

True Drinks Holdings, Inc.
Form 10-Q
November 13, 2014

UNITED STATES
SECURITIES AND
EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

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

For the transition period from N/A to N/A

Commission file number 001-32420

TRUE DRINKS HOLDINGS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation
or Organization)

84-1575085
(IRS Employer Identification No.)

18552 MacArthur Blvd., Suite 325
Irvine, CA 92612
(Address of Principal Executive Offices)

(949) 203-3500
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

Edgar Filing: True Drinks Holdings, Inc. - Form 10-Q

or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares of Common Stock, with \$0.001 par value, outstanding on November 13, 2014 was 42,693,825.

Table of Contents

TRUE DRINKS HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1.</u>	<u>FINANCIAL STATEMENTS</u> 1
	<u>Condensed Consolidated Balance Sheets as of September 30, 2014 (unaudited) and December 31, 2013</u> 1
	<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013 (unaudited)</u> 2
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 (unaudited)</u> 3
	<u>Notes to unaudited Condensed Consolidated Financial Statements</u> 4
<u>ITEM 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> 14
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 18
<u>ITEM 4.</u>	<u>Controls and Procedures</u> 18
<u>PART II OTHER INFORMATION</u>	
<u>ITEM 1.</u>	<u>Legal Proceedings</u> 19
<u>ITEM 1A.</u>	<u>Risk Factors</u> 19
<u>ITEM 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 20
<u>ITEM 3.</u>	<u>Defaults Upon Senior Securities</u> 20
<u>ITEM 4.</u>	<u>Mine Safety Disclosures</u> 20
<u>ITEM 5.</u>	<u>Other Information</u> 20
<u>ITEM 6.</u>	<u>Exhibits</u> 20
<u>SIGNATURES</u>	21

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

TRUE DRINKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	September 30, 2014 (Unaudited)	December 31, 2013
Current Assets:		
Cash	\$ 57,943	\$ 3,136,766
Accounts receivable, net	377,761	175,068
Inventory	1,823,622	1,056,756
Prepaid expenses and other current assets	584,438	591,434
Total Current Assets	2,843,764	4,960,024
Restricted Cash	133,131	133,065
Property and Equipment, net	5,465	8,399
Patents, net	1,247,059	1,352,941
Trademarks, net	11,015	48,516
Goodwill	3,474,502	3,474,502
Total Assets	\$ 7,714,936	\$ 9,977,447
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 2,021,586	\$ 1,222,404
Convertible notes payable, net	25,000	680,000
Notes payable, net	1,190,000	-
Line-of-credit facility	242,136	-
Term loan	-	1,916,667
Derivative liabilities	3,534,176	1,619,021
Total Current Liabilities	7,012,898	5,438,092
Commitments and Contingencies (Note 5)		
Stockholders' Equity:		
Common Stock, \$0.001 par value, 120,000,000 and 40,000,000 shares authorized, 39,893,825 and 27,885,587 shares outstanding at September 30, 2014 and December 31, 2013, respectively	39,894	27,886
Preferred Stock – Series B (liquidation preference of \$4 per share), \$0.001 par value, 2,750,000 shares authorized, 1,910,370 and 1,776,923 shares outstanding at September 30, 2014 and December 31, 2013, respectively	1,910	1,777
Additional paid in capital	17,745,738	14,751,170
Accumulated deficit	(17,085,504)	(10,241,478)
Total Stockholders' Equity	702,038	4,539,355
Total Liabilities and Stockholders' Equity	\$ 7,714,936	\$ 9,977,447

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

Table of Contents

TRUE DRINKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net Sales	\$ 1,064,065	\$ 517,689	\$ 2,875,739	\$ 2,231,861
Cost of Sales	977,324	406,757	2,473,018	1,871,643
Gross Profit	86,741	110,932	402,721	360,218
Operating Expenses:				
Selling and marketing	1,085,405	752,151	2,661,279	1,837,049
General and administrative	1,029,118	1,321,227	3,153,687	3,217,873
Total operating expenses	2,114,523	2,073,378	5,814,966	5,054,922
Operating Loss	(2,027,782)	(1,962,446)	(5,412,245)	(4,694,704)
Other Expense				
Change in fair value of derivative liability	(398,603)	(489,425)	1,343,495	(595,030)
Interest expense	37,037	684,206	88,286	1,064,823
Net Loss	\$ (1,666,216)	\$ (2,157,227)	\$ (6,844,026)	\$ (5,164,497)
Dividends on Preferred Stock	\$ 148,181	\$ -	\$148,181	\$ -
Net loss attributable to common stockholders	\$ (1,814,397)	\$ (2,157,227)	\$ (6,992,207)	\$ (5,164,497)
Loss per common share, basic and diluted	\$ (0.05)	\$ (0.08)	\$ (0.21)	\$ (0.19)
Weighted average shares of Common Stock outstanding, basic and diluted (1)	38,920,319	27,844,438	33,939,850	27,355,426

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

(1) The 100-for-1 reverse stock split executed on January 18, 2013 was retrospectively reflected in weighted average number of shares of Common Stock outstanding.

Table of Contents

TRUE DRINKS HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (6,844,026)	\$ (5,164,497)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	5,283	7,443
Amortization	143,383	143,383
Accretion of deferred financing costs	-	450,806
Provision for bad debt expense	-	150,000
Change in estimated fair value of derivative	1,343,495	(595,030)
Amortization of debt discount	-	657,307
Fair value of stock issued for services	171,464	331,341
Stock based compensation	368,172	694,533
Change in operating assets and liabilities:		
Accounts receivable	(202,693)	(293,065)
Inventory	(766,866)	(39,681)
Prepaid expenses and other current assets	6,996	(336,497)
Other assets	-	3,948
Accounts payable and accrued expenses	1,317,696	582,946
Net cash used in operating activities	(4,457,096)	(3,407,063)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	(66)	(51,761)
Purchase of property and equipment	(2,349)	(1,299)
Net cash used in investing activities	(2,415)	(53,060)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends Paid	(2,194)	
Proceeds from issuance of Series B Preferred Stock, net	1,887,413	-
Proceeds from notes payable	1,190,000	4,009,000
Net proceeds from line-of-credit facility	242,136	-
Deferred financing costs paid	-	(354,704)
Repayments on notes payable	(20,000)	(172,000)
Repayments on term loan	(1,916,667)	-
Net cash provided by financing activities	1,380,688	3,482,296
NET INCREASE IN CASH	(3,078,823)	22,173
CASH- beginning of period	3,136,766	4,449
CASH- end of period	\$ 57,943	\$ 26,622
SUPPLEMENTAL DISCLOSURES		
Interest paid in cash	\$ 7,944	\$ 58,758
Non-cash financing and investing activities:		

Edgar Filing: True Drinks Holdings, Inc. - Form 10-Q

Conversion of preferred stock to common stock	\$ 8,621	\$ 25,304
Conversion of notes payable and accrued interest to common stock	\$ 764,938	\$ 860,818
Dividend paid in common stock	\$ 247,255	\$ -
Dividends declared but unpaid	\$ 148,181	\$ -
Cashless exercise of warrants	\$ 44,751	\$ -
Warrants issued in connection with Series B Preferred Offering	\$ 616,411	\$ -
Warrants issued as deferred financing costs	\$ -	\$ 418,042
Warrants issued as debt discount	\$ -	\$ 1,163,240
Common stock issued for accrued expenses	\$ 487,650	\$ -

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

Table of Contents

TRUE DRINKS HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2014

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Overview

True Drinks Holdings, Inc. (the "Company", "us" or "we") was incorporated in the state of Nevada in January 2001 and is the holding company for True Drinks, Inc. ("True Drinks"), formed on January 19, 2012 in Delaware to create and commercialize all-natural, vitamin-enhanced drinks. Our primary business is the development, marketing, sale and distribution of our flagship product, AquaBall™ Naturally Flavored Water, a vitamin-enhanced, naturally flavored water drink packaged in our patented stacking spherical bottles. We distribute AquaBall™ nationally through select retail channels, such as grocery stores, mass merchandisers, drug stores and online. We also market and distribute Bazi® All Natural Energy, a liquid nutritional supplement drink, which is currently distributed through select retail channels, online, and through our existing database of customers.

Our principal place of business is 18552 MacArthur Boulevard, Suite 325, Irvine, California, 92612. Our telephone number is (949) 203-2500. Our corporate website address is <http://www.truedrinks.com>. Our Common Stock, par value \$0.001 ("Common Stock") is currently listed for quotation on the Over-the-Counter marketplace ("OTCQB") under the symbol TRUU.

Basis of Presentation and Going Concern

The accompanying condensed consolidated balance sheet as of December 31, 2013, which has been derived from audited financial statements included in Form 10-K for the year ended December 31, 2013, and the accompanying interim condensed consolidated financial statements have been prepared by management pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. These interim condensed consolidated financial statements are unaudited and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments and accruals) necessary to fairly present the Company's financial condition, results of operations and cash flows as of and for the periods presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Operating results for the nine-month period ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014, or for any other interim period during such year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC, although the Company believes that the disclosures made are adequate to make the information not misleading. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC on March 31, 2014.

Table of Contents

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Company as a going concern. As of and for the three months ended September 30, 2014, the Company incurred a net loss of \$1,666,216, has negative working capital of \$4,169,134, and an accumulated deficit of \$17,085,504. The Company had \$191,074 in cash at September 30, 2014 with \$133,131 of this cash being restricted, as discussed below. The Company will require additional capital to execute its business, marketing and operating plan, and therefore sustain operations, which capital may not be available on favorable terms, if at all. The accompanying condensed consolidated financial statements do not include any adjustments that might result in the event the Company was unable to generate sufficient cash from operations, execute its business, marketing or operating plan, or obtain additional working capital, if necessary.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company and its wholly owned subsidiaries True Drinks, Inc., Bazi, Inc. and GT Beverage Company, LLC. All inter-company accounts and transactions have been eliminated in the preparation of these condensed consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Significant estimates made by management include, among others, derivative liabilities, provision for losses on accounts receivable, allowances for obsolete and slow moving inventory, stock compensation, deferred tax asset valuation allowances, and the realization of long-lived and intangible assets, including goodwill. Actual results could differ from those estimates.

Restricted Cash

The Company has \$133,131 in restricted cash with a financial institution securing a letter of credit. The letter of credit matures in August 2015 and was issued as part of contractual obligations related to one of our licensing agreements with Disney Consumer Products, Inc.

Accounts Receivable

We maintain an allowance for doubtful accounts, which is analyzed on a periodic basis to ensure that it is adequate to the best of management's knowledge. Management develops an estimate of the allowance for doubtful accounts receivable based on the perceived likelihood of ultimate payment. Although the Company expects to collect amounts due, actual collections may differ from these estimated amounts. The allowance for doubtful accounts was approximately \$210,000 at September 30, 2014 and December 31, 2013.

Concentrations

The Company has no significant off-balance sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign hedging arrangements. The Company maintains the majority of its cash balances with two financial institutions. There are funds in excess of the federally insured amount, or that are subject to credit risk, and the Company believes that the financial institutions are financially sound and the risk of loss is minimal.

We utilized a variety of suppliers to purchase raw materials for the AquaBall™ Naturally Flavored Water during the nine-months ended September 30, 2014 and the year ended December 31, 2013.

During 2013, we relied significantly on one supplier for 100% of our purchases of certain raw materials for Bazi®. Bazi, Inc. has sourced these raw materials from this supplier since 2007 and we do not anticipate any issues with the supply of these raw materials.

-5-

Table of Contents

A significant portion of our revenue comes from sales of the AquaBall™ Naturally Flavored Water with the remaining sales coming from Bazi® All Natural Energy. For the nine months ended September 30, 2014, sales of AquaBall™ accounted for 94% of our sales, compared to 100% for the corresponding period in 2013. While no assurances can be given, we anticipate that sales of AquaBall™ will continue to grow in future periods as a percentage of sales relative to sales of Bazi™.

Inventory

Inventory is stated at the lower of cost or market on a FIFO (first-in first-out) basis. Provisions are made to reduce excess or obsolete inventory to the estimated net realizable value. The Company purchases for resale a vitamin-enhanced flavored water beverage and a liquid dietary supplement.

Management reviews the carrying value of inventory in relation to its sales history and industry trends to determine an estimated net realizable value. Changes in economic conditions or customer demand could result in obsolete or slow moving inventory that cannot be sold or must be sold at reduced prices and could result in an inventory reserve. No inventory reserves were considered necessary as of September 30, 2014 and December 31, 2013.

Inventory is comprised of the following:

	September 30, 2014 (unaudited)	December 31, 2013
Purchased materials	\$ 1,174,316	\$ 659,835
Finished goods	649,306	396,921
Total	\$ 1,823,622	\$ 1,056,756

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows estimated to be generated by the asset. No impairment was deemed necessary during the quarter ended September 30, 2014.

Intangible Assets

Intangible assets consists of the direct costs incurred for application fees and legal expenses associated with trademarks on the Company's products, customer list, and the estimated value of GT Beverage Company, LLC's interlocking spherical bottle patent. The Company's intangible assets are amortized over their estimated remaining useful lives. The Company evaluates the useful lives of its intangible assets annually and adjusts the lives according to the expected useful life. No impairment was deemed necessary during the quarter ended September 30, 2014.

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired that are individually identified and separately recognized. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are tested for impairment at least annually, typically in the fourth quarter. No impairment indicators were noted during the quarter ended September 30, 2014.

Income Taxes

For the quarters ended September 30, 2014 and 2013, the Company incurred tax net operating losses, and accordingly, had no income tax provision. At September 30, 2014, the Company had tax net operating loss carryforwards and a related deferred tax asset, which had a full valuation allowance.

-6-

Table of Contents

Stock-Based Compensation

For the nine-month periods ended September 30, 2014 and 2013, general and administrative expenses included stock based compensation expense of \$368,172 and \$694,533, respectively.

The Company uses a Black-Scholes option-pricing model (the “Black-Scholes Model”) to estimate the fair value of outstanding stock options and warrants. The use of a valuation model requires the Company to make certain assumptions with respect to selected model inputs. Expected volatility is calculated based on the historical volatility of the Company’s stock price over the contractual term of the option or warrant. The expected life is based on the contractual term of the option or warrant and expected exercise and, in the case of options, post-vesting employment termination behavior. Currently, our model inputs are based on the simplified approach provided by SAB 110. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of the grant (see Note 3, “Stock Options and Warrants”).

Fair Value of Financial Instruments

The carrying amount of our cash, accounts receivable, accounts payable, and accrued expenses approximate their estimated fair values due to the short-term maturities of those financial instruments. The carrying amount of the notes payable approximates their fair value due to the short maturity of the notes and since the interest rate approximates current market interest rates for similar instruments. See Note 6 for derivative instruments.

Derivative Instruments

A derivative is an instrument whose value is “derived” from an underlying instrument or index such as a future, forward, swap, option contract, or other financial instrument with similar characteristics, including certain derivative instruments embedded in other contracts (“embedded derivatives”) and for hedging activities. As a matter of policy, the Company does not invest in financial derivatives or engage in hedging transactions. However, the Company has entered into complex financing transactions that involve financial instruments containing certain features that have resulted in the instruments being deemed derivatives or containing embedded derivatives. The Company may engage in other similar complex debt transactions in the future, but not with the intention to enter into derivative instruments. Derivatives and embedded derivatives, if applicable, are measured at fair value using the binomial lattice (“Binomial Lattice”) pricing model and marked to market and reflected on our condensed consolidated statement of operations as other (income) expense at each reporting period. However, such new and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation of derivatives often incorporate significant estimates and assumptions, which may impact the level of precision in the financial statements. Furthermore, depending on the terms of a derivative or embedded derivative, the valuation of derivatives may be removed from the financial statements upon conversion of the underlying instrument into some other security.

Net Loss Per Share

Earnings per share requires presentation of both basic earnings per common share and diluted earnings per common share. Since the Company has a net loss for all periods presented, Common Stock equivalents are not included in the weighted average calculation since their effect would be anti-dilutive. At September 30, 2014 and 2013, the Company had 99,531,717 and 35,421,215 shares of Common Stock equivalents outstanding, respectively.

Research and Development

Research and development costs are expensed as incurred.

Recent Accounting Pronouncements

Except as noted below, the Company has reviewed all recently issued, but not yet effective accounting pronouncements and has concluded that there are no recently issued, but not yet effective pronouncements that may have a material impact on the Company's future financial statements.

-7-

Table of Contents

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. This ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. This accounting standard is effective for annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact this accounting standard will have on the Company's financial position, results of operations or cash flows.

Subsequent Events

On October 7, 2014, the Company issued secured promissory notes in principal amounts totaling \$1.3 million to certain accredited investors (the "Secured Notes"). The Secured Notes accrue interest at a rate of 12% per annum and are secured by an interest in all inventory, books and records pertaining to the inventory, and all proceeds with respect sale or other disposition of the inventory. The Secured Notes mature one year from the date of issuance. In the event the Secured Notes are paid in a form other than cash, the Company is obligated to pay to the holder of the Secured Notes ("Holder") a lender's fee equal to 10%, which amount shall be added to the principal amount due and owing to the Holder.

The Secured Notes are part of a series of secured promissory notes issued between September 18, 2014 and September 29, 2014 in the aggregate principal amount of \$630,000, which issuance was reported on a Current Report on Form 8-K filed on October 2, 2014. The Company is planning on issuing approximately \$2.0 million in additional Secured Notes in the fourth quarter of 2014.

Management has evaluated subsequent events through the date the accompanying condensed consolidated financial statements were filed with the SEC, and noted no other significant subsequent events not elsewhere disclosed herein.

NOTE 2 — SHAREHOLDERS' EQUITY

Series B Convertible Preferred Stock

We are currently authorized to issue up to 5.0 million shares of preferred stock, of which 2.75 million shares are currently designated as Series B Convertible Preferred Stock. Each share of Series B Preferred has a stated value of \$4.00 per share ("Stated Value") and accrues annual dividends equal to 5% of the Stated Value, payable by the Company in quarterly installments, in either cash or shares of Common Stock. The Company declared a dividend totaling \$99,072 and paid previously declared dividends of \$238,537 during the quarter ended September 30, 2014 by issuing 579,267 shares of the Company's common stock. The cumulative unpaid dividends on the Series B Preferred Stock are \$99,072 and \$2,194 at September 30, 2014 and December 31, 2013, respectively. Each share of Series B Preferred is convertible, at the option of the holder, into that number of shares of Common Stock equal to the Stated Value, divided by \$0.25 per share (the "Conversion Shares"). The Company also has the option to require the conversion of the Series B Preferred into Conversion Shares in the event: (i) there are sufficient authorized shares of Common Stock reserved as Conversion Shares; (ii) the Conversion Shares are registered under the Securities Act of 1933, as amended (the "Securities Act"), or the Conversion Shares are freely tradable, without restriction, under Rule 144 of the Securities Act; (iii) the daily trading volume of the Company's Common Stock, multiplied with the closing price as reported by the OTCBB, equals at least \$250,000 for 20 consecutive trading days; and (iv) the average closing price of the Company's Common Stock is at least \$0.62 per share for 10 consecutive trading days.

Over the course of the Series B Offering, between November 2013 and February 2014, the Company offered and sold 2.0 million shares of Series B Preferred to certain accredited investors in exchange for a total of \$8.0 million in cash, less cash fees of \$659,440. The investors also received Warrants to purchase an aggregate total of 9,333,334 shares of the Company's Common Stock for \$0.30 per share. The Company also issued Warrants to purchase 1,946,721 shares

of Common Stock to certain placement agents assisting with the Series B Offering. Each Warrant contains a price-protection feature that adjusts the exercise price in the event of certain dilutive issuances of securities. Such price-protection feature is determined to be a derivative liability and, as such, the value of all Warrants issued during the Series B Offering, or \$1,534,007, was recorded to derivative liabilities. The Company recorded \$616,411 of such amount during the nine months ended September 30, 2014.

Table of Contents

Between February 2014 and September 2014, holders of 674,730 shares of Series B Preferred converted those shares into 10,795,680 shares of Common Stock.

Other Transactions

In February 2014, holders of \$789,938 in outstanding principal, lender's fees and interest on certain convertible notes payable exchanged this amount for 197,487 shares of Series B Preferred and warrants to purchase 921,596 shares of Common Stock for \$0.30 per share.

Between March 2014 and September 2014, the Company issued 498,307 shares of Common Stock in connection with five consulting agreements. The Company expensed the fair value of the Common Stock issued of \$171,464 to consulting expense.

In May 2014, the Company issued 69,138 shares of Common Stock pursuant to a cashless exercise of 152,360 outstanding warrants.

In July 2014, the Company issued 9,289 shares of Common Stock pursuant to a cashless exercise of 27,273 outstanding warrants.

In July 2014, the Company issued 1,624,002 shares of Common Stock in consideration for the settlement of a lawsuit and related legal payments.

NOTE 3 — STOCK OPTIONS AND WARRANTS

Warrants

A summary of the Company's warrant activity for the nine months ended September 30, 2014 is presented below:

	Warrants Outstanding	Weighted Average Exercise Price
Outstanding, December 31, 2013	12,590,467	\$ 0.55
Granted	3,989,117	0.30
Exercised	-	-
Expired	-	-
Outstanding, March 31, 2014	16,579,584	\$ 0.49
Granted	-	-
Exercised	(152,360)	0.25
Expired	(50,000)	25.00
Outstanding, June 30, 2014	16,377,224	\$ 0.42
Granted	-	-
Exercised	(27,273)	0.25
Expired	(7,500)	25.00
Outstanding, September 30, 2014	16,342,451	\$ 0.40

Table of Contents

As of September 30, 2014, the Company had the following outstanding warrants to purchase shares of its Common Stock:

Warrants Outstanding	Weighted Average Exercise Price Per Share	Weighted Average Remaining Life (Yrs.)
62,453	\$ 30.00	1.31
2,858,610	\$ 0.25	3.82
13,421,388	\$ 0.30	4.21
16,342,451	\$ 0.40	4.38

Non-Qualified Stock Options

The Company granted 6,401,741 non-qualified stock options to employees during the nine months ended September 30, 2014.

The weighted average estimated fair value per share of the stock options at grant date was \$0.35 per share. Such fair values were estimated using the Black-Scholes stock option pricing model and the following weighted average assumptions.

Expected life	2014
	2.5 years
Estimated volatility	75.0 %
Risk-free interest rate	0.66 %
Dividends	-

Stock option activity during the nine months ended September 30, 2014 is summarized as follows:

	Options Outstanding	Weighted-Average Exercise Price
Options outstanding at December 31, 2013	3,993,258	\$ 0.70
Exercised	-	-
Granted	2,457,390	0.25
Forfeited	-	-
Expired	-	-
Options outstanding at March 31, 2014	6,450,648	\$ 0.53
Exercised	-	-
Granted	-	-
Forfeited	(122,868)	1.02
Expired	-	-
Options outstanding at June 30, 2014	6,327,780	\$ 0.53
Exercised	-	-
Granted	6,401,741	0.38
Forfeited	-	-
Expired	-	-
Options outstanding at September 30, 2014	12,729,521	0.45

The following table summarizes information about the Company's stock options outstanding as of September 30, 2014:

Edgar Filing: True Drinks Holdings, Inc. - Form 10-Q

Range of Exercise Prices	Outstanding Options			Exercisable Options		
	Number	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value	Number	Aggregate Intrinsic Value	
\$ 0.61	3,133,173	0.80	\$ -	2,129,741	\$ -	
\$ 1.02	491,478	0.93	\$ -	368,610	\$ -	
\$ 1.10	245,739	1.75	\$ -	81,913	\$ -	
\$ 0.25	2,457,390	9.36	\$ 270,313	637,752	\$ 70,183	
\$ 0.38	6,401,741	6.80	\$ -	1,359,726	\$ -	
Totals	12,729,521	5.49	\$ 270,313	4,577,742	\$ 70,183	

-10-

Table of Contents

NOTE 4 — DEBT

Convertible Notes Payable

A summary of convertible notes payable as of September 30, 2014, is as follows:

	Amount
Outstanding, December 31, 2013	\$ 680,000
Notes issued	-
Notes repaid	(20,000)
Notes converted to Common Stock	(635,000)
Outstanding, September 30, 2014	\$ 25,000

In January 2014, the Company repaid \$25,750 in outstanding principal, lender's fees and accrued interest in connection with certain notes payable.

In February 2014, holders of certain bridge financing notes, totaling \$789,938 in outstanding principal, lender's fees and accrued interest, converted their notes into shares of the Company's Series B Preferred.

Term Loan

In November 2013, the Company secured a commercial term loan in the amount of \$2.0 million from Avid Bank. The loan had a term of two years, accrued interest at 2.75% above prime, was secured by substantially all of the Company's assets, and required an asset coverage ratio of assets to outstanding principal of 1.5. All amounts due under the commercial term loan with Avid Bank, totaling approximately \$1.67 million, were paid in full in April 2014.

Unsecured Notes

In June 2014, the Company issued unsecured promissory notes to certain accredited investors, resulting in net proceeds to the Company of \$360,000. These promissory notes have a term of one year and carry an annual interest rate of 8%. The unsecured promissory notes were issued principally to provide liquidity necessitated as a result of the termination, and payment in full, of all amounts due and payable under the Avid Bank commercial term loan.

Line-of-Credit Facility

The Company entered into a line-of-credit agreement with a financial institution on June 30, 2014. Borrowings under this agreement approximated \$242,000 as of September 30, 2014. The terms of the agreement allow the Company to borrow up to the lesser of \$1.5 million or 85% of the sum of eligible accounts receivables. At September 30, 2014, the eligible receivables borrowing base approximated \$247,000 and the Company had approximately \$5,000 available to borrow. The line-of-credit bears interest at Prime rate (3.25% as of September 30, 2014) plus 4.50% per annum as well as a monthly fee of 0.50% on the average amount outstanding on the line.

Secured Notes

In September 2014, the Company issued Secured Notes in the aggregate principal amount of \$830,000 to certain accredited investors. The Secured Notes accrue interest at a rate of 12% per annum and are secured by an interest in all inventory, books and records pertaining to the inventory, and all proceeds with respect sale or other disposition of the inventory. The Secured Notes mature one year from the date of issuance. In the event the Secured Notes are paid in a form other than cash, the Company is obligated to pay to the Holder of the Secured Notes a lender's fee equal to

10%, which amount shall be added to the principal amount due and owing the Holder.

-11-

Table of Contents

NOTE 5 — COMMITMENTS AND CONTINGENCIES

The Company has entered in a number of agreements with various consultants. Termination of any of these agreements could result in termination fees.

The Company leases its corporate office in Irvine, California on a one-year term, which term was most recently renewed in July 2013. Total rent expense related to the Company's operating lease for the nine months ended September 30, 2014 was \$38,670. Total remaining payments on the lease through July 31, 2015 are \$43,990.

The Company maintains employment agreements with certain key members of management. The agreements provide for minimum base salaries, eligibility for stock options, performance bonuses and severance payments.

Legal Proceedings

From time to time, claims are made against the Company in the ordinary course of business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties and unfavorable outcomes could occur. In the opinion of management, the resolution of these matters, if any, will not have a material adverse impact on the Company's financial position or results of operations.

On July 1, 2011, a lawsuit was filed in the United States District Court, the Southern District of Ohio, Cincinnati Division, against GT Beverage Company, LLC ("GT LLC") by Dominion Liquid Technologies, LLC. The lawsuit alleged that GT LLC breached terms of a 2010 co-packing agreement, which governed the relationship between the parties. In July 2014, the Company settled this lawsuit for \$350,000. The settlement was fully accrued for, and was paid for with 1,166,667 restricted shares of its Common Stock.

On April 22, 2014, a lawsuit was filed in the Superior Court of California, County of Orange, against the Company by Advantage Sales and Marketing, LLC. The plaintiff initially seeks damages of \$92,064 for outstanding invoices. The lawsuit is expected to settle for \$69,000 in November 2014.

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

NOTE 6 – FAIR VALUE MEASUREMENTS

The application of fair value measurements may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability or whether management has elected to carry the item at its estimated fair value. FASB ASC 820-10-35 specifies a hierarchy of valuation techniques based on whether the inputs to those techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1: Observable inputs such as quoted prices in active markets;

-Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

-

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when estimating fair value.

-12-

Table of Contents

The Company assesses its recurring fair value measurements as defined by FASB ASC 810. Liabilities measured at estimated fair value on a recurring basis include derivative liabilities. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial liabilities among the levels occur at the beginning of the reporting period. There were no transfers between Level 1, Level 2 and/or Level 3 during the quarter ended September 30, 2014. The Company had no Level 1 or 2 fair value measurements at September 30, 2014 or December 31, 2013.

The following table presents the estimated fair value of financial liabilities measured at estimated fair value on a recurring basis included in the Company's financial statements as of September 30, 2014:

	Total carrying value	Level 1 Quoted market prices in active markets	Level 2 Internal Models with significant observable market parameters	Level 3 Internal models with significant unobservable market parameters
Derivative liabilities	\$ 3,534,176	\$ -	\$ -	\$ 3,534,176

The table below sets forth a summary of changes in the fair value of our Level 3 financial liabilities for the nine months ended September 30, 2014:

	December 31, 2013	Recorded New Derivative Liabilities	Reclassification of Derivative Liabilities to Additional Paid in Capital	Change in Estimated Fair Value Recognized in Results of Operations	September 30, 2014
Derivative liabilities	\$ 1,619,021	\$ 616,411	\$ (44,751)	\$ (1,343,495)	\$ 3,534,176

Table of Contents

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend to identify forward-looking statements in this report by using words such as "believes," "intends," "expects," "may," "will," "should," "plan," "projected," "contemplates," "anticipates," "estimates," "predicts," "potential," "continue," or similar terms. These statements are based on our beliefs as well as assumptions we made using information currently available to us. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Because these statements reflect our current views concerning future events, these statements involve risks, uncertainties, and assumptions. Actual future results may differ significantly from the results discussed in the forward-looking statements. These risks include changes in demand for our products, changes in the level of operating expenses, our ability to expand our network of customers, changes in general economic conditions that impact consumer behavior and spending, product supply, the availability, amount, and cost of capital to us and our use of such capital, and other risks discussed in this report. Additional risks that may affect our performance are discussed under "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

The following discussion of the financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements included elsewhere within this Quarterly Report. Fluctuations in annual and quarterly results may occur as a result of factors affecting demand for our products such as the timing of new product introductions by us and by our competitors and our customers' political and budgetary constraints. Due to such fluctuations, historical results and percentage relationships are not necessarily indicative of the operating results for any future period.

Overview

True Drinks Holdings, Inc. (the "Company", "us" or "we") was incorporated in the state of Nevada in January 2001 and is the holding company for True Drinks, Inc. ("True Drinks"), a beverage company incorporated in the state of Delaware in January 2012 that specializes in all-natural, vitamin-enhanced drinks. Our primary business is the development, marketing, sale and distribution of our flagship product, AquaBall™ Naturally Flavored Water, a vitamin-enhanced, naturally flavored water drink packaged in our patented stacking spherical bottles. We distribute the AquaBall™ nationally through select retail channels, such as grocery stores, mass merchandisers, drug stores and online. We also market and distribute Bazi® All Natural Energy, a liquid nutritional supplement drink, which is currently distributed online and through our existing database of customers.

Our principal place of business is 18552 MacArthur Boulevard, Suite 325, Irvine, California, 92612. Our telephone number is (949) 203-2500. Our corporate website address is <http://www.truedrinks.com>. Our Common Stock, par value \$0.001 ("Common Stock") is currently listed for quotation on the Over-the-Counter marketplace ("OTCQB") under the symbol TRUU.

Critical Accounting Policies and Estimates

Discussion and analysis of our financial condition and results of operations are based upon financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we

evaluate our estimates; including those related to collection of receivables, inventory obsolescence, sales returns and non-monetary transactions such as stock and stock options issued for services. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe there have been no changes to our critical accounting policies subsequent to the filing of our annual report on Form 10-K for the year ended December 31, 2013.

Table of Contents

Comparison of the Three Months Ended September 30, 2014 to the Three Months Ended September 30, 2013.

Net Sales

Net sales for the three months ended September 30, 2014 were \$1,064,065 compared to \$977,324 for the three months ended September 30, 2013, a 9% increase. The increase in sales for the three months ended September 30, 2014 is principally attributable to the receipt and fulfillment of a second order from Sam's Club, which resulted in the distribution of AquaBall™ to 199 stores. Sam's Club has subsequently placed an additional order for AquaBall™, to be shipped in the quarter ending December 31, 2014, that will result in approximately \$1.4 million in sales, to be recognized in such period. While no assurances can be given, management anticipates continued growth in the sale of AquaBall™ as the Company executes its business plan, and realizes sales from current distribution agreements negotiated and closed in recent periods.

The percentage that each product category represented of our net sales is as follows:

Product Category	Three Months Ended September 30, 2014 (% of Sales)
AquaBall™	94%
Bazi®	6 %

While no assurances can be given, management currently anticipates that net sales will increase in subsequent periods as a result of existing and new distribution agreements, the commencement of shipments to China, and anticipated sales to key accounts established during the quarter ended September 30, 2014.

Gross Profit

Gross profit for the three months ended September 30, 2014 was \$86,741, compared to \$110,932 for the three months ended September 30, 2013. Gross profit as a percentage of revenue (gross margin) during three months ended September 30, 2014 was 8%. Gross margins were negatively impacted in the three months ended September 30, 2014 by low initial margins on our new club packs sold to Sam's Club. Gross margins on this item are anticipated to increase as volume grows, resulting in increased overall margins.

Sales, General and Administrative Expense

Sales, general and administrative expenses were \$2,114,523 for the three months ended September 30, 2014, as compared to \$2,073,378 for the three months ended September 30, 2013. The total for 2014 included increases in freight and marketing expenditures, which increases are offset by significant decreases in interest and finance expenses.

Change in Fair Value of Derivative Liabilities

The Company recorded a gain for the change in fair value of derivative liabilities for the three months ended September 30, 2014 of \$398,603.

Interest Expense

Edgar Filing: True Drinks Holdings, Inc. - Form 10-Q

Interest expense for the three months ended September 30, 2014 was \$37,037, as compared to \$684,206 for the three months ended September 30, 2013. Interest expense for 2014 included charges related to our outstanding promissory notes while the total in 2013 included approximately \$612,000 for the accretion of the debt discount on convertible loans that were eventually paid off or converted into shares of Series B Preferred in November 2013.

Income Taxes

There is no income tax expense recorded for the three months ended September 30, 2014 and 2013, due to the Company's net losses. As of September 30, 2014, the Company has tax net operating loss carryforwards and a related deferred tax asset, offset by a full valuation allowance.

-15-

Table of Contents

Net Loss

Our net loss for the three months ended September 30, 2014 was \$1,666,216, as compared to a net loss of \$2,157,227 for the three months ended September 30, 2013. On a per share basis, our loss was \$0.04 and \$0.08 per share for the three months ended September 30, 2014 and 2013, respectively.

Comparison of the Nine Months Ended September 30, 2014 to the Nine Months Ended September 30, 2013.

Net Sales

Net sales for the nine months ended September 30, 2014 were \$2,875,739 compared to net sales of \$2,231,861 for the nine months ended September 30, 2013. Net sales during the nine month period increased principally as a result of increased sales of AquaBall™ during the nine-month period ended September 30, 2014, compared to the comparable period in 2013, offset by certain non-recurring promotion-related shipments to Winn-Dixie and Walgreens. The increase in sales for the nine months ended September 30, 2014 reflects sales through new distribution channels, and sales to certain big-box retailers, including Sam's Club, which resulted in the distribution of AquaBall™ to 199 stores in the quarter ended September 30, 2014. Sam's Club has subsequently placed an additional order for AquaBall™, to be shipped in the quarter ending December 31, 2014, that will result in approximately \$1.4 million in sales, to be recognized in such period. While no assurances can be given, management anticipates continued growth in the sale of AquaBall™ as the Company executes its business plan, and realizes sales from current distribution agreements negotiated and closed in recent periods.

The percentage that each product category represented of our net sales is as follows:

Product Category	Nine Months Ended September 30, 2014 (% of Sales)
AquaBall™	94%
Bazi®	6%

Gross Profit

Gross profit for the nine months ended September 30, 2014 was \$402,721. Gross profit as a percentage of revenue (gross margin) during nine months ended September 30, 2014 was 14%.

Sales, General and Administrative Expense

Sales, general and administrative expenses were \$5,814,966 for the nine months ended September 30, 2014 as compared to \$5,054,922 for the nine months ended September 30, 2013. This increase was principally due to increased marketing support fees, marketing expenditures, and the accrual of certain expenses incurred in connection with the settlement of the lawsuit with Dominion Liquid Technologies, which increases are offset by lower stock based compensation expense.

Interest Expense

Edgar Filing: True Drinks Holdings, Inc. - Form 10-Q

Interest expense for the nine months ended September 30, 2014 was \$88,286 as compared to \$1,064,823 for the nine months ended September 30, 2013. Interest expense for 2014 was for charges related to our outstanding promissory notes while the total in 2013 included approximately \$860,000 for the accretion of the debt discount on convertible loans that were eventually paid off or converted into shares of Series B Preferred in November 2013.

Income Taxes

There is no income tax expense recorded for the periods ended September 30, 2014 and 2013, due to the Company's net losses. As of September 30, 2014, the Company has tax net operating loss carryforwards and a related deferred tax asset, offset by a full valuation allowance.

Net Loss

Our net loss for the nine months ended September 30, 2014 was \$6,844,026 as compared to a net loss of \$5,164,497 for the nine months ended September 30, 2013. On a per share basis, our loss was \$0.20 and \$0.19 per share for the nine months ended September 30, 2014 and 2013, respectively.

Table of Contents

Liquidity and Capital Resources

The Company had negative working capital of \$4,169,134 and \$3,393,734 at September 30, 2014 and June 30, 2014, respectively, and \$191,074 and \$495,867 in cash at September 30, 2014 and June 30, 2014, respectively. The substantial decrease in working capital and cash is principally due to the payoff of all amounts due under the commercial line of credit with Avid Bank, totaling \$1.67 million, and, to a lesser extent, to fund operating losses incurred during the reporting period.

Our auditors have included a paragraph in their report on our consolidated financial statements, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, indicating that there is substantial doubt as to the ability of the Company to continue as a going concern. The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Company as a going concern. As of and for the quarter ended September 30, 2014, the Company incurred a net loss of \$1,666,216, has negative working capital of \$4,169,134 and an accumulated deficit of \$17,085,504. While subsequent to December 31, 2013, the Company raised approximately \$1,890,000 resulting from the sale of shares of its Series B Convertible Preferred Stock ("Series B Preferred"), additional capital will be necessary to advance the marketability of the Company's products to the point at which the Company can sustain operations and continue as a going concern. Management's plans are to continue to contain expenses, expand distribution and sales of its AquaBall™ as rapidly as economically possible, and raise additional capital through equity and debt offerings, which is necessary for the Company to execute the Company's business, marketing and operating plan, and ultimately achieve profitability from continuing operations. The accompanying condensed consolidated financial statements do not include any adjustments that might result in the event the Company is unsuccessful in its plans.

The Company has financed its operations through sales of equity and, to a lesser degree, cash flow provided by sales of AquaBall™. Despite recent sales of debt securities as described below, funds generated from sales of our Common Stock, shares of Series B Preferred and cash flow provided by AquaBall™, sales are currently insufficient to fund our operating requirements for the next twelve months. As a result we will require additional capital to continue operating as a going concern. No assurances can be given that we will be successful.

Unsecured Notes

In June 2014, the Company issued unsecured promissory notes to certain accredited investors, resulting in net proceeds to the Company of \$360,000. These promissory notes have a term of one year and carry an annual interest rate of 8%.

Table of Contents

Secured Notes

On October 7, 2014, the Company issued secured promissory notes in the aggregate principal amount of \$1.13 million to certain accredited investors (the "Secured Notes"). The Secured Notes accrue interest at a rate of 12% per annum and are secured by an interest in all inventory, books and records pertaining to the inventory, and all proceeds with respect sale or other disposition of the inventory. The Secured Notes mature one year from the date of issuance. In the event the Secured Notes are paid in a form other than cash, the Company is obligated to pay to the holder of the Secured Notes ("Holder") a lender's fee equal to 10%, which amount shall be added to the principal amount due and owing the Holder.

The Secured Notes are part of a series of secured promissory notes issued between September 18, 2014 and September 29, 2014 in the aggregate principal amount of \$630,000, which issuance was reported on a Current Report on Form 8-K filed on October 2, 2014. The Company is planning on issuing approximately \$1.0 million in additional Secured Notes during the month of October 2014.

Line-of-Credit Facility

The Company entered into a line-of-credit agreement with a financial institution on June 30, 2014. Borrowings under this agreement approximated \$242,000 as of September 30, 2014. The terms of the agreement allow the Company to borrow up to the lesser of \$1.5 million or 85% of the sum of eligible accounts receivables. At September 30, 2014, the eligible receivables borrowing base approximated \$247,000 and the Company had approximately \$5,000 available to borrow. The line-of-credit bears interest at Prime rate (3.25% as of September 30, 2014) plus 4.50% per annum as well as a monthly fee of 0.50% on the average amount outstanding on the line.

Off-Balance Sheet Items

We had no off-balance sheet items as of September 30, 2014.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A smaller reporting company is not required to provide the information required by this item.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that this information is accumulated and communicated to our management, including our principal executive and financial officers, to allow timely decisions regarding required disclosure.

Our management, with the participation and supervision of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in

evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective based on our material weakness in the form of lack of segregation of duties, which stems from our early stage status and limited capital resources to hire additional financial and administrative staff.

(b) Changes in internal controls over financial reporting.

The Company's Chief Executive Officer and Chief Financial Officer have determined that there have been no changes, in the Company's internal control over financial reporting during the period covered by this report identified in connection with the evaluation described in the above paragraph that have materially affected, or are reasonably likely to materially affect, Company's internal control over financial reporting.

-18-

Table of Contents

PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time, claims are made against the Company in the ordinary course of business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties and unfavorable outcomes could occur. In the opinion of management, the resolution of these matters, if any, will not have a material adverse impact on the Company's financial position or results of operations.

On July 1, 2011, a lawsuit was filed in the United States District Court, the Southern District of Ohio, Cincinnati Division, against GT Beverage Company, LLC ("GT LLC") by Dominion Liquid Technologies, LLC. The lawsuit alleged that GT LLC breached terms of a 2010 co-packing agreement, which governed the relationship between the parties. In July 2014, the Company settled this lawsuit for \$350,000. The settlement was fully accrued for, and was paid for with 1,166,667 restricted shares of its Common Stock.

On April 22, 2014, a lawsuit was filed in the Superior Court of California, County of Orange, against the Company by Advantage Sales and Marketing, LLC. The plaintiff initially seeks damages of \$92,064 for outstanding invoices. The lawsuit is expected to settle for \$69,000 in November 2014.

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

ITEM 1A. RISK FACTORS

We have identified the following risk factors in addition to the risks factors previously disclosed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014:

We have a history of operating losses and, despite consummation of recent financings, our working capital has decreased substantially. Our decrease in working capital may present liquidity problems.

We have not been profitable since inception. We had a net loss of approximately \$1,666,216 million and \$6,844,026 million for the three- and nine-month period ended September 30, 2014, respectively, and had negative working capital of approximately \$4,169,134 million at September 30, 2014. Although we have recently consummated equity and debt financings resulting in gross proceeds of approximately \$3.0 million, we have used a substantial portion of the gross proceeds to fund operating losses and pay down certain indebtedness, resulting in \$191,074 in cash at September 30, 2014, of which \$133,131 is restricted. As a result, we will require additional capital to execute our business and marketing plan, and continue as a going concern. Our history of losses may impair our ability to obtain necessary financing on favorable terms or at all. It may also impair our ability to attract investors if we attempt to raise additional capital by selling additional debt or equity securities in a private or public offering.

We are subject to certain contractual covenants that restrict our ability to raise additional capital through the issuance of debt, equity or equity-linked securities, which will restrict our ability to obtain necessary capital absent a breach of such covenants or our ability to renegotiate the same.

In November 2013, we entered into a Securities Purchase Agreement (the "SPA") with certain accredited investors, pursuant to which we offered and sold 2.0 million shares of Series B Preferred. The SPA contains a negative covenant

that substantially restricts our ability to issue any equity or debt securities, including any derivative or convertible securities, through at least February 2014. Although the SPA provides for certain carve-outs from this covenant, it severely limits our ability to engage in any equity or debt financings, which may negatively affect our ability to obtain necessary working capital absent a breach of such covenant or our ability to successfully renegotiate the same. No assurances can be given that we will be successful in obtaining a waiver, or otherwise renegotiating such restrictions.

Table of Contents

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a)	EXHIBITS
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a)
31.2	Certification of the Principal Financial and Accounting Officer pursuant to Rule 13a-14(a) and 15d-14(a)
32.1	Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by the Principal Financial and Accounting Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Table of Contents

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 13, 2014

TRUE DRINKS HOLDINGS, INC.

By: /s/ Lance Leonard
Lance Leonard
President, Chief Executive Officer, and
Director
(Principal Executive Officer)

Date: November 13, 2014

By: /s/ Daniel Kerker
Daniel Kerker
Chief Financial Officer
(Principal Financial and Accounting
Officer)