Fuse Science, Inc.
Form 10-Q/A
September 05, 2012

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1 to

Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For Quarter Ended: June 30, 2012

Commission File Number: 000-22991

Fuse Science, Inc.

(Exact name of small business issuer as specified in its charter)

NEVADA	87-0460247
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

6135 NW 167 Street Suite E-21 Miami Lakes, FL 33015

(Address of principal executive office)

(305) 503-3873

(Issuer's telephone number)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 x 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 (Section 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 x

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 x ..

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

The number of shares outstanding of registrant’s common stock, par value $0.001 per share, as of August 13, 2012 was 145,548,876.

FUSE SCIENCE, INC. AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

AMENDMENT NO. 1 TO THE QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2012

EXPLANATORY NOTE

After having filed our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (the “Quarterly Report”) with the Securities and Exchange Commission, we discovered that we had erred in our accounting for and reporting our unamortized fair value of our warrants.

As a result of the above item, we file in this Amendment No. 1 to the Quarterly Report are revised financial statements and related notes in Part 1, Item I. All other disclosure items in the Quarterly Report remain as originally filed.

- Current liabilities were understated by $177,651
- Long-term liabilities were understated by $624,995
- Stockholders’ deficit was overstated by $802,646

FUSE SCIENCE, INC. AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

FUSE SCIENCE, INC. AND SUBSIDIARIES

(Development Stage Companies)

Consolidated Balance Sheets

	June 30, 2012 (Unaudited)	September 30, 2011 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 50,997	$ 147,907
Accounts receivable	22,665	-
Inventory	67,976	-
Prepaid expenses	478,209	59,264
Deferred financing costs	649,535	-
Total current assets	1,269,382	207,171
Other assets:		
Available-for-sale investments	-	8,320
Deferred financing costs	334,029	
Equipment, net	12,375	-
Intellectual property, net	131,725	126,917
Total other assets	478,129	135,237
Total assets	$ 1,747,511	$ 342,408
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 355,600	$ 342,009
Accounts payable - related parties	-	28,558
Deferred sales	155	-
Convertible notes payable, net of discount	102,915	606,976
Accrued expenses	160,311	21,684
Total current liabilities	618,981	999,227
Convertible notes payable, net	1,743,565	-
Total liabilities	2,362,546	999,227
Commitments and contingencies	-	-
STOCKHOLDERS' DEFICIT		
	-	-

Preferred stock, $0.001 par value; authorized 10,000,000 shares; no shares issued and outstanding; $100 per share liquidation preference		
Common stock, $.001 par value; authorized 400,000,000 shares; 128,519,270 and 93,612,039 shares issued and outstanding at June 30, 2012 and September 30, 2011, respectively and September 30, 2011, respectively	128,519	93,612
Additional paid-in capital	27,760,233	12,667,350
Stock options	(4,366,878)	(680,711)
Deferred consulting fees	(674,690)	(541,558)
Accumulated other comprehensive income	-	2,590
Accumulated deficit:		
During the development stage	(13,459,021)	(2,194,904)
Other	(9,876,854)	(9,876,854)
Total accumulated deficit	(23,335,875)	(12,071,758)
Total stockholders' (deficit)	(488,691)	(530,475)
Non-controlling interest	(126,344)	(126,344)
Total stockholders' (deficit)	(615,035)	(656,819)
Total liabilities and stockholders' (deficit)	$ 1,747,511	$ 342,408

See accompanying notes to consolidated financial statements.

FUSE SCIENCE, INC. AND SUBSIDIARIES

(Development Stage Companies)

Consolidated Statements of Operations

Three Months Ended June 30, 2012 and 2011

(Unaudited)

	2012	2011
Revenue		
Sales, net	$ 35,872	$ -
Cost of sales	10,960	-
	24,912	-
Expenses:		
Related party services	-	162,405
General and administrative expense	1,878,399	111,471
Total expenses	1,878,399	273,876
Loss from operations	(1,853,487)	(273,876)
Other (expense):		
Interest expense – stockholders	(1,035,486)	-
Beneficial conversion feature	-	(194,209)
Realized loss	(5,730)	-
Other expense	(1,041,216)	(194,209)
Net loss attributable to controlling and non-controlling interest	(2,894,703)	(468,085)
Loss attributable to non-controlling interests	0	0
Net loss attributable to stockholders	(2,894,703)	(468,085)
Loss per share, basic and diluted	$ (0.02)	$ (0.01)
Weighted average shares outstanding	125,733,799	78,807,865
Net loss	(2,894,703)	(468,085)
Other comprehensive income (loss)		
Unrealized loss on available-for-sale securities (none attributed to the non-controlling interest)	-	(2,130)
Net comprehensive loss	$ (2,894,703)	$ (470,215)

See accompanying notes to consolidated financial statements.

FUSE SCIENCE, INC. AND SUBSIDIARIES

(Development Stage Companies)

Consolidated Statements of Operations

Nine Months Ended June 30, 2012 and 2011 and from Development Stage Inception

(January 20, 2009) through June 30, 2012

(Unaudited)

	2012	2011	Development Stage Inception (January 20, 2009) Through June 30, 2012
Revenue			
Sales, net	$ 60,045	$ -	$ 60,045
Management income – affiliate	-	-	11,367
Total income	60,045	-	71,412
Cost of sales	16,827	-	16,827
	43,218	-	54,585
Expenses:			
Related party services	-	170,605	-
Non-cash compensation	-	144,000	647,040
General and administrative expense	4,564,475	153,571	5,652,930
Total expenses	4,564,475	468,176	6,299,970
Loss from operations	(4,521,257)	(468,176)	(6,245,385)
Other income (expense):			
Interest and other income	-	35	9,629
Interest expense	(2,040,894)	(201,642)	(2,086,040)
Beneficial conversion feature of convertible notes payable	(4,875,089)	-	(5,247,400)
Realized loss	(5,730)	2,347	(21,282)
Other than temporary decline in available-for-sale securities	-	-	(50,900)
Gain on extinguishment of debt	178,853	-	178,853
Other expense	(6,742,860)	(199,260)	(7,217,140)
Loss attributable to controlling and non-controlling interest	(11,264,117)	(667,436)	(13,462,525)
Loss attributable to non-controlling interests	-	-	3,504
Net loss attributable to stockholders	(11,264,117)	(667,436)	(13,459,021)
Loss per share, basic and diluted	$ (0.09)	$ (0.01)	
Weighted average shares outstanding	119,635,400	60,484,150	

Other comprehensive income			
Net loss	(11,264,117)	(667,436)	(13,459,021)
Unrealized loss on available-for-sale securities	-	5,773	-
Net comprehensive loss	$ (11,264,117)	$ (661,663)	$ (13,459,021)

See accompanying notes to consolidated financial statements.

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FUSE SCIENCE, INC. AND SUBSIDIARIES

(Development Stage Companies)

Statements of Changes in Stockholders' Deficit

From Development Stage Inception (January 20, 2009) Through June 30, 2012

(Unaudited)

	Preferred Stock Shares	Par	Common Stock Shares	Par	Additional Paid-in Capital	Intrinsic Value of Common Stock Options
Balance, January 20, 2009	-	$ -	50,925,820	$ 50,926	$ 9,946,022	$ -
Unrealized loss from available-for-sale securities	-	-	-	-	-	
Net loss	-	-	-	-	-	-
Balance, September 30, 2009	-	-	50,925,820	50,926	9,946,022	-
Unrealized loss from available-for-sale securities	-	-	-	-	-	
Net loss	-	-	-	-	-	-
Balance, September 30, 2010	-	-	50,925,820	50,926	9,946,022	-
Unrealized gain from available-for-sale securities	-	-	-	-	-	-
Common stock issued for:						
Services	-	-	11,850,000	11,850	1,140,150	-
Convertible notes payable	-	-	5,539,219	5,539	134,517	-
License	-	-	2,000,000	2,000	76,000	-
Acquisition of FS Research and Development, Inc.			23,297,000	23,297	(23,297)	-
Convertible notes payable:						
Detachable warrants	-	-	-	-	310,775	-
Beneficial conversion feature	-	-	-	-	372,311	-
Stock options granted	-	-	-	-	710,872	(710,872)
Amortize value of stock options	-	-	-	-	-	30,161
Net loss	-	-	-	-	-	-
Balance, September 30, 2011	-	-	93,612,039	93,612	12,667,350	(680,711)
Unrealized gain from available-for-sale securities		-	-	-	-	-
Common stock issued for						
Convertible notes payable	-	-	22,314,000	22,314	998,548	-
Deferred consulting fees	-	-	700,000	700	257,340	-
Other	-	-	2,778	3	2,288	-

Convertible notes payable:						
Detachable warrants - cash	-	-	3,583,333	3,583	426,416	-
Detachable warrants – noncash	-	-	8,307,120	8,307	121,507	-
Warrants A&B – financing cost	-	-	-	-	777,312	-
Warrants A&B – FV	-	-	-	-	2,314,625	-
Warrants issued - FV	-	-	-	-	887,753	-
Unamortized fair value of warrants	-	-	-	-	(802,646)	-
Beneficial conversion feature	-	-	-	-	4,811,693	-
Stock options granted	-	-	-	-	5,298,047	(4,473,902)
Amortize stock options	-	-	-	-	-	787,735
Net loss	-	-	-	-	-	-
Balance, June 30, 2012	-	$ -	128,519,270	$ 128,519	$ 27,760,233	$ (4,366,878)

See accompanying notes to consolidated financial statements.

FUSE SCIENCE, INC. AND SUBSIDIARIES

(Development Stage Companies)

Statements of Changes in Stockholders' Deficit, Continued

From Development Stage Inception (January 20, 2009) Through June 30, 2012

(Unaudited)

	Non Controlling Interest	Deferred Consulting Fees	Accumulated Other Comprehensive Income	Accumulated Deficit Development Stage	Other	Total
Balance, January 20, 2009	$ -	$ -	$ 279,470	$ -	$ (9,999,694)	$ 276,724
Unrealized loss from available-for-sale securities	-	-	(248,385)	-	-	(248,385)
Net loss	-	-	-	(97,895)	-	(97,895)
Balance, September 30, 2009	-	-	31,085	(97,895)	(9,999,694)	(69,556)
Non-controlling interest	(126,340)		-	3,500	122,840	-
Unrealized loss from available-for-sale securities	-		(31,538)	-	-	(31,538)
Net loss	(4)		-	(80,348)	-	(80,352)
Balance, September 30, 2010	(126,344)	-	(453)	(174,743)	(9,876,854)	(181,446)
Unrealized gain from available-for-sale securities	-	-	3,043	-	-	3,043
Common stock issued for:						
Services	-	(609,000)	-	-	-	543,000
Convertible notes payable	-	-	-	-	-	140,056
License	-	-	-	-	-	78,000
	-	-	-	-	-	-

Acquisition of FS Research & Development, Inc.						
Convertible notes payable:						
Detachable warrants	-	-	-	-	-	310,775
Beneficial conversion feature	-	-	-	-	-	372,311
Amortize deferred consulting	-	67,442	-	-	-	67,442
Amortize intrinsic value of stock options	-	-	-	-	-	30,161
Net loss	-		-	(2,020,161)	-	(2,020,161)
Balance, September 30, 2011	(126,344)	(541,558)	2,590	(2,194,904)	(9,876,854)	(656,819)
Unrealized gain from available-for-sale securities	-	-	(2,590)	-	-	(2,590)
Common stock issued for Convertible notes payable	-	-	-	-	-	1,020,862
Deferred consulting fees		(83,040)				175,000
Other						2,291
Convertible notes payable:						
Detachable warrants – cash	-	-	-	-	-	429,999
Detachable warrants – noncash	-	-	-	-		129,814
Warrants A&B – financing cost	-	-	-	-	-	777,312
Warrants A&B – FV	-	-	-	-	-	2,314,625
Warrants issued – FV	-	-	-	-	-	887,753
Unamortized fair value of warrants	-	-	-	-	-	(802,646)
Beneficial conversion feature	-	-	-	-	-	4,811,693
Stock options granted	-	(444,963)	-	-	-	379,182

Amortize stock options	-	-	-	-	-	787,735
Amortize deferred consulting	-	394,871	-	-	-	394,871
Net loss	-	-	-	(11,264,117)	-	(11,264,117)
Balance, June 30, 2012	$ (126,344)	$ (674,690)	$ -	$ (13,459,021)	$ (9,876,854)	$ (615,035)

See accompanying notes to consolidated financial statements.

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FUSE SCIENCE, INC. AND SUBSIDIARIES

(Development Stage Companies)

Condensed Consolidated Statements of Cash Flows

Nine Months Ended June 30, 2012 and 2011 and from Development Stage Inception

(January 20, 2009) through June 30, 2012

(Unaudited)

	2012	2011	**Development Stage Inception (January 20, 2009) Through June 30, 2012**
Operating activities:			
Net loss attributable to controlling and non-controlling interests	$ (11,264,117)	$ (667,436)	$ (13,459,021)
Adjustments to reconcile net decrease in net assets from operations to net cash used in operating activities:			
Amortization:		433	
Gain from extinguishment of debt	(178,853)	-	(178,853)
Intellectual property	3,754	-	4,838
Deferred consulting fees	649,357	-	716,799
Intrinsic value of stock options	1,180,788	8,119	1,210,949
Other than temporary decline in available-for-sale securities	-	-	50,900
Interest settled with common stock	50,444	-	50,444
Deferred financing cost	423,322		423,322
Common stock issued for services	102,375	144,000	645,375
Convertible notes payable:			
Amortization of detachable warrants	1,324,069	1,162	1,336,820
Beneficial conversion feature	4,875,089	190,155	5,247,400
Investment received for management services	-	-	(8,800)
Accrued interest income	-	-	(4,909)
Gain on sale of investment	5,730	(2,347)	21,282
Non-controlling interest	-	-	(3,504)
Changes in operating assets and liabilities:			
Accounts receivable and accrued interest - related parties	-	-	(4,686)
Inventory	(67,976)	-	(67,976)
Prepaid expenses	(418,945)	(4,500)	(478,209)
Accounts payable and accrued expenses	123,817	45,582	479,981
Accounts payable and accrued expenses - related parties	-	21,411	6,617
Advances from related parties for working capital	-	-	6,660
Net cash used in operating activities	(3,191,146)	(263,421)	(4,004,571)

Investing activities:			
Proceeds from investments	-	52,876	75,877
Additions to IT assets	(13,750)	-	(13,750)
Intellectual property	(7,440)	(50,100)	(57,440)
Net cash (used in) provided by investing activities	(21,190)	2,776	4,687
Financing activities:			
Loan proceeds	3,534,359	540,000	4,466,009
Loan repayment	(219,359)	(2,660)	(222,019)
Proceed from warrants exercise	430,000	-	430,000
Financing fees	(629,574)	-	(629,574)
Net cash provided by financing activities	3,115,426	537,340	4,044,416
Net (decrease) increase in cash and cash equivalents	(96,910)	276,695	44,532
Cash and cash equivalents, beginning of period	147,907	8,619	6,465
Cash and cash equivalents, end of period	$ 50,997	$ 285,314	$ 50,997

See accompanying notes to consolidated financial statements.

FUSE SCIENCE, INC. AND SUBSIDIARIES

(Development Stage Companies)

Consolidated Statements of Cash Flows, Continued

Nine Months Ended June 30, 2012 and 2011 and from Development Stage Inception

(January 20, 2009) through June 30, 2012

(Unaudited)

	2012	2011	Development Stage Inception (January 20, 2009) Through June 30, 2012
Supplemental Cash Flow Information:			
Cash paid for interest	$ 58,472	$ -	$ 58,708
Non-cash investing and financing activities :			
Common stock issued for convertible notes payable and accrued interest	$ 1,020,862	$ -	$ 1,160,917
Notes payable issued to acquire investment	$ -	$ -	$ -
Warrant issued for financing fees	$ 620,867	$ -	$ 620,867
Common stock issued for license	$ -	$ -	$ 78,000
Common stock issued to acquire Fuse Science, Inc.	$ -	$ -	$ 23,297

See accompanying notes to consolidated financial statements.

FUSE SCIENCE, INC. AND SUBSIDIARIES

(DEVELOPMENT STAGE COMPANIES)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICY

CONSOLIDATION POLICY AND HISTORY OF BUSINESS

The consolidated financial statements of the Company include the accounts of the Company, Fuse Science, Inc. (" **FUSE** ") and FS Consumer Products Group, Inc., a Florida corporation, its wholly-owned subsidiaries and Ultimate Social Network, Inc. (" **USN** ") its 60%-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. The Company was originally incorporated in 1985 in Nevada. Its common stock now trades on the OTCQB under the symbol DROP.PK.

DEVELOPMENT STAGE

From 2007 to January 20, 2009, the Company operated as a "business development company" (" **BDC** ") under the Investment Company Act of 1940. At the time the Company withdrew its election to operate as a BDC on January 20, 2009, the Company had limited resources and did not have sufficient capital to complete its business plans. The Company is currently a life sciences company which has developed and maintains the rights to sublingual and transdermal delivery systems for the efficient delivery to humans of energy, medecines, vitamins and minerals. The Company is both developing, manufacturing and marketing select sports nutrition and performance products utilizing these technologies, as well as seeking to license these delivery technologies to other industries, such as the pharmaceutical industry. Fuse only began to generate limited revenues in January 2012 following launch of its initial product on December 30, 2011 and therefore is still deemed to be in the developement stage. Accordingly, the operations of the Company, are presented as those of a development stage enterprise, from January 20, 2009, which is treated as development stage inception for financial reporting purposes.

BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The information furnished in the interim consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Operating results for the three and nine months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the full year. These interim consolidated financial statements should be read in conjunction with the Company's most recent audited consolidated financial statements and notes thereto dated September 30, 2011.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company records revenue from the sale of Enerjel™, its initial product, when all of the following have occurred: (1) persuasive evidence of an arrangement exists, (2) product has been shipped or delivered, (3) the sales price to the customer is fixed or determinable, and (4) collectability is reasonably assured. The Company's customers may return ordered items for a refund . The Company also provides customers incentives to purchase products at a discount. For the period ended June 30, 2012, we have recorded sales discount, returns and allowances of $2,285 which is netted against sales for the three months and the nine months then ended.

INVENTORIES

Inventories consist of items or products manufactured for resale and packaging material used to produce such products. Inventories are valued at average cost and adjusted to reflect lower of cost or market. Allowances for inventory obsolescence are determined based upon the specific facts and circumstances and market conditions. As of June 30, 2012 and September 30, 2011, no obsolescence reserves were considered.

EQUIPMENT, NET

Equipment is recorded at cost and depreciated using the straight-line method over the estimated useful life of three (3) years. Repairs and maintenance are charged to expense as incurred. As of June 30, 2012 and December 31, 2011, the accumulated depreciation of equipment was $2,676 and $0, respectively. For the three months and nine months ended June 30, 2012 depreciation expense was $1,988 and $2,676 respectively.

INVESTMENTS

Investments are classified into the following categories:

- Trading securities reported at fair value with unrealized gains and losses included in earnings;
- Available-for-sale securities reported at fair value with unrealized gains and losses, net of applicable deferred income taxes, reported in other comprehensive income;
- Held-to-maturity securities and other investments reported at amortized cost; and
- Investments using the equity method of accounting.

STOCK-BASED COMPENSATION

The compensation cost relating to share-based payment transactions (including the cost of all employee stock options) is required to be recognized in the financial statements. That cost is measured based on the estimated fair value of the equity or liability instruments issued. A wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans are included. The Company's financial statements would include an expense for all share-based compensation arrangements granted on or after January 1, 2006 and for any such arrangements that are modified, cancelled or repurchased after that date based on the grant-date estimated fair value.

INTANGIBLE ASSETS

Other intangible assets primarily consist of intellectual property. We apply an impairment evaluation whenever events or changes in business circumstances indicate that the carrying value of our intangible assets may not be recoverable. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. We believe that the straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained annually by the Company.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company evaluates its long-lived assets and intangible assets for impairment whenever events change or if circumstances indicate that the carrying amount of any assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the expected future net undiscounted cash flows generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is the excess of the carrying amount over the fair value of the asset.

FAIR VALUE

The Company adopted fair value accounting for certain financial assets and liabilities that have been evaluated at least annually. The standard defines fair value as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Management has determined that it will not, at this time, adopt fair value accounting for nonfinancial assets or liabilities currently recorded in the financial statements, which includes investments carried at cost, deposits and other assets. Impairment analyses will be made of all assets using fair value measurements.

NEW ACCOUNTING PRONOUNCEMENTS

We have evaluated all recent accounting pronouncements through June 30, 2012 and find none that would have a material impact on the financial statements of the Company.

RECLASSIFICATION

Certain reclassifications have been made in the condensed consolidated financial statements at September 30, 2011 and for the three months and nine months ended June 30, 2011 to conform to the June 30, 2012 presentation. The reclassifications had no effect on net loss.

Earnings (Loss) Per Share

The Company's earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if stock options and or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

As described in Note 5 – Convertible Notes Payable, the Company had convertible notes outstanding during each of the period ended September 30, 2012. The convertible notes are reflected in the calculation of diluted earnings per share for the corresponding periods by application of the "if converted" method to the extent their effect is dilutive.

The following is a reconciliation of the numerator and denominator used for the computation of basic and diluted net income per common share:

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2012	2011	2012	2011
Numerator:				
Net loss available to stockholders	$ (2,894,703)	$ (468,085)	$ (11,264,117)	$ (667,436)
Denominator:				
Weighted average number of common shares – Basic	125,733,799	78,807,865	119,635,400	60,484,150
Weighted average number of common shares – Diluted	125,733,799	78,807,865	119,635,400	60,484,150
Net income (loss) per common share:				
Basic	$ (0.02)	$ (0.01)	$ (0.09)	$ (0.01)
Diluted	$ (0.02)	$ (0.01)	$ (0.09)	$ (0.01)

A total of 31,017,703 anti-dilutive common stock equivalents were not included in the Company's diluted earnings per share calculations for the three and nine months ended June 30, 2012, respectively

2. RESTATEMENT OF THE JUNE 30, 2012 BALANCES

Subsequent to filing the Original Report, we noted that the unamortized fair value of warrants issued should be recorded as an adjustment to Additional Paid-In Capital. Detailed below are the account balances which were restated to reflect the accounting for the previously described transactions.

	June 31, 2012 (Restated)	June 31, 2012 (Originally Issued)	Effect of the Change
Convertible notes, net – current	$ 102,915	$ (74,736)	$ 177,651
Convertible notes, net – long-term	$ 1,743,565	$ 1,118,570	$ 624,995
Addition paid-in capital	$ 27,760,233	$ 28,562,879	$ (802,646)
Stockholder's equity (deficit)	$ (615,035)	$ 187,611	$ (802,646)

3. GOING CONCERN

The Company has not established sources of revenue sufficient to fund the development of the business, projected operating expenses and commitments for the next twelve months. The Company had a net loss from operations of $(2,894,703) during the three months ended June 30, 2012. Included in this loss, the Company recorded non-cash compensation of $629,142 which relates to contracts entered into by the Company for current and future services undertaken for marketing and promotional activities by brand athletes through endorsement contracts, as well as contracts with consultants to provide professional services and employment contract with the Company's key employees. Also included is $116,000 of value in stock issued as penalty for early termination of a consulting agreement. As a result, 400,000 shares were issued to terminate the agreement. At June 30, 2012, current assets are $1,269,382 and current liabilities are $618,981 .

The Company intends to continue to raise necessary capital from different financing sources including private placements of its restricted securities, including common stock, convertible notes and exercising of warrants. The Company has demonstrated an ability to raise funds as needed to fund operations and investments. During the nine months ended June 30, 2012, the Company issued 10% secured senior convertible promissory note in the amounts of $3,169,359 (" **February 2012 Notes** "). The February 2012 Notes include two sets of Warrants, "Series A Warrants" and "Series B Warrants." Series A Warrants are five-year warrants to purchase 15,092,186 shares of the common stock at $.26 per share. Series B Warrants are seven-month warrants to purchase 15,092,186 shares of the common stock at $.21 per share. The warrants are subjected to certain price adjustments based on subsequent issuance of additional convertible notes and mandatory conversion if the market value of the Company's common stock exceeds 250% for 25 consecutive days. Subsequent to June 30, 2012, the Company successfully completed its registration statement. As a result, a price adjustment was calculated as of August 8, 2012 and the total convertible shares increased to 24,379,685 at a conversion price of $.13. Similarly, the number of warrants increased to 24,379,685 for Series A Warrants and Series B Warrants, respectively.

In December 2011, the Company also issued two 90-Day 8% Senior Subordinated Convertible Promissory Notes with Subscription Options (the " **December Notes** ") in the amounts of $75,000 and $60,000. An additional December Note in the principal amount of $50,000 was issued in January 2012. These notes were extinguished as a result of being rolled into the February 2012 Notes. The December Notes included an increment in principal of 15% of the face value of the note. In the event the Company did not undertake the subsequent financing, the December Notes with accrued interest would convert into Units consisting of 10 shares of the Company's common stock and warrants to purchase an additional six shares of the Company's common stock. The number of units issuable upon the conversion would be equal to the value of note plus accrued interest divided by $1.50. If the subsequent financing did not take place, the December Notes would include five-year warrants to purchase 300,000 and 240,000 shares of common stock respectively at a price of $0.18 per share. However, the December Notes were converted in to subscriptions for the securities sold in the subsequent financing. There can be no assurance in any case that the Company will secure sufficient funding to fully implement the Company's business plan.

These conditions raise serious doubt about the Company's ability to continue as a going concern.

4. DISTRIBUTION AGREEMENT

On February 27, 2012, we entered into licensing and distribution agreements with Mission Product Holdings, Inc. (" **Mission** "). Mission develops, manufactures and markets the Mission Athletecare™ line of skincare products. Pursuant to the license agreement, Fuse granted Mission a restricted license to use Fuse's proprietary transdermal delivery technology in connection with the development, manufacture and marketing of Mission Athletecare™ skincare products. Pursuant to the distribution agreement, Mission has agreed to offer for sale and distribute Fuse's line of existing and planned sports nutrition products to a network of food, drug and sporting goods retailers that currently carry the Mission brand.

As part of the distribution agreement, the Company will make sales to Mission at an agreed upon price. The Company agrees that should it sell the products directly to the consumers at a price less than the agreed price, the charge to Mission be reduced so that Mission will be less than the lowest price being charged by the Company to consumers for the remainder of the term, Furthermore, the Company will pay Mission a one-time bonus of $50,000 for purchases in excess of $2,000,000, incremental to the first $150,000 and $25,000 for every $1,000,000 in purchases made thereafter. Under the distribution agreement Fuse paid Mission $650,000 to cover costs associated with the marketing of the Company's line of products. This amount was recorded in prepaid assets on the balance sheet as of June 30, 2012 and will be amortized to marketing expense over the next ten months. As of June 30, 2012, the prepaid balance amounted to $390,000.

In addition to the foregoing, Mission granted warrants to the Company to acquire a minority equity position in Mission. Should the Company exercise these warrants, the Company will account for the investment at cost as a result of not having significant influence over Mission.

5. INTELLECTUAL PROPERTY

The Company has licensed sublingual, buccal, and transdermal delivery systems for bioactive agents that the Company believes can, effectively encapsulate and charge many varying molecules in order to produce complete product formulations which can bypass the GI tract and enter the blood stream directly. The technology facilitates the passing of bioactives through the oral mucosa in contrast to gastrointestinal absorption, in order to achieve the same desired effect. By utilizing the skin's innate bioelectric signaling system coupled with our iontopheritic delivery vehicle, we are able to deliver bioactives efficaciously through both the dermal and buccal mucosal. The technology penetrates the mucosa and epithelium to achieve complete and enhanced absorption. It is the Company's belief that the technology will facilitate the delivery of a wide range of product formulations such as aspirin, OTC pain, allergy, and cough and cold medications, as well as energy sources, electrolytes and other pharmaceutical applications.

6. CONVERTIBLE PAYABLE NOTES

The Company had the following convertible notes payable at June 30, 2012 and September 30, 2011.

	June 30 2012	September 30, 2011	
Convertible notes payable with interest at 12%	$ 5,000	$ 20,000	
8% One year senior secured convertible promissory note due June 20, 2012	-	327,405	*
8% One year senior secured convertible promissory note due September 9, 2012	94,539	259,571	
10% Two year senior secured convertible promissory note due February 7, 2014	1,743,565	-	
	$ 1,843,104	$ 606,976	

	June 30, 2012	September 30, 2011
Current	$ 102,915	$ 606,976
Long term	$ 1,743,565	$ -
Total	$ 1,846,480	$ 606,976

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Convertible notes payable includes one note in the amount of $5,000 which is convertible at $0.025 per share.

* These notes were originally issued with a face value of $525,000. During the quarter ended December 31, 2011, several note holders converted the notes into stock, on or around the last day of the reporting period, resulting in a reduction of $495,000 to the face value of the notes. The remaining note holder converted his note with a face value of $30,000 for 1,633,667 shares of the Company's common stock during the nine months ended June 30, 2012. A total of 17,396,663 shares were converted for by noteholders during the nine months ending June 30, 2012. As a result of the conversion of these notes, unamortized discount of $186,739 was charged to interest expense for the period ending June 30, 2012.

The terms of our 8% One Year Senior Subordinated Secured Convertible Promissory Notes are summarized as follows:

Due Date	Face Value	Conversion Rate	Number of Warrants
February 7, 2014	$3,169,359	See below	30,184,37
September 9, 2012	$100,000	$0.12	3,000,000

During the three months ended June 30, 2012, several note holders converted to common stock. At total of $260,000 of our September 9, 2012 notes with a fair value of $360,000 bearing interest at 8% converted at $0.12 per share. In addition to the September notes, a note holder of the October 20, 2012 notes converted with a face value of $180, 000 and bearing interest at 8%.

On January 4, 2012, we executed an agreement for additional December Notes with a face value of $50,000 bearing 8% interest rate maturing in 90 days. Similar to the previous notes issued in December 2011, these notes are convertible into Units consisting of 10 shares of the Company's common stock and warrants to purchase an additional six shares of the Company's common stock at a strike price $.18 per shares. The notes are convertible at $1.50 per unit and $0.15 per share. The Company measured the fair value of these instruments and recorded a discount of $28,508, which was allocated to the warrants. In addition, a beneficial conversion value of $145,175 was immediately expensed as a result of the notes' immediate conversion feature following execution of the agreement.

On February 9, 2012, the terms of our December Notes with were significantly modified and the note holders were now included as part of the February 2012 Notes. Detailed below is the face values of the December Notes prior to modification of the terms:

Due Date	Face Value	Unit Conversion Rate**	Number of Warrants
March 22, 2012	$ 75,000	$ 1.50	300,000
March 29, 2012	$ 60,000	$ 1.50	240,000
April 4, 2012	$ 50,000	$ 1.50	200,000

** Each unit consists of ten shares of the Company's common stock and warrants to purchase six additional shares of the Company's stock

As a result of the modification to the terms of the December Notes, we recognized a gain on the extinguishment of the debt due the present value of the cash flow of the old notes (December Notes) exceeding the value of the new notes (February 2012 Notes) by more than 10%. The modification of the December Notes included an increase in face values of the notes as well as an increase in the interest rate from 8% to 10% and the maturity date was extended from 90 days to two years. As a result of these modifications, a gain on the extinguishment of the debt in the amount of $211,419 was recorded to settle the December Notes. The face values of December Notes totaled to $185,000 while interest accrued through the date of the modification totaled $1,642. The Company wrote off the fair value originally allocated to the warrants issued with these notes from additional paid in capital in the amount of $71,225 as well as the beneficial conversion features originally allocated in the amount of $211,038 from additional paid in capital. Unamortized discount of $70,844 associated with the December Notes was recognized.

On February 9, 2012, we consummated a private placement of (i) $3,169,359 in principal amount of Notes (“ **February 2012 Notes** ”) which is inclusive of the modified December Notes and (ii) the February 2012 Warrants, consisting of (a) series A warrants to purchase an aggregate of 15,092,185 shares of common stock (the “ **Series A Warrants** ”) and (b) series B warrants to purchase an aggregate of 15,092,185 shares of common stock (the “ **Series B Warrants** ”) at a purchase price of $3,169,359 in a private placement to a group of institutional and accredited investors pursuant to a Securities Purchase Agreement, dated as of February 7, 2012. The Notes are convertible into shares of the Company’s common stock, and are entitled to earn interest which may be paid in cash or in shares of common stock. The February 2012 Warrants are exercisable into shares of common stock. The convertible shares are all subject to standard anti-dilution provisions. Please refer to Note 12 for subsequent price adjustment.

The February 2012 Notes are two (2) year senior convertible notes with an aggregate principal amount of $3,169,359. The February 2012 Notes will accrue interest at a rate of ten percent (10%) per annum beginning on February 9, 2012, which will be paid on January 15, April 15, July 15 and October 15 of each year to the record note holder of each note. The interest accrued is payable in interest shares, although the Company may, at its option and upon written notice to each note holder of the February 2012 Notes, make such interest payments in cash or in a combination of cash and interest shares. Please refer to Note 12 for subsequent price adjustment to notes.

The Series A Warrants have a term of five (5) years from the Closing Date and the Series B Warrants have a term of seven (7) months from the Closing Date. Each of the Series A Warrants and the Series B Warrants is immediately exercisable upon issuance into an aggregate of 15,092,185 fully paid and non-assessable Exercise Shares at an initial exercise price of $.026 per share in the case of the Class A Warrants and $0.21 per share in the case of the Class B Warrants. Please refer to note 12.

The February 2012 Notes contain a standard “blocker” provision so that no holder shall have the right to convert any portion of its Convertible Notes to the extent that, after giving effect to such conversion, the note holder and its affiliates would beneficially own in excess of 4.99% of the number of shares of common stock outstanding immediately after giving effect to such conversion. By written notice to the Company, a holder may increase or decrease such percentage to any other percentage, provided that any such increase will not be effective until the sixty-first (61st) day after such notice is delivered and such percentage may not, in any event, exceed 9.99%.

Any note holder of the February 2012 Notes is entitled to convert the notes into conversion shares at any time by delivery of a notice of conversion to the Company. On or before the third trading day after receipt of the conversion notice, the Company must deliver to the note holder such number of conversion shares to which the note holder is entitled pursuant to the conversion. The number of conversion shares the note holder will receive upon conversion of the Notes will be determined by dividing the amount of principal being converted plus any accrued and unpaid interest by the conversion price effective at the time of the conversion. The February 2012 Notes have an initial conversion price of $0.21 however it is subject to reset depending on the filing of the registration statement. At no time, however, will the Conversion Price be reset below $0.12 per share as a result of a conversion price adjustment. Please see note 12.

The Company received net proceeds in the amount of $2,391,500 after offering cost of $558,500 and non-cash settlement for the $219,359. In recording the transaction, the Company allocate the face value of the notes between the estimated the fair values of the February 2012 Notes, the Series A Warrants and Series B Warrants. As a result, the February 2012 Notes were discounted by $1,421,848 for Series A Warrants and $892,776 Series B Warrants. The carrying value of the February 2012 Notes as of the day of the transaction amounted to $854,735. The Company also recorded a beneficial conversion feature of $4,729,374 representing the difference between the market value of the converted shares as of February 9, 2012 and the amount of the total proceeds allocated to the carrying value of the Notes. The beneficial conversion feature was expensed in the unaudited condensed consolidated statement of operation, as a result the February 2012 Notes being available for conversion 3 days after consummation of the agreement. The discount associated with Series A Warrant is amortized over the life of the note and the discount associated with Series B Warrants is amortized over six months as a result of that being exercisable in seven months.

In connection with the February 2012 Notes, the Company paid the placement agent, a placement fee of $236,000 and issued to the placement agent and its designees, the placement agent warrants, consisting of five-year warrants to purchase an aggregate of 1,366,868 shares of common stock at an exercise price of $0.26 per share and seven-month warrants to purchase an aggregate of 1,366,868 shares of common stock at an exercise price of $0.21 per share. The Company recorded an asset related to financing charge that will be amortized over life of the February 2012 Notes and seven months - to the extent that the financing charge relates to Series B Warrants which expire in seven months after the consummation date. Total deferred financing cost recorded in the balance sheet as of February 9, 2012 amounted to $1,406,885 of which $594,574 relates to fees paid in cash to the placement agent, attorneys and other third parties. Also include in the total deferred financing charge is $477,494 which represents fair value of the Series A Warrants issue to the placement agent and $299,818 relating to the fair value of Series B Warrants which were provided to the placement agent. As of June 30, 2012, deferred financing fees of $716,804 is charged to interest expense in the unaudited condensed consolidated statement of operation. As of June 30, 2012, short term deferred financing cost amounts to $649,535 and the remaining balance of $334,029 in recorded in other assets long term.

The fair value of each warrant on the date issued was estimated using the Black-Scholes valuation model. The following assumptions were used for the calculation of the warrants granted in September, October, December 2011 and February 2012.

	11-Sep		11-Dec		12-Mar (A Warrants)		12-Mar (B Warrants)	
Expected term	5 years		5 years		5 years		6 months	
Expected average volatility	309	%	296	%	163.06	%	163.06	%
Expected dividend yield	0	%	0	%	0	%	0	%
Risk-free interest rate	3.50	%	2.90	%	.82	%	.11	%

The recorded discount on the convertible notes payable is being amortized to interest expense over the life of the note or seven months for the discount associated with Series B Warrants and is summarized as follows as of June 30, 2012.

Due Date	Face Value	Debt Discount Initial Value	Amortization	Discount	Carrying Value
February 4, 2014	$ 3,169,359	$ 854,735	$ (888,829)	$ 1,425,795	$ 1,743,565
September 9, 2012	100,000	73,476	(21,073)	5,461	94,539
	$ 3,269,359	$ 928,211	$ (909,902)	$ 1,431,256	$ 1,838,104

7. **WARRANT EXERCISES**

In January 2012, we entered into agreements with holders of outstanding warrants to purchase 3,583,333 shares of our common stock at an exercise price of $0.12 per share. These warrants were originally issued with our first round of private financing completed in May and June 2011. Pursuant to these agreements (i) such holders agreed to exercise their warrants for cash, (ii) we agreed to (a) issue to each of such holders an additional five (5) year warrant entitling them to purchase a number of shares equal to that acquired upon exercise of their Initial Warrants at an exercise price of $0.25 per share (the " **January 2012 Warrants** ") and (b) grant them certain registration rights under the Securities Act of 1933 with respect to the shares issued upon exercise of the Initial Warrants and issuable upon exercise of the January 2012 Warrants. The January 2012 Warrants also provides for cashless exercise and for anti-dilution adjustments in the event of stock dividends, stock splits, recapitalizations and similar transactions. The January 2012 Warrants generated gross proceeds of $430,000. The Company recorded the cash receive of $430,000 and a discount of $887,753 as the difference between the fair value of the new warrants of $1,337,086 issued and the shares that were delivered to the investor as a result of exercising the warrants. The discount associated with the new issue will be amortized over the life of the new warrants. For the period ended June 30, 2012, amortization of $85,106 is charged to interest expense in the unaudited condensed consolidated statement of operation for the nine month then ended.

In addition to the January 2012 warrants, we had cashless exercises of warrants for 8,307,120 shares. As a result of the shares being exercised, we adjusted the additional paid in capital account to reflect for the value of the warrants exercised.

8. **RELATED PARTY TRANSACTIONS**

The Company operated as a BDC until it withdrew its election to be treated as a BDC on January 20, 2009. While operating as a BDC, a part of its operations and consistent with the operating parameters of a BDC, the Company developed a number of relationships with its portfolio company investments, including members of the Company's board of directors becoming officers and directors of its portfolio company investments. The Company made loans to the portfolio companies and entered into management agreements with the portfolio companies. As a result of operating as a BDC and then converting to an operating company, a number of its previous relationships were originally required to be categorized as related party transactions. As a result of changes in relationships, with the Company no longer being actively involved in the operation of the investments, these investments are no longer considered related party transactions. Other related party amounts and transactions are described as follows:

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While operating as a BDC the Company had management contracts and made loans to its 60% owned subsidiary USN. These transactions are eliminated in consolidation with USN.

Related party amounts included in the balance sheet may be summarized as follows:

Accounts payable - related parties:

	June 30, 2012	September 30, 2011
Hank Durschlag	$ 16,178	$ 16,178
Aitan Zacharin	-	12,554
	$ 16,178	$ 28,732

Hank Durschlag is a former officer and director in Double Eagle Holdings, LTD. Mr. Durschlag is not involved in any operational matters related to Fuse Science and these payments relate to remaining obligations to him in his former capacity. Aitan Zacharin is a shareholder, the Company's Chief Marketing Officer and Chief Information Officer and a director.

Transactions with related parties in the statement of operations for the months ended June 30, 2012 and September 30, 2011 include:

	2012	2011
Prior CEO compensation	$10,000	$3,000
New officer compensation	59,000	-
	$69,000	$3,000

9. **STOCKHOLDERS' DEFICIT**

Common stock

At June 30, 2012 and September 30, 2011, the Company had 400,000,000 shares authorized and 128,519,270 and 93,612,039 shares issued and outstanding, respectively, of its $0.001 par value common stock.

Transactions during the nine month period ended June 30, 2012

Convertible debt

During the nine months ended June 30, 2012, the Company executed convertible notes ("February 2012 Notes") with several accredited investors in the amount of $3,169,359. The February 2012 Notes are convertible at $.21cents per shares. In addition to the convertible notes, the investors are issued warrants to purchase 15,092,186 of the Company's Series A Warrants and 15,092,186 of the Company's Series B Warrants. Please refer to Note 12.

Common Stock

During the nine months ended December 31, 2011, the Company issued 21,886,030 shares of common stock upon conversion of convertible notes payable with a principal balance and accrued interest totaling $1,020,862.

Warrants

In January 2012 several holders of warrants exercise their warrants to acquired 3,583,333 of the Company's common stock for $430,000. In addition, the holders received new five year warrants to purchase the Company's common stock at an exercise price of $0.25 per share. Several warrant holder also completed cashless exercise totaling to 8,307,120 of the Company's shares. The issuance of these shares as well as allocations of fair values associated with issuance of new warrants (the " **January 2012 Warrants** ") and the warrants granted as part of the February 2012 financing are reflected in the changes to stockholders' deficit as follows:

Description	Number of shares of Common Stock	Cash Value	Par ($0.001)	Additional Paid-in Capital
Cash Exercise of Warrants	3,583,333	$ 430,000	3,583	$ 426,416
Non-Cash Exercise of Warrants	8,307,120	-	8,307	121,507
January 2012 Warrants – Allocated Fair Value		-		887,753
Unamortized Fair Value of Warrants				(602,642)
Series A and B Warrants – financing cost		-		777,312
Series A and B Warrants – Allocated fair value		-		2,314,625
Total		$ 430,000		$ 3,724,467

Options

During the nine months ended June 30, 2012, the Company granted options to acquire up to 1,350,000 shares of its common stock to athletes for endorsement services and to consultants for services performed or to be performed. An intrinsic value in the amount of $144,642 for these options was determined using the Black-Scholes method. These options were expensed immediately as a result of these options being issued to for certain contingencies which have been satisfied.

In addition, 1,850,000 options with an intrinsic value totaling $445,664 were issued to employees and directors during the nine months ended June 30, 2012.

10. COMMITMENTS AND CONTINGENCIES

Consulting Agreement - The Company entered into a consulting agreement with Hank Durschlag, its former CEO, under which he should receive $100,000 over the next year. In addition, in accordance with the terms of his patent assignment and technology transfer agreement if, and when utilized, Mr. Durschlag is entitled to royalties on Fuse Science sales as follows:

Sales Range	Commission Rate	
$0 - $100,000	0.00	%
$100,001 - $10,000,000	5.00	%
$10,000,001 - $50,000,000	2.50	%

Employment and Consulting Agreements - The Company entered into at-will basis employment agreements with Adam Adler, Aitan Zacharin and Brian Tuffin under the same terms and conditions: $18,000 monthly salary, provided the Company has adequate funds to make such payment; monthly car allowance of $1,000; and a discretionary performance bonus. The Company is also a party to a consulting agreement with an entity owned by Rubin Hanan who became the Company's President and Chief Operating Officer on November 28, 2011. Mr. Hanan is compensated pursuant to that consulting agreement.

11. **DISCLOSURES ABOUT FAIR VALUE**

Assets and liabilities measured at fair value on a recurring basis are summarized in the following tables according to FASB ASC 820 pricing levels.

	Fair Value Measurement Using			
	Recorded value	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2011				
Assets:				
Available-for-sale securities	$ 12,320	$ 12,320	$ -	$ -

At September 30, 2011, the Company's available-for-sale equity securities were valued using Level 1 inputs as summarized above. Level 1 inputs are based on unadjusted prices for identical assets in active markets that the Company can access.

Level 2 inputs are based on quoted prices for similar assets other than quoted prices in Level 1, quoted prices in markets that are not yet active, or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets. The Company does not have any investments that are measured on a recurring basis using Level 2 inputs.

Level 3 inputs have significant inputs which are not observable. The Company does not have any investments that are measured on a recurring basis using Level 3 inputs.

Certain assets are not carried at fair value on a recurring basis, including investments accounted for under the equity and cost methods. Accordingly, such investments are only included in the fair value hierarchy disclosure when the investment is subject to re-measurement at fair value after initial recognition and the resulting re-measurement is reflected in the consolidated financial statements.

12. SUBSEQUENT EVENT

In July 2012, The Company registered under the Securities Act of 1933 the shares underlying and associated with the February 2012 Notes and Series A and Series B warrants issued in connection with the February 2012 Notes. As a result, the 25 trading day price adjustment provision of the February 2012 Notes and Series A and B Warrants was triggered. Accordingly, in August 2012, the conversion price of the February 2012 Notes and the exercise price of the Series B Warrants was decreased to $0.13 and the exercise price of the Series A Warrants was decreased to $0.21. In each instance, there was a corresponding increase in the number of shares issuable upon conversion or exercise of these securities.

As of August 8, 2012, approximately $2.7 million of the Company's debt was eliminated through conversion of February 2012 Notes into approximately 12.7 million shares of common stock. Approximately $500,000 of the 3.2 million in February 2012 Notes were outstanding. The shares were issued based on the original conversion paid of $.21. As a result, additional shares were issued in August 2012 to give retroactive effect to the change in conversion price of the February 2012 Notes.

Additionally, As of August 8, 2012, approximately $941,000 in new working capital was raised by the Company through exercise of Series B Warrants. This represented approximately approximately 4.5 million shares. The shares were similarly adjusted and additional shares issued as a result of the August 2012 adjustment to the exercise price of the Series B Warrants.

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

FORWARD LOOKING STATEMENTS

From time to time, the Company may publish forward-looking statements relative to such matters as anticipated financial performance, business prospects, technological developments and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. All statements other than statements of historical fact included in this section or elsewhere in this report are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include, future financial performance, future operations, competitive advantages, brand image, ability to meet market demand, sufficiency of resources and funding operations and liquidity and capital needs.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

" **Management's Discussion and Analysis of Financial Condition and Results of Operations** " discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. On an on-going basis, we will evaluate our estimates and judgments, including those related to revenue recognition, valuation of investments, accrued expenses, financing operations, contingencies and litigation. We will base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources. These accounting policies are described at relevant sections in this discussion and analysis and in the **"Notes to Financial Statements"** included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

RESULTS OF OPERATIONS

Three months ended June 30, 2012 as compared to Three months ended June 30, 2011

	Three months ended June 30,	
	2012	2011
Sales	$35,872	$-
Gross profit	$24,912	$-
General and administrative expenses	$1,878,399	$273,876
Loss from operations	$(1,853,487)	$(273,876)
Other expenses	$1,041,216	$194,209
Net Loss	$(2,894,703)	$(468,085)
Net loss per common share – basic and diluted	$(0.02)	$(0.01)

Sales

Sales were $35,872 for the three months ended June 30, 2012, as compared to $ 0 for the comparable three months ended June 30, 2011. The increase in sales is due to a limited roll out of Enerjel™, our initial product, through internet sales while the Company focuses on a full retail roll out through its establishment of distribution partnerships which began shipping in Q-4.

Gross Profit

Gross profit percentage during the three months ended June 30, 2012 was 69.4%. Sales for the period consisted of Enerjel™, the Company's only currently marketed product. Sales were made exclusively through the Company's website and for a short test period through Amazon.com.

General and Administrative Expenses

Three months ended June 30,	
2012	**2011**

Beneficial Conversion Feature	$ -	$ 194,209
Interest expense	1,035,486	-
Professional Fees	865,127	75,667
Salary and benefits	526,065	195,524
Marketing	466,908	-
Other expense	20,299	2,685
Total expense	$ 2,913,885	$ 468,085

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Beneficial Conversion Feature

Beneficial conversion feature was $0 for the three months ended June 30, 2012, as compared to $194,209 for the three months ended June 30, 2011, a decrease of $194,209. This was due to the fact that there were no new convertible notes issued during the three months ending June 30, 2012.

Interest Expense

Interest expense was $1,035,486 for the three months ended June 30, 2012, as compared to interest expense of approximately $0 for the three months ended June 30, 2011. The increase in interest expense was due primarily to accrual of interest on several convertible notes issued between late June 2011 and June 2012. Several note holders have already converted a portion of the outstanding notes into common stock. During the period ended June 30, 2012, a total of 3,818,100 shares of common stock were issued to settle convertible debt with a face value in the amount of $455,000. Included in the amount is amortization of financing charge of approximately $266,877 and amortization of debt discounts in the amount of $567,348.

Marketing Expense

The increase in marketing expense of $466,908 for the three months ended June 30, 2012, from $0 for the three months ended June 30, 2011 is due to the Company’s effort to market its products which is heavily influenced by athlete endorser relationships designed to drive brand awareness and trial. During the period ended June 30, 2012, the Company entered in to a distribution and marketing agreement with Mission. This agreement included comprehensive marketing services and heavy commercialization efforts during the first 10 months. The Company paid Mission approximately $650,000 for these services, which is amortized over 10 months. Non-cash payments to endorsers in the amount of $279,893 was also included in other marketing cost relating to the launch of Enerjel™.

Professional Fees Expense

Professional fees expense increased to $865,127 for the three months ended June 30, 2012, from $75,667 for the three months ended June 30, 2011. This increase was due to the Company’s requirements for legal, intellectual property, compliance, protection and accounting and consulting services related to the Company’s ongoing day-to-day business dealings and execution of its business plan, including, accounting, financial reporting and SEC compliance. Professional fee expense increase includes $71,786 in non-cash compensation.

Payroll

Payroll expense increased by $330,541 to $526,065 for the three months ended June 30, 2012 from $195,524 for the three months ended June 30, 2011. The increase was due to an increase in personnel headcount. The payroll increase includes $233,587 in non-cash compensation.

Other expenses

Other general and administrative expense increased from $2,685 in the three months ended June 30, 2011 to $20,299 in the three months ended June 30, 2012. This increase is primarily a result of the increased travel to third party manufacturing plant, increased investor relations activities and reporting as well as expenses associated with the Company’s fund raising activities and expenses related to other early stage development activities of the business.

Other Income

Other income for the three months ended June 30, 2012 and 2011 was as follows:

	2012	**2011**
Realized loss on investments	$(5,730)	$ -

Loss from Operations

Loss from operations for the three months ended June 30, 2012, was $1,853,487 as compared to $273,876 for the comparable three months ended June 30, 2011. The increase in operating loss is primarily attributable to the use of equity incentives that underpin the Company's aggressive marketing plan through the use of iconic athletes to gain brand recognition for the company's currently marketed and future products. The increase is also due to an increase in salary expense, travel and professional fees associated with new business operations that were not present during the same period last year.

Net Loss

Net loss for the three months ended June 30, 2012, was $2,894,703 or loss per share of $(0.02), as compared to $468,085 or loss per share of $(0.01) for the comparable three months ended June 30, 2011.

Inflation did not have a material impact on the Company's operations for the period. Other than the foregoing, management knows of no trends, demands, or uncertainties that are reasonably likely to have a material impact on the Company's results of operations.

Nine months ended June 30, 2012 as compared to nine months ended June 30, 2011

	Nine months ended June 30,	
	2012	2011
Sales	$ 60,045	$ -
Gross profit	$ 43,218	$ -
General and administrative expenses	$ 4,564,475	$ 468,176
Loss from operations	$ (4,521,257)	$ (468,176)
Other expense	$ 6,742,860	$ 199,260
Net Loss	$ (11,264,117)	$ (667,436)
Net loss per common share – basic and diluted	$ (0.09)	$ (0.01)

Sales

Sales were $60,045 for the nine months ended June 30, 2012. The company had no sales for the comparable nine months ended June 30, 2011. The increase in sales is due to a limited roll out of enerjel through internet sales while the Company focuses on a full retail roll out through its establishment of distribution partnerships with Mission and GNC.

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Gross Profit

Gross profit percentage during the nine months ended June 30, 2012 was 71.98%. Sales for the period consisted of Enerjel™, the Company's only currently marketed product. Sales were made exclusively through the Company's website and for a short test period through Amazon.com.

	Nine months ended June 30, 2012	**2011**
Beneficial Conversion Feature	$ 4,875,089	$ -
Interest expense	2,040,894	201,642
Professional Fees	1,732,653	247,539
Marketing expense	1,596,724	5,622
Salary and benefits	1,019,906	206,078
Other expense	215,193	6,555
Total expense	$ 11,480,459	$ 667,436

General and Administrative Expenses

Beneficial Conversion Feature

Beneficial conversion feature was $4,875,089 for the nine months ended June 30, 2012, as compared to of $0 for the nine months ended June 30, 2011, an increase of $4.9 million. This was due primarily to the consummation of the February 2012 Notes which are convertible at $.21 per share into common stock. The amount expensed for the period represents the excess fair value of the converted shares over the proceeds allocated to the notes.

Interest Expense

Interest expense was $2,040,894 for the nine months ended June 30, 2012, as compared to interest expense of $201,642 for the six months ended June 30, 2011. The increase was due primarily to several convertible notes which were executed between June 2011 and June 2012. Several note holders have already converted their notes in to common stock. During the period ended June 30, 2012, a total of 21,886,030 shares of common stock were issued to settle convertible debt with a face value of $980,000. Also included in the amount is amortization of financing charge of approximately $422,877 and amortization of debts discounts of approximately $896,000.

Marketing Expense

The increase in marketing expense to $1,596,724 for the nine months ended June 30, 2012, from $5,622 for the nine months ended June 30, 2011 was due to the Company's efforts to market its products which is heavily influenced by athlete endorser relationships designed to drive brand awareness and trial. During the period ended June 30, 2012, the Company entered in to a distribution and marketing agreement with Mission which included comprehensive marketing services and heavy commercialization efforts during the first 10 months of the distribution and marketing agreement. The Company paid Mission approximately $650,000 which is therefore being amortized over 10 months. Non-cash payments to endorsers in the amount of $903,545 was also included is other marketing cost relating to the launch of Enerjel™.

Professional Fees Expense

Professional fees expense increased to $1,732,653 for the nine months ended June 30, 2012, from $247,539 for the nine months ended June 30, 2011. This increase was due to the Company's requirements for legal, accounting and consulting services related to the Company's ongoing day-to-day business dealings and execution of its business plan, including, accounting, financial reporting and SEC compliance. The professional fee expense increase includes $321,137 in non-cash compensation. This non-cash component of compensation is derived from the intrinsic value calculated using the Black Scholes model upon issuance of restricted shares of common stock and stock option grants pursuant to the Company's stock option plan.

Payroll

Payroll expense increased by $813,828 to $1,019,906 for the nine months ended June 30, 2012 from $206,078 for the three months ended June 30, 2011. The increase was due to an increase in personnel headcount. The payroll increase includes $537,305 in non-cash compensation.

Other expenses

Other general and administrative expense increased from $6,555 in the nine months ended June 30, 2011 to $215,193 in the nine months ended June 30, 2012. This increase is primarily a result of the increased in travel to third party manufacturing plant, increased investor relations activities and reporting as well as expenses associated with the Company's fund raising activities and expenses related to other early stage development activities of the business.

Other Income

Other income for the nine months ended June 30, 2012 and 2011 was as follows:

	2012	2011
Realized gain on extinguishment of debt	$178,853	$ -

The increase of $178,853, in the nine months ended June 30, 2012 is primarily due to a gain on the early extinguishment of the December 2011 Notes. The notes were modified and included in the February 2012 Notes. As a result of the modification being significant - due to the present value cash flow of the February 2012 Notes debt were greater than 10%, we recorded a gain of $178,853.

Loss from Operations

Loss from operations for the nine months ended June 30, 2012, was $(4,521,257) as compared to $468,176 for the comparable nine months ended June 30, 2011. The increase in operating loss is primarily attributable to the use of equity incentives that underpin the Company's aggressive marketing plan through the use of iconic athletes to gain brand recognition for the company's currently marketed and future products. The increase is also due to an increase in salary expense, travel, and professional fee associated with new business operations that were not present during the same period last year.

Net Loss

Net loss for the nine months ended June 30, 2012, was $(11,264,117) or loss per share of $(0.09), as compared to $667,436 or loss per share of $(0.01) for the comparable nine months ended June 30, 2011.

Inflation did not have a material impact on the Company's operations for the period. Other than the foregoing, management knows of no trends, demands, or uncertainties that are reasonably likely to have a material impact on the Company's results of operations.

Liquidity and Capital Resources

The following table summarizes total current assets, liabilities and working capital at June 30, 2012 compared to September 30, 2011.

	June 30, 2012 (unaudited)	September 30, 2011	Increase/(Decrease)
Current Assets	$ 1,269,382	$ 207,171	$ 1,062,211
Current Liabilities	$ 618,981	$ 999,227	$ (380,246)
Working Capital (Deficit)	$ 650,401	$ (792,056)	$ 1,442,457

As June 30, 2012, we had a working capital of $650,401, as compared to a working capital deficit of $792,056, at September 30, 2011, an increase of $1,442,457. The increase is primarily attributable to the Company's issuance of $3,189,359 in convertible notes during the nine months ended June 30, 2012 and conversion of certain outstanding convertible promissory notes. The Company continues to devote significant resources to aggressively pursue markets for its existing product, new product introductions, advancement of its intellectual property build out of its infrastructure and team.

Net cash used for operating activities for the nine months ended June 30, 2012 and 2011 was $(3,191,146) and $(263,421), respectively. The net loss for the nine months ended June 30, 2012 and 2011 was $(11,264,117) and $(667,436), respectively.

Net cash used and provided for investing activities for the nine months ended June 30, 2012 and 2011 respectively, was $(21,190) and $2,776, respectively. The Company purchased computer equipment and invested in developing out its intellectual property during the nine months ended June 30, 2012.

Net cash obtained through all financing activities for the nine months ended June 30, 2012 was $3,115,426, as compared to $537,340 which was used for the nine months ended June 30, 2011. The Company issued convertible promissory notes in February 2012, the February 2012 Notes.

Going Concern

As reflected in the accompanying unaudited interim consolidated financial statements, the Company had a net loss of $(11,264,117) and net cash used in operations of $3,191,146 for the nine months ended June 30, 2012, and working capital and stockholders' deficit of $650,401 and $615,035, respectively, at June 30, 2012. 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, sale of aged debt to third parties in exchange for free trading stock, 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:

· continue with the implementation of the business plan;

· generate new sales from internet sales and continuing a push to establish additional distribution to retail customers;

· seeking additional third party debt and/or equity financing; and

· allocate sufficient resources to continue with advertising and marketing efforts.

Financings

Our primary source of operating cash has been through the sale of convertible notes and warrants and the subsequent exercise of certain of those warrants.

Off Balance Sheet Arrangement

None.

Contractual Obligation

None

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Under the PCAOB standards, a control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention by those responsible for oversight of the company's financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of June 30, 2012. Our management has determined that, as of June 30, 2012, the Company's disclosure controls and procedures are effective.

Changes in internal control over financial reporting

As development stage entity we are constantly modifying or improving of controls, especially for certain transaction which are new to us. There have been no significant changes in internal controls or in other factors that could significantly affect these controls during the quarter ended June 30, 2012, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A . RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6 . EXHIBITS

31.1 Certification pursuant to 18 U.S.C. Section 1350 Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification pursuant to 18 U.S.C. Section 1350 Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

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.

FUSE SCIENCE, INC.

September 5, 2012 By: /s/ Brian Tuffin
Brian Tuffin,
Chief Executive Officer and
Acting Chief Financial Officer,

Principal Executive Officer