES, AND THE LOSS OF OR MATERIAL REDUCTION IN PURCHASE VOLUME BY ANY OF THESE CUSTOMERS WOULD ADVERSELY AFFECT OUR SALES AND OPERATING RESULTS.

For the six months ended June 30, 2012, two customers accounted for approximately 46% of net sales. Our largest customer for the six months ended June 30, 2012 accounted for 35% of our sales. For the year ended December 31, 2011, two customers accounted for approximately 55% of net sales. Our largest customer for the year ended December 31, 2011 represented 41% of our sales. For the year ended December 31, 2010, three customers accounted for approximately 67% of our sales and the largest customer accounted for 45% of our sales. The loss of any of our major customers, a significant reduction in purchases by any major customer, or, any serious financial difficulty of a major customer, could have a material adverse effect on our sales and results of operations.

Customer	2011	2010
A	41 %	45 %
B	14 %	7 %
C	- %	15 %

ADVERSE PUBLICITY OR CONSUMER PERCEPTION OF OUR PRODUCTS AND ANY SIMILAR PRODUCTS DISTRIBUTED BY OTHERS COULD HARM OUR REPUTATION AND ADVERSELY AFFECT OUR SALES AND REVENUES.

We are highly dependent upon positive consumer perceptions of the safety and quality of our products as well as similar products distributed by other sports nutrition supplement companies. Consumer perception of sports nutrition supplements and our products in particular can be substantially influenced by scientific research or findings, national media attention and other publicity about product use. Adverse publicity from such sources regarding the safety, quality or efficacy of dietary supplements and our products could harm our reputation and results of operations. The mere publication of reports asserting that such products may be harmful or questioning their efficacy could have a material adverse effect on our business, financial condition and results of operations, regardless of whether such reports are scientifically supported or whether the claimed harmful effects would be present at the dosages recommended for such products.

IF WE ARE UNABLE TO RETAIN KEY PERSONNEL, OUR ABILITY TO MANAGE OUR BUSINESS EFFECTIVELY AND CONTINUE OUR GROWTH COULD BE NEGATIVELY IMPACTED.

Key management employees include Brad J. Pyatt, Cory Gregory, Jeremy DeLuca, Lewis Gary Davis, Larry Meer, John H. Bluher, and certain other individuals. These key management employees are primarily responsible for our day-to-day operations, and we believe our success depends in large part on our ability to retain them and to continue to attract additional qualified individuals to our management team. Currently, we have executed employment agreements with our key management employees. We anticipate having all key executives under new performance based contracts by the end of the third quarter of 2012. The loss or limitation of the services of any of our key management employees or the inability to attract additional qualified personnel could have a material adverse effect on our business and results of operations. We may obtain key man insurance on one or more key executives.

OUR OPERATING RESULTS MAY FLUCTUATE, WHICH MAKES OUR RESULTS DIFFICULT TO PREDICT AND COULD CAUSE OUR RESULTS TO FALL SHORT OF EXPECTATIONS.

Our operating results may fluctuate as a result of a number of factors, many outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly, year-to-date, and annual expenses as a percentage of our revenues may differ significantly from our historical or projected rates. Our operating results in future quarters may fall below expectations. Each of the following factors may affect our operating results:

- our ability to deliver products in a timely manner in sufficient volumes;
- our ability to recognize product trends;
- our loss of one or more significant customers;
- the introduction of successful new products by our competitors; and
- adverse media reports on the use or efficacy of sports nutrition supplements.

Because our business is changing and evolving, our historical operating results may not be useful to you in predicting our future operating results.

THE EFFECTS OF THE RECENT GLOBAL ECONOMIC CRISIS MAY IMPACT OUR BUSINESS, OPERATING RESULTS, OR FINANCIAL CONDITION.

The recent global economic crisis has caused disruptions and extreme volatility in global financial markets and increased rates of default and bankruptcy, and has impacted levels of consumer spending. These macroeconomic developments could negatively affect our business, operating results, or financial condition. For example, if consumer spending continues to decrease, this may result in lower sales.

OUR BUSINESS AND OPERATIONS ARE EXPERIENCING RAPID GROWTH. IF WE FAIL TO EFFECTIVELY MANAGE OUR GROWTH, OUR BUSINESS AND OPERATING RESULTS COULD BE HARMED.

We have experienced and expect to continue to experience rapid growth in our operations, which has placed, and will continue to place, significant demands on our management, operational and financial infrastructure. If we do not effectively manage our growth, we may fail to timely deliver products to our customers in sufficient volume or the quality of our products could suffer, which could negatively affect our operating results. To effectively manage this growth, we will need to hire additional persons, particularly in sales and marketing, and we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. These additional employees, systems enhancements and improvements will require significant capital expenditures and management resources. Failure to implement these improvements could hurt our ability to manage our growth and our financial position.

WE MAY BE EXPOSED TO MATERIAL PRODUCT LIABILITY CLAIMS, WHICH COULD INCREASE OUR COSTS AND ADVERSELY AFFECT OUR REPUTATION AND BUSINESS.

As a marketer and distributor of products designed for human consumption, we are subject to product liability claims if the use of our products is alleged to have resulted in injury. Our products consist of vitamins, minerals, herbs and other ingredients that are classified as dietary supplements and in most cases are not subject to pre-market regulatory approval in the United States or internationally. Previously unknown adverse reactions resulting from human consumption of these ingredients could occur.

We have not had any product liability claims filed against us, but in the future we may be, subject to various product liability claims, including among others that our products had inadequate instructions for use, or inadequate warnings concerning possible side effects and interactions with other substances. The cost of defense can be substantially higher than the cost of settlement even when claims are without merit. The high cost to defend or settle product liability claims could have a material adverse effect on our business and operating results.

OUR INSURANCE COVERAGE OR THIRD PARTY INDEMNIFICATION RIGHTS MAY NOT BE SUFFICIENT TO COVER OUR LEGAL CLAIMS OR OTHER LOSSES THAT WE MAY INCUR IN THE FUTURE.

We maintain insurance, including property, general and product liability, and workers' compensation to protect ourselves against potential loss exposures. In the future, insurance coverage may not be available at adequate levels or on adequate terms to cover potential losses, including on terms that meet our customer's requirements. If insurance coverage is inadequate or unavailable, we may face claims that exceed coverage limits or that are not covered, which could increase our costs and adversely affect our operating results.

OUR INTELLECTUAL PROPERTY RIGHTS ARE VALUABLE, AND ANY INABILITY TO PROTECT THEM COULD REDUCE THE VALUE OF OUR PRODUCTS AND BRAND.

We have invested significant resources to protect our brands and intellectual property rights. However, we may be unable or unwilling to strictly enforce our intellectual property rights, including our trademarks, from infringement. Our failure to enforce our intellectual property rights could diminish the value of our brands and product offerings and harm our business and future growth prospects.

WE MAY BE SUBJECT TO INTELLECTUAL PROPERTY RIGHTS CLAIMS, WHICH ARE COSTLY TO DEFEND, COULD REQUIRE US TO PAY DAMAGES AND COULD LIMIT OUR ABILITY TO SELL SOME OF OUR PRODUCTS.

As a marketer and distributor of products designed for human consumption, we are subject to product liability claims if the use of our products is alleged to have resulted in injury. Our products consist of vitamins, minerals, herbs and other ingredients that are classified as dietary supplements and in most cases are not subject to pre-market regulatory approval in the United States or internationally. Previously unknown adverse reactions resulting from human consumption of these ingredients could occur.

WE RELY ON HIGHLY SKILLED PERSONNEL AND, IF WE ARE UNABLE TO RETAIN OR MOTIVATE KEY PERSONNEL, HIRE QUALIFIED PERSONNEL, WE MAY NOT BE ABLE TO GROW EFFECTIVELY.

Our performance largely depends on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization, particularly sales and marketing. Competition in our industry for qualified employees is intense. In addition, our compensation arrangements, such as our equity award programs, may not always be successful in attracting new employees and retaining and motivating our existing employees. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees.

An increase in product returns could negatively impact the Company's operating results and profitability.

The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain instances. While such returns have historically been nominal and within management’s expectations and the provisions established, future return rates may differ from those experienced in the past. Any significant increase in damaged or defective products or expected returns could have a material adverse effect on the Company’s operating results for the period or periods in which such returns materialize.

We have no manufacturing capacity and anticipate continued reliance on third-party manufacturers for the development and commercialization of our products.

We do not currently operate manufacturing facilities for production of our products. We lack the resources and the capabilities to manufacture our current offered products on a commercial scale. We do not intend to develop facilities for the manufacture of products for clinical trials or commercial purposes in the foreseeable future. We rely on third-party manufacturers to produce bulk products required to meet our sales needs. We plan to continue to rely upon contract manufacturers and, potentially, collaboration partners to manufacture commercial quantities of our products if and when approved for marketing by the applicable regulatory authorities.

Our contract manufacturers' failure to achieve and maintain high manufacturing standards, in accordance with applicable regulatory requirements, or the incidence of manufacturing errors, could result in patient injury or death, product shortages, product recalls or withdrawals, delays or failures in product testing or delivery, cost overruns or other problems that could seriously harm our business. Contract manufacturers often encounter difficulties involving production yields, quality control and quality assurance, as well as shortages of qualified personnel. Our existing manufacturers and any future contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business. In the event of a natural disaster, business failure, strike or other difficulty, we may be unable to replace a third-party manufacturer in a timely manner and the production of our products would be interrupted, resulting in delays and additional costs.

A SHORTAGE IN THE SUPPLY OF KEY RAW MATERIALS COULD INCREASE OUR COSTS OR ADVERSELY AFFECT OUR SALES AND REVENUES.

We obtain all of our raw materials from third-party suppliers with whom we do not have significant long-term supply contracts. Since all of the ingredients in our products are commonly used, we have not experienced any shortages or delays in obtaining raw materials. If things changed, shortages could result in materially higher raw material prices or adversely affect our ability to manufacture a product. Price increases from a supplier would directly affect our profitability if we are not able to pass price increases on to customers. Our inability to obtain adequate supplies of raw materials in a timely manner or a material increase in the price of our raw materials could have a material adverse effect on our business, financial condition and results of operations.

BECAUSE WE ARE SUBJECT TO NUMEROUS LAWS AND REGULATIONS, AND WE MAY BECOME INVOLVED IN LITIGATION FROM TIME TO TIME, WE COULD INCUR SUBSTANTIAL JUDGMENTS, FINES, LEGAL FEES AND OTHER COSTS.

Our industry is highly regulated. The manufacture, labeling and advertising for our products are regulated by various federal, state and local agencies as well as those of each foreign country to which we distribute. These governmental authorities may commence regulatory or legal proceedings, which could restrict the permissible scope of our product claims or the ability to manufacture and sell our products in the future. The FDA regulates our products to ensure that the products are not adulterated or misbranded. Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. Our advertising is subject to regulation by the FTC under the FTCA. In recent years the FTC has initiated numerous investigations of dietary supplement and weight loss products and companies. Additionally, some states also permit advertising and labeling laws to be enforced by private attorney generals, who may seek relief for consumers, seek class action certifications, seek class wide damages and product recalls of products sold by us. Any of these types of adverse actions against us by governmental authorities or private litigants could have a material adverse effect on our business, financial condition and results of operations.

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Other Risks Factors

WE MAY, IN THE FUTURE, ISSUE ADDITIONAL COMMON SHARES, WHICH WOULD REDUCE INVESTORS' PERCENT OF OWNERSHIP AND MAY DILUTE OUR SHARE VALUE.

Our Articles of Incorporation authorize the issuance of 2,500,000,000 shares of common stock, 5,000,000 shares of Series A Convertible Preferred Stock, 51 shares of Series B Preferred Stock, 500 shares of Series C Convertible Preferred Stock. The Company currently has 9,999,449 shares of blank-check preferred stock authorized but undesignated. The future issuance of common stock may result in substantial dilution in the percentage of our common stock held by our then existing shareholders. We may value any common stock issued in the future on an arbitrary basis. The issuance of common stock for future services or acquisitions or other corporate actions may have the effect of diluting the value of the shares held by our investors, and might have an adverse effect on any trading market for our common stock.

OUR COMMON STOCK IS QUOTED ON THE OTCBB, WHICH MAY HAVE AN UNFAVORABLE IMPACT ON OUR STOCK PRICE AND LIQUIDITY.

Our common stock is quoted on the OTCBB. The OTCBB is a significantly more limited market than the New York Stock Exchange or NASDAQ system. The quotation of our shares on the OTCBB may result in a less liquid market available for existing and potential stockholders to trade shares of our common stock, could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future.

OUR COMMON SHARES ARE SUBJECT TO THE "PENNY STOCK" RULES OF THE SEC AND THE TRADING MARKET IN OUR SECURITIES IS LIMITED, WHICH MAKES TRANSACTIONS IN OUR STOCK CUMBERSOME AND MAY REDUCE THE VALUE OF AN INVESTMENT IN OUR STOCK.

The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions.

For any transaction involving a penny stock, unless exempt, the rules require:

(a) that a broker or dealer approve a person’s account for transactions in penny stocks; and

(b) the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person’s account for transactions in penny stocks, the broker or dealer must: (a) obtain financial information and investment experience objectives of the person; and (b) make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form: (a) sets forth the basis on which the broker or dealer made the suitability determination, and (b) that the broker or dealer received a signed, written agreement from the investor prior to the transaction. Generally, brokers may be less willing to execute transactions in securities subject to the “penny stock” rules. This may make it more difficult for investors to dispose of our Common shares and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

LIABILITY OF DIRECTORS FOR BREACH OF DUTY OF CARE IS LIMITED.

According to Nevada law (NRS 78.138(7)), all Nevada corporations limit the liability of directors and officers, including acts not in good faith. Our stockholders' ability to recover damages for fiduciary breaches may be reduced by this statute. In addition, we are obligated to indemnify our directors and officers regarding stockholder suits which they successfully defend (NRS 78.7502).

BECAUSE WE DO NOT INTEND TO PAY ANY CASH DIVIDENDS ON OUR COMMON STOCK, OUR STOCKHOLDERS WILL NOT BE ABLE TO RECEIVE A RETURN ON THEIR SHARES UNLESS THEY SELL THEM.

We intend to retain any future earnings to finance the development and expansion of our business. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. Unless we pay dividends, our stockholders will not be able to receive a return on their shares unless they sell them. There is no assurance that stockholders will be able to sell shares when desired.

WE WILL INCUR ONGOING COSTS AND EXPENSES FOR SEC REPORTING AND COMPLIANCE, AND WITHOUT REVENUE WE MAY NOT BE ABLE TO REMAIN IN COMPLIANCE WITH THE SEC, MAKING IT DIFFICULT FOR INVESTORS TO SELL THEIR SHARES, IF AT ALL.

To remain eligible for quotation on the OTCBB, issuers must remain current in their filings with the SEC. Market Makers are not permitted to begin quotation of a security whose issuer does not meet this filing requirement. Securities already quoted on the OTCBB that become delinquent in their required filings will be removed following a 30 or 60 day grace period if they do not make their required filing during that time. In order for us to remain in compliance we will require future revenues to cover the cost of these filings, which could comprise a substantial portion of our available cash resources. If we are unable to generate sufficient revenues to remain in compliance it may be difficult for you to resell any shares you may purchase, if at all.

WE MAY ISSUE ADDITIONAL SHARES OF PREFERRED STOCK IN THE FUTURE THAT MAY ADVERSELY IMPACT YOUR RIGHTS AS HOLDERS OF OUR COMMON STOCK.

Our articles of incorporation authorize us to issue up to issue up to 15,000,000 shares of preferred stock in various classes. Currently, the Company has 51 shares of Series B preferred stock outstanding and 0 shares of Series C preferred stock outstanding. The Series C preferred stock is convertible into shares of the Company's common stock.

Our board of directors will have the authority to fix and determine the relative rights and preferences of preferred shares, as well as the authority to issue additional shares, without further stockholder approval. As a result, our board of directors could authorize the issuance of a series of preferred stock that would grant to holders preferred rights to our assets upon liquidation, the right to receive dividends before dividends are declared to holders of our common stock, and the right to the redemption of such preferred shares, together with a premium, prior to the redemption of the common stock. To the extent that we do issue such additional shares of preferred stock, your rights as holders of common stock could be impaired thereby, including, without limitation, dilution of your ownership interests in us. In addition, shares of preferred stock could be issued with terms calculated to delay or prevent a change in control or make removal of management more difficult, which may not be in your interest as a holder of common stock.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information contained in this registration statement, including in the documents incorporated by reference into this registration statement, includes some statements that are not purely historical and that are "forward-looking statements." Such forward-looking statements include, but are not limited to, statements regarding our and our management's expectations, hopes, beliefs, intentions or strategies regarding the future, including our financial condition and results of operations. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipates," "believes, "continue," "could," "estimates," "expects," "intends," "may," "might," "plans "potential," "predicts," "projects," "seeks," "should," "will," "would" and similar expressions, or the negatives of such terms, r identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking.

The forward-looking statements contained in this registration statement are based on current expectations and beliefs concerning future developments and the potential effects on the parties and the transaction. There can be no assurance that future developments actually affecting us will be those anticipated. Those that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements, including the following forward-looking statements, involve a number of risks, uncertainties (some of which are beyond the Company's control) or other assumptions.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the common stock offered through this prospectus by the Selling Security Holders. However, we will receive in the event that some or all of the warrants held by a Selling Security Holder are exercised for cash. There can be no assurance that any of the Selling Security Holders will exercise their warrants or that we will receive any proceeds therefrom. We intend to use the net proceeds received for working capital or general corporate needs.

DETERMINATION OF OFFERING PRICE

Our common stock currently trades on the OTCBB under the symbol "MSLP.OB". The proposed offering price of the Put Shares and the Purchased Shares is $0.01 and has been estimated solely for the purpose of computing the amount of the registration fee in accordance with Rule 457(c) of the Securities Act of 1933, on the basis of the closing bid price of common stock of the Company as reported on the OTCBB on September 20, 2012. The offering price of the Warrant Shares is $0.015, which is equal to the exercise price of the warrants. The Selling Security Holders may sell shares in any manner at the current market price.

SELLING SECURITY HOLDERS

The Purchased Shares

The 42,000,000 Purchased Shares being offered for resale in this registration statement are held by certain shareholders who purchased shares of our common stock in private transactions.

The Warrant Shares

The 32,400,000 Warrant Shares being offered for resale in this registration statement are held by certain shareholders who purchased common stock purchase warrants in private transactions.

All expenses incurred with respect to the registration of the common stock will be borne by us, but we will not be obligated to pay any underwriting fees, discounts, commission or other expenses incurred by the Selling Security Holders in connection with the sale of such shares.

Except as indicated below, neither the Selling Security Holders nor any of their associates or affiliates has held any position, office, or other material relationship with us in the past three years.

The following table sets forth the name of the Selling Security Holders, the number of shares of common stock beneficially owned by each of the Selling Security Holders as of the date hereof and the number of share of common stock being offered by each of the Selling Security Holders. The shares being offered hereby are being registered to permit public secondary trading, and the selling stockholders may offer all or part of the shares for resale from time to time. However, the selling stockholder is under no obligation to sell all or any portion of such shares nor is the selling stockholders obligated to sell any shares immediately upon effectiveness of this prospectus. All information with respect to share ownership has been furnished by the Selling Security Holder. The “Number of Shares Beneficially AY: inline; FONT-FAMILY: times new roman; FONT-SIZE: 10pt">1,704

(246)
267
25

For definitions of the notes refer to page 7.

Results summary (continued)

Key metrics	Year ended 31 December 2011	Year ended 31 December 2010	Quarter ended 31 December 2011	Quarter ended 30 September 2011	Quarter ended 31 December 2010
Performance ratios					
Core					
- Net interest margin	2.16%	2.23%	2.09%	2.10%	2.25%
- Cost:income ratio (5)	60%	56%	62%	62%	58%
- Return on equity	10.5%	13.3%	7.1%	8.5%	12.1%
- Adjusted earnings/(loss) per ordinary and B share from continuing operations	0.7p	2.4p	(0.6p)	-	0.4p
- Adjusted earnings per ordinary and B share from continuing operations assuming a normalised tax rate of 26.5% (2010 - 28.0%)	4.1p	4.8p	0.7p	0.9p	1.1p
Non-Core					
- Net interest margin	0.64%	1.16%	0.31%	0.43%	1.09%
- Cost:income ratio (5)	128%	101%	nm	nm	nm
Group					
- Net interest margin	1.92%	2.01%	1.84%	1.84%	2.02%
- Cost:income ratio (5)	62%	60%	72%	68%	65%
Continuing operations					

- Basic (loss)/earnings per ordinary and B share (6)	(1.8p)	(0.5p)	(1.7p)	1.1p	-

nm = not meaningful

For definitions of the notes refer to page 7.

Results summary (continued)

	31 December 2011	30 September 2011	Change	31 December 2010	Change
Capital and balance sheet					
Funded balance sheet (7)	£977bn	£1,035bn	(6%)	£1,026bn	(5%)
Total assets	£1,507bn	£1,608bn	(6%)	£1,454bn	4%
Loan:deposit ratio - Core (8)	94%	95%	(100bp)	96%	(200bp)
Loan:deposit ratio - Group (8)	108%	112%	(400bp)	118%	(1,000bp)
Risk-weighted assets - gross	£508bn	£512bn	(1%)	£571bn	(11%)
Benefit of Asset Protection Scheme (APS)	(£69bn)	(£89bn)	(22%)	(£106bn)	(35%)
Risk-weighted assets - net of APS	£439bn	£423bn	4%	£465bn	(6%)
Total equity	£76bn	£79bn	(4%)	£77bn	(1%)
Core Tier 1 ratio*	10.6%	11.3%	(70bp)	10.7%	(10bp)
Tier 1 ratio	13.0%	13.8%	(80bp)	12.9%	10bp
Risk elements in lending (REIL)	£41bn	£43bn	(5%)	£39bn	5%
REIL as a % of gross loans and advances (9)	8.6%	8.4%	20bp	7.3%	130bp
Tier 1 leverage ratio (10)	16.9x	17.5x	(3%)	16.8x	1%
Tangible equity leverage ratio (11)	5.7%	5.7%	-	5.5%	20bp
Tangible equity per ordinary and B share (12)	50.1p	52.6p	(5%)	51.1p	(2%)

* Benefit of APS in Core Tier 1 ratio is 0.9% at 31 December 2011 (30 September 2011 - 1.3%; 31 December 2010 - 1.2%).

Notes:

(1) Excluding movements in the fair value of own debt, Asset Protection Scheme, gain on redemption of own debt, strategic disposals and RFS Holdings minority interest.

(2) Excluding Payment Protection Insurance costs, amortisation of purchased intangible assets, integration and restructuring costs, bonus tax, bank levy, write-down of goodwill and other intangible assets and RFS Holdings minority interest.

(3) Operating profit/(loss) before tax, movements in the fair value of own debt, Asset Protection Scheme, Payment Protection Insurance costs, sovereign debt impairment and related interest rate hedge adjustments, amortisation of purchased intangible

assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, bank levy, write-down of goodwill and other intangible assets and RFS Holdings minority interest.

(4) Excluding sovereign debt impairment and related interest rate hedge adjustments on impaired available-for-sale Greek government bonds.

(5) Cost:income ratio is based on total income and operating expenses as defined in (1) and (2) above and after netting insurance claims against income.

(6) (Loss)/profit from continuing operations attributable to ordinary and B shareholders divided by the weighted average number of ordinary and B shares in issue. Refer to page 89.

(7) Funded balance sheet represents total assets less derivatives.

(8) Net of provisions and including disposal groups.

(9) Gross loans and advances to customers include in disposal groups and exclude reverse repurchase agreements.

(10) Tier 1 leverage ratio is total tangible assets (after netting derivatives) divided by Tier 1 capital.

(11) Tangible equity leverage ratio is total tangible equity divided by total tangible assets (after netting derivatives).

(12) Tangible equity per ordinary and B share is total tangible equity divided by the number of ordinary and B shares in issue.

Results summary - statutory

Highlights

· Income of £28,937 million for the year ended 31 December 2011 and £5,038 million for Q4 2011.

· Operating loss before tax of £766 million for the year ended 31 December 2011 and £1,976 million for Q4 2011.

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
	£m	£m	£m	£m	£m
Continuing operations					
Total income	28,937	31,868	5,038	8,603	7,822
Operating expenses	(18,026)	(18,228)	(4,567)	(4,127)	(4,507)
Operating profit/(loss) before impairment losses	7,943	8,857	(58)	3,742	2,133
Impairment losses	(8,709)	(9,256)	(1,918)	(1,738)	(2,141)
Operating (loss)/profit before tax	(766)	(399)	(1,976)	2,004	(8)
(Loss)/profit attributable to ordinary and B shareholders	(1,997)	(1,125)	(1,798)	1,226	12

A reconciliation between statutory and managed view income statements is shown in Appendix 1 to this announcement.

Summary consolidated income statement
for the year and quarter ended 31 December 2011

In the income statement set out below, movements in the fair value of own debt, Asset Protection Scheme, Payment Protection Insurance costs, sovereign debt impairment, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, bank levy, interest rate hedge adjustments on impaired available-for-sale Greek government bonds, write-down of goodwill and other intangible assets and RFS Holdings minority interest are shown separately. In the statutory condensed consolidated income statement on page 68, these items are included in income and operating expenses as appropriate.

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Core	£m	£m	£m	£m	£m
Net interest income	12,023	12,517	3,003	2,968	3,220
Non-interest income (excluding insurance net premium income)	10,578	12,755	1,948	2,352	2,827
Insurance net premium income	3,970	4,426	972	992	1,091
Non-interest income	14,548	17,181	2,920	3,344	3,918
Total income (1)	26,571	29,698	5,923	6,312	7,138
Operating expenses (2)	(14,183)	(14,454)	(3,330)	(3,498)	(3,600)
Profit before insurance net claims and impairment losses	12,388	15,244	2,593	2,814	3,538
Insurance net claims	(2,773)	(4,046)	(590)	(696)	(937)
Operating profit before impairment losses (3)	9,615	11,198	2,003	2,118	2,601
Impairment losses (4)	(3,520)	(3,780)	(941)	(854)	(930)
Operating profit (3)	6,095	7,418	1,062	1,264	1,671
Non-Core					
Net interest income	666	1,683	73	110	358

Non-interest income (excluding insurance net premium income)	254	579	(386)	(108)	(218)
Insurance net premium income	286	702	9	44	181
Non-interest income	540	1,281	(377)	(64)	(37)
Total income/(loss) (1)	1,206	2,964	(304)	46	321
Operating expenses (2)	(1,295)	(2,256)	(314)	(323)	(481)
(Loss)/profit before insurance net claims and impairment losses	(89)	708	(618)	(277)	(160)
Insurance net claims	(195)	(737)	61	(38)	(245)
Operating loss before impairment losses (3)	(284)	(29)	(557)	(315)	(405)
Impairment losses (4)	(3,919)	(5,476)	(751)	(682)	(1,211)
Operating loss (3)	(4,203)	(5,505)	(1,308)	(997)	(1,616)

For definitions of the notes refer to page 7.

Summary consolidated income statement
for the year and quarter ended 31 December 2011 (continued)

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Total	£m	£m	£m	£m	£m
Net interest income	12,689	14,200	3,076	3,078	3,578
Non-interest income (excluding insurance net premium income)	10,832	13,334	1,562	2,244	2,609
Insurance net premium income	4,256	5,128	981	1,036	1,272
Non-interest income	15,088	18,462	2,543	3,280	3,881
Total income (1)	27,777	32,662	5,619	6,358	7,459
Operating expenses (2)	(15,478)	(16,710)	(3,644)	(3,821)	(4,081)
Profit before insurance net claims and	12,299	15,952	1,975	2,537	3,378

impairment losses					
Insurance net claims	(2,968)	(4,783)	(529)	(734)	(1,182)
Operating profit before impairment losses (3)	9,331	11,169	1,446	1,803	2,196
Impairment losses (4)	(7,439)	(9,256)	(1,692)	(1,536)	(2,141)
Operating profit/(loss) (3)	1,892	1,913	(246)	267	55
Fair value of own debt	1,846	174	(370)	2,357	582
Asset Protection Scheme	(906)	(1,550)	(209)	(60)	(725)
Payment Protection Insurance costs	(850)	-	-	-	-
Sovereign debt impairment	(1,099)	-	(224)	(142)	-
Amortisation of purchased intangible assets	(222)	(369)	(53)	(69)	(96)
Integration and restructuring costs	(1,064)	(1,032)	(478)	(233)	(299)
Gain/(loss) on redemption of own debt	255	553	(1)	1	-
Strategic disposals	(104)	171	(82)	(49)	502
Bank levy	(300)	-	(300)	-	-
Write-down of goodwill and other intangible assets	(11)	(10)	(11)	-	(10)
Other items	(203)	(249)	(2)	(68)	(17)
(Loss)/profit before tax	(766)	(399)	(1,976)	2,004	(8)
Tax (charge)/credit	(1,250)	(634)	186	(791)	3
(Loss)/profit from continuing operations	(2,016)	(1,033)	(1,790)	1,213	(5)
Profit/(loss) from discontinued operations, net of tax	47	(633)	10	6	55
(Loss)/profit for the period	(1,969)	(1,666)	(1,780)	1,219	50
Non-controlling interests	(28)	665	(18)	7	(38)
Preference share and other dividends	-	(124)	-	-	-
(Loss)/profit attributable to ordinary and B shareholders	(1,997)	(1,125)	(1,798)	1,226	12

For definitions of the notes refer to page 7.

Summary consolidated balance sheet
at 31 December 2011

	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Loans and advances to banks (1)	43,870	52,602	57,911
Loans and advances to customers (1)	454,112	485,573	502,748
Reverse repurchase agreements and stock borrowing	100,934	102,259	95,119
Debt securities and equity shares	224,263	244,545	239,678
Other assets	154,070	150,405	131,043
Funded assets	977,249	1,035,384	1,026,499
Derivatives	529,618	572,344	427,077
Total assets	1,506,867	1,607,728	1,453,576
Bank deposits (2)	69,113	78,370	66,051
Customer deposits (2)	414,143	433,660	428,599
Repurchase agreements and stock lending	128,503	131,918	114,833
Settlement balances and short positions	48,516	66,478	54,109
Subordinated liabilities	26,319	26,275	27,053
Other liabilities	220,237	230,361	262,113
Funded liabilities	906,831	967,062	952,758
Derivatives	523,983	561,790	423,967
Total liabilities	1,430,814	1,528,852	1,376,725
Owners' equity	74,819	77,443	75,132
Non-controlling interests	1,234	1,433	1,719
Total liabilities and equity	1,506,867	1,607,728	1,453,576
Memo: Tangible equity (3)	55,217	57,955	55,940

Notes:

(1) Excluding reverse repurchase agreements and stock borrowing.
(2) Excluding repurchase agreements and stock lending.
(3) Tangible equity is equity attributable to ordinary and B shareholders less intangible assets.

Net interest income	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Quarter ended 31 December 2011 £m	Quarter ended 30 September 2011 £m	Quarter ended 31 December 2010 £m
Net interest income (1)	12,690	13,838	3,082	3,074	3,365
Average interest-earning assets	662,222	689,958	664,613	663,956	661,380
Net interest margin					
- Group	1.92%	2.01%	1.84%	1.84%	2.02%
- Core					
- Retail & Commercial (2)	3.21%	3.14%	3.17%	3.19%	3.21%
- Global Banking & Markets	0.73%	1.05%	0.76%	0.71%	0.93%
- Non-Core	0.64%	1.16%	0.31%	0.43%	1.09%

Notes:

(1) For further analysis and details of adjustments refer to pages 74 and 75.
(2) Retail & Commercial (R&C) comprises the UK Retail, UK Corporate, Wealth, Global Transaction Services, Ulster Bank and US Retail & Commercial divisions.

Key points

2011 compared with 2010

- Group net interest income was 8% lower largely driven by the run-off of balances and exit of higher margin, higher risk segments in Non-Core.

- Group NIM was 9 basis points lower, reflecting the cost of carrying a higher liquidity portfolio and by the impact of non-performing assets in the Non-Core division.

- R&C NIM was up 7 basis points, with strengthening asset margins in the first half of the year offsetting the impact of a competitive deposit market.

Q4 2011 compared with Q3 2011

- Group net interest income remained stable in Q4 2011, as reduced interest expense from repayment of high cost government-guaranteed debt offset modest margin pressure in R&C.

- R&C NIM was 2 basis points lower, largely driven by competitive pricing on UK deposits and a continued decline in long-term swap rate returns on current accounts.

- Overall Group interest-earning assets were broadly stable. R&C interest-earning assets were flat, while elsewhere in the Group higher central bank cash balances offset asset run-off in GBM and Non-Core.

Q4 2011 compared with Q4 2010

- R&C NIM was down 4 basis points, with continued tightening of liability margins and a decline in long-term swap rate returns on current accounts more than offsetting asset repricing actions.

- Average interest-earning assets were up slightly at £665 billion, with growth in UK mortgage balances and in liquidity holdings offsetting Non-Core run-off.

Analysis of results (continued)

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Non-interest income	£m	£m	£m	£m	£m
Net fees and commissions	4,924	5,983	1,017	1,148	1,604
Income from trading activities	3,381	6,138	140	547	979
Other operating income	2,527	1,213	405	549	26
Non-interest income (excluding insurance net premium income)	10,832	13,334	1,562	2,244	2,609
Insurance net premium income	4,256	5,128	981	1,036	1,272
Total non-interest income	15,088	18,462	2,543	3,280	3,881

Key points

2011 compared with 2010

- Non-interest income decreased by £3,374 million in 2011 principally driven by lower trading income in GBM and Non-Core and a fall in insurance net premium income.

- Volatile market conditions led to a reduction in GBM trading income, driven by the deterioration in global credit markets as sovereign difficulties in the eurozone grew.

- Non-Core trading losses increased by £690 million, reflecting costs incurred as part of the division's focus on reducing capital trading assets, with activity including the restructuring of monoline exposures, which mitigated both significant immediate and future regulatory uplifts in risk-weighted assets.

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Insurance net premium income fell by 17% largely driven by RBS Insurance's exit from certain business segments, along with reduced volumes reflecting the de-risking of the motor book. Insurance net premium income in Non-Core also decreased as legacy policies ran-off.

- 2010 results included £482 million of income recorded for GMS prior to its disposal in November 2010.

Q4 2011 compared with Q3 2011

- GBM trading income included a £368 million change in own credit on derivative liabilities, partially offset by an improved credit hedging (CEM) position of £235 million. Excluding these items, GBM trading income was £542 million versus £551 million in Q3 2011.

- Insurance premium income fell, largely reflecting the continued de-risking of the motor portfolio.

Q4 2011 compared with Q4 2010

- More challenging market conditions reduced trading and fee income in GBM.

Analysis of results (continued)

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Operating expenses	£m	£m	£m	£m	£m
Staff expenses	8,163	8,956	1,781	1,963	2,059
Premises and equipment	2,278	2,276	575	584	636
Other	3,395	3,716	838	858	938
Administrative expenses	13,836	14,948	3,194	3,405	3,633
Depreciation and amortisation	1,642	1,762	450	416	448
Operating expenses	15,478	16,710	3,644	3,821	4,081
General insurance	2,968	4,698	529	734	1,151
Bancassurance	-	85	-	-	31
Insurance net claims	2,968	4,783	529	734	1,182

Staff costs as a % of total income	29%	27%	32%	31%	28%

Key points

2011 compared with 2010

· Group expenses were 7% lower in 2011, driven by cost savings achieved as a result of the cost reduction programme and Non-Core run-off, largely reflecting the disposal of RBS Sempra and specific country exits.

· Staff expenses fell 9%, driven by lower GBM variable compensation as a result of its decrease in revenues, and in Non-Core, given the impact of a 32% reduction in headcount and continued business disposals and country exits.

· General insurance claims were £1,730 million lower, mainly due to the non-repeat of bodily injury reserve strengthening in 2010, de-risking of the motor book, more benign weather in 2011 and claims in Non-Core decreasing as legacy policies ran-off.

· The Group's cost reduction programme delivered cost savings with an underlying run rate of over £3 billion by the end of 2011.

Q4 2011 compared with Q3 2011

· Group expenses fell by 5%, significantly driven by a reduction in GBM variable compensation accrued in the first half of 2011. Core R&C expenses declined by 3% in part reflecting lower deposit insurance levies in Wealth and US R&C and continued benefits from the cost reduction programme.

· Non-Core expenses fell 3% largely driven by ongoing rundown of the division.

Q4 2011 compared with Q4 2010

· Group expenses were £437 million, or 11% lower than in the prior year, with Non-Core expenses down 35% reflecting the impact of business disposals and country exits and significantly lower current year variable compensation in GBM.

· General insurance claims fell by 54% as net claims in RBS Insurance fell by £309 million, reflecting an improved risk mix, more benign weather in Q4 2011 and the exit of certain business segments. Legacy business run-off in Non-Core also reduced claims.

Analysis of results (continued)

	Year ended		Quarter ended	

Impairment losses	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Loan impairment losses	7,241	9,144	1,654	1,452	2,155
Securities impairment losses	198	112	38	84	(14)
Group impairment losses	7,439	9,256	1,692	1,536	2,141
Loan impairment losses					
- latent	(545)	(121)	(190)	(60)	(116)
- collectively assessed	2,591	3,070	591	689	729
- individually assessed	5,195	6,208	1,253	823	1,555
Customer loans	7,241	9,157	1,654	1,452	2,168
Bank loans	-	(13)	-	-	(13)
Loan impairment losses	7,241	9,144	1,654	1,452	2,155
Core	3,403	3,737	924	817	912
Non-Core	3,838	5,407	730	635	1,243
Group	7,241	9,144	1,654	1,452	2,155
Customer loan impairment charge as a % of gross loans and advances (1)					
Group	1.5%	1.7%	1.3%	1.1%	1.6%
Core	0.8%	0.9%	0.9%	0.8%	0.9%
Non-Core	4.8%	4.9%	3.7%	2.8%	4.4%

Note:

(1) Customer loan impairment charge as a percentage of gross customer loans and advances excluding reverse repurchase agreements and including disposal groups.

Key points

2011 compared with 2010

· Group loan impairment losses decreased by 21% compared with 2010, driven largely by a £1,569 million reduction in Non-Core loan impairments, despite continuing challenges in Ulster Bank and corporate real estate portfolios.

· R&C loan impairment losses fell by £199 million, driven by improving credit metrics in UK Retail and US Retail & Commercial partially offset by increases in Ulster Bank, largely reflecting a deterioration in credit metrics on the mortgage portfolio, and a single name provision in GTS.

- Total Core and Non-Core Ulster Bank loan impairment losses decreased by 3%, as the £223 million increase in Core Ulster Bank losses was more than offset by a decrease in losses recognised in Non-Core.

- The Group customer loan impairment charge as a percentage of loans and advances fell to 1.5% compared with 1.7% for 2010. For Core, the comparable percentages are 0.8% and 0.9%.

Analysis of results (continued)

Key points (continued)

Q4 2011 compared with Q3 2011

- Group loan impairment losses increased by 14% in Q4 2011, largely reflecting a small number of corporate provisions in GBM and a small increase in Non-Core impairments related to the UK Corporate portfolio.

- Total Core and Non-Core Ulster Bank loan impairments fell by £38 million compared with Q3 2011, £570 million versus £608 million, driven by a 14% decrease in Non-Core Ulster Bank impairments. Core Ulster Bank impairments were broadly flat as lower losses on the corporate portfolio were offset by an increase in mortgage losses.

Q4 2011 compared with Q4 2010

- Group loan impairment losses fell 23% largely driven by a reduction in Non-Core impairment losses reflecting a reduction in Ulster Bank provisions in the quarter.

- Total Ulster Bank loan impairment losses (Core and Non-Core) were £570 million in Q4 2011, compared with £1,159 million in Q4 2010, driven by the decrease in Non-Core impairments.

- Loan impairment losses in R&C fell by £51 million, driven by improvements in UK Retail, US Retail & Commercial and Ulster Bank, partially offset by a single name provision in GTS and higher specific provisions in UK Corporate.

- Provision coverage of risk elements in lending was 49% at the end of Q4 2011, compared with 47% a year earlier.

Analysis of results (continued)

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
One-off and other items	£m	£m	£m	£m	£m
Fair value of own debt*	1,846	174	(370)	2,357	582
Asset Protection Scheme	(906)	(1,550)	(209)	(60)	(725)
Payment Protection Insurance costs	(850)	-	-	-	-
Sovereign debt impairment (1)	(1,099)	-	(224)	(142)	-
Amortisation of purchased intangible assets	(222)	(369)	(53)	(69)	(96)
Integration and restructuring costs	(1,064)	(1,032)	(478)	(233)	(299)
Gain/(loss) on redemption of own debt	255	553	(1)	1	-
Strategic disposals**	(104)	171	(82)	(49)	502
Bank levy	(300)	-	(300)	-	-
Write-down of goodwill and other intangible assets	(11)	(10)	(11)	-	(10)
Other					
- Bonus tax	(27)	(99)	-	(5)	(15)
- Interest rate hedge adjustments on impaired available-for-sale Greek government bonds	(169)	-	-	(60)	-
- RFS Holdings minority interest	(7)	(150)	(2)	(3)	(2)
	(2,658)	(2,312)	(1,730)	1,737	(63)
* Fair value of own debt impact:					
Income from trading activities	225	(75)	(170)	470	110
Other operating income	1,621	249	(200)	1,887	472
Fair value of own debt (FVOD)	1,846	174	(370)	2,357	582
**Strategic disposals					
(Loss)/gain on sale and provision for loss on disposal of investments in:					
- RBS Asset Management's investment strategies business	-	80	-	-	-
- Global Merchant Services	47	837	-	-	837
- Life assurance business	-	(231)	-	-	-
- Non-Core project finance assets	-	(221)	-	-	(221)
- Goodwill relating to UK branch-based businesses	(80)	-	(80)	-	-
- Other	(71)	(294)	(2)	(49)	(114)
	(104)	171	(82)	(49)	502

Note:

(1) The Group holds Greek government bonds with a notional amount of £1.45 billion. In the second quarter of 2011, the Group recorded an impairment loss of £733

million in respect of these bonds as a result of Greece's continuing fiscal difficulties. This charge (c.50% of notional) wrote the bonds down to their market price as at 30 June 2011. In the third quarter of 2011, an additional impairment loss of £142 million was recorded to write the bonds down to their market price as at 30 September 2011 (c.37% of notional). In the fourth quarter of 2011, an additional impairment loss of £224 million was recorded to write the bonds down to their market price as at 31 December 2011 (c.21% of notional).

Analysis of results (continued)

Key points

2011 compared with 2010

· One-off and other items amounted to a net charge of £2,658 million, including significant legacy costs for the Group: £850 million relating to PPI costs, £1,099 million in sovereign debt impairments, integration and restructuring costs of £1,064 million and a charge of £906 million for the APS. There was also a significant charge of £300 million for the bank levy.

· A full year gain on FVOD of £1,846 million as a result of Group credit spreads widening partially offset the 2011 charges. This compares with a smaller gain of £174 million in 2010.

· An impairment of £1,099 million was taken on the Group's AFS bond portfolio in 2011 as a result of the decline in the value of Greek sovereign bonds. As of 31 December 2011, the bonds were marked at 21% of par value.

· The APS fair value charge was £906 million in 2011. The cumulative charge for the APS was £2,456 million as at 31 December 2011.

· Integration and restructuring costs remained broadly flat at £1,064 million, reflecting significant GBM restructuring in 2011.

Q4 2011 compared with Q3 2011

· Q4 2011 integration and restructuring costs increased to £478 million, largely reflecting the GBM headcount reduction announced in 2011, as well as property exit costs.

· An additional impairment of £224 million was taken in Q4 2011 as a result of the continuing decline in the value of Greek sovereign bonds.

· The Group's credit spreads narrowed in the fourth quarter resulting in a FVOD charge of £370 million. This compares with a widening of spreads in Q3 2011 and a significant gain of £2,357 million.

· Q4 2011 included a charge of £300 million relating to the bank levy. For more details of this charge refer to page 19.

Q4 2011 compared with Q4 2010

· In Q4 2011 the Group recorded a loss of £370 million on FVOD, as Group credit spreads tightened. Wider credit spreads in Q4 2010 resulted in a gain of £582 million.

· The Q4 2011 APS fair value charge was £209 million compared with a charge of £725 million in Q4 2010, reflecting improved credit spreads in the quarter, as well as a further reduction in assets covered to £131.8 billion at 31 December 2011.

· Integration and restructuring costs increased from £299 million in Q4 2010 to £478 million in Q4 2011 largely reflecting significant restructuring within GBM along with continued business and country exits.

· A gain of £502 million on strategic disposals for Q4 2010 largely reflected the £837 million gain on the sale of Global Merchant Services, partially offset by losses on Non-Core project finance assets.

Analysis of results (continued)

Bank levy

The Finance Act 2011 introduced an annual bank levy in the UK. The levy is collected through the existing quarterly Corporation Tax collection mechanism starting with payment dates on or after 19 July 2011.

The levy is based on the total chargeable equity and liabilities as reported in the balance sheet at the end of a chargeable period. The first chargeable period for the Group was the year ended 31 December 2011. In determining the chargeable equity and liabilities the following amounts are excluded: adjusted Tier 1 capital; certain "protected deposits" (for example those protected under the Financial Services Compensation Scheme); liabilities that arise from certain insurance business within banking groups; liabilities in respect of currency notes in circulation; Financial Services Compensation Scheme liabilities; liabilities representing segregated client money; and deferred tax liabilities, current tax liabilities, liabilities in respect of the levy, revaluation of property liabilities, liabilities representing the revaluation of business premises and defined benefit retirement liabilities. It is also permitted in specified circumstances to reduce certain liabilities: by netting them against certain assets; offsetting assets on the relevant balance sheets that would qualify as high quality liquid assets (in accordance with the FSA definition); and repo liabilities secured against sovereign and supranational debt.

The levy will be set at a rate of 0.088 per cent from 2012. Three different rates applied during 2011, these average to 0.075 per cent. Certain liabilities are subject to only a half rate, namely any deposits not otherwise excluded, (except for those from financial institutions and financial traders) and liabilities with a maturity greater than one year at the balance sheet date. The levy is not charged on the first £20 billion of chargeable liabilities. The cost of the levy to the Group for 2011 is £300 million. As the Group continues to target a reduction in wholesale funding, the cost should decline over time absent further rate increases.

Analysis of results (continued)

Capital resources and ratios	31 December 2011	30 September 2011	31 December 2010
Core Tier 1 capital	£46bn	£48bn	£50bn
Tier 1 capital	£57bn	£58bn	£60bn
Total capital	£61bn	£62bn	£65bn
Risk-weighted assets			
- gross	£508bn	£512bn	£571bn
- benefit of the Asset Protection Scheme	(£69bn)	(£89bn)	(£106bn)
Risk-weighted assets	£439bn	£423bn	£465bn
Core Tier 1 ratio (1)	10.6%	11.3%	10.7%
Tier 1 ratio	13.0%	13.8%	12.9%
Total capital ratio	13.8%	14.7%	14.0%

Note:

(1) The benefit of APS in Core Tier 1 ratio is 0.9% at 31 December 2011 (30 September 2011 - 1.3%; 31 December 2010 - 1.2%).

Key points

2011 compared with 2010

· The Group's Core Tier 1 ratio remained strong at 10.6%. Core Tier 1 ratio fell 10 basis points compared with 2010, reflecting the PPI charge, the impairment taken on the Group's AFS bond portfolio in relation to Greek sovereign bonds, the bank levy and the implementation of CRD III.

· Gross risk-weighted assets fell £63 billion, or 11% in 2011. Net of the APS scheme the decline was £26 billion. The fall in risk-weighted assets was largely driven by Non-Core run-off and business exits, combined with specific actions taken in Non-Core to reduce capital intensive assets. These were partially offset by CRD III related uplifts which added £21 billion.

Q4 2011 compared with Q3 2011

· The Core Tier 1 ratio declined 70 basis points versus Q3 2011, reflecting a £21 billion uplift in risk-weighted assets from the implementation of CRD III, along with the quarter's attributable loss.

· Gross risk-weighted assets were broadly flat on the previous quarter, with the CRD III related uplift offset by Non-Core risk-weighted assets reduction from run-off and restructuring activity.

·

The Q4 2011 capital relief from APS declined to 0.9%, versus 1.3% in Q3 2011, due to the significant decline in covered assets in Non-Core of £20 billion.

Analysis of results (continued)

Balance sheet	31 December 2011	30 September 2011	31 December 2010
Funded balance sheet (1)	£977bn	£1,035bn	£1,026bn
Total assets	£1,507bn	£1,608bn	£1,454bn
Loans and advances to customers (2)	£474bn	£487bn	£508bn
Customer deposits (3)	£437bn	£435bn	£431bn
Loan:deposit ratio - Core (4)	94%	95%	96%
Loan:deposit ratio - Group (4)	108%	112%	118%

Notes:

(1) Funded balance sheet represents total assets less derivatives.
(2) Excluding reverse repurchase agreements and stock borrowing, and including disposal groups.
(3) Excluding repurchase agreements and stock lending, and including disposal groups.
(4) Net of provisions and including disposal groups. Excluding disposal groups, the loan:deposit ratios of Core and Group at 31 December 2011 were 94% and 110% respectively.

Key points

· Funded assets declined £58 billion in the quarter to close the year at £977 billion. GBM's funded assets fell £35 billion in 2011, to £362 billion, with further reductions to circa £300 billion of funded assets targeted as RBS restructures its wholesale businesses. Non-Core funded assets fell by £11 billion in the quarter, £44 billion in the year, closing 2011 with funded assets of £94 billion, ahead of its revised target of £96 billion.

· Loans and advances to customers, including disposal groups of £19 billion, were down 3% from Q3 2011, and down 7% from Q4 2010, largely reflecting run-off in Non-Core. Loans and advances in R&C were broadly flat in the year.

· Customer deposits, including disposal groups of £23 billion, increased by £6 billion from Q4 2010. R&C deposits increased by £10 billion, 3%, from 2010, partially offset by a decrease in Non-Core as business disposals and country exits continued. Customer deposits also increased by £3 billion compared with Q3 2011, as UK

Retail attracted £3 billion of new deposits and UK Corporate attracted £2 billion of new deposits, partially offset by reductions in GBM and Ulster Bank.

- The Group loan:deposit ratio improved to 108% at 31 December 2011, a 900 basis point improvement from 31 December 2010. The Core loan:deposit ratio also improved to 94% compared with 96% a year earlier.

Further discussion of the Group's liquidity and funding position is included on pages 136 to 145.

Signatures

Pursuant to the requirements 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.

Date: 23 February 2012

THE ROYAL BANK OF SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary