

True Drinks Holdings, Inc.  
Form 10-Q  
November 14, 2017

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, 2017

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-32420

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

Nevada 84-1575085  
(State or Other Jurisdiction of Incorporation or Organization) (IRS Employer Identification No.)

4 Executive Circle, Suite 280  
Irvine, CA 92614  
(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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

The number of shares of Common Stock, \$0.001 par value per share, outstanding on November 14, 2017 was 216,151,590.



TRUE DRINKS HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED SEPTEMBER 30, 2017

INDEX

PART I. FINANCIAL INFORMATION

Page

ITEM 1. Financial Statements

<u>Condensed Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31, 2016</u>	1
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016 (unaudited)</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 (unaudited)</u>	3
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	4

<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
--	----

<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	19
---	----

<u>ITEM 4. Controls and Procedures</u>	19
--	----

PART II. OTHER INFORMATION

<u>ITEM 1. Legal Proceedings</u>	19
----------------------------------	----

<u>ITEM 1A. Risk Factors</u>	19
------------------------------	----

<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
--	----

<u>ITEM 3. Defaults Upon Senior Securities</u>	25
--	----

<u>ITEM 4. Mine Safety Disclosures</u>	25
--	----

<u>ITEM 5. Other Information</u>	25
----------------------------------	----

<u>ITEM 6. Exhibits</u>	26
-------------------------	----

SIGNATURES



Table of Contents

## PART I

## ITEM 1. FINANCIAL STATEMENTS

TRUE DRINKS HOLDINGS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2017	December 31, 2016
ASSETS	(Unaudited)	
Current Assets:		
Cash and cash equivalents	\$217,474	\$15,306
Accounts receivable, net	263,480	536,817
Inventory, net	488,761	318,912
Prepaid expenses and other current assets	183,225	127,258
Total Current Assets	1,152,940	998,293
Restricted Cash	-	209,570
Property and Equipment, net	7,130	11,064
Patents, net	160,000	250,000
Goodwill	3,474,502	3,474,502
Total Assets	\$4,794,572	\$4,943,429
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable and accrued expenses	\$1,588,255	\$1,258,252
Debt, short-term	514,353	109,682
Derivative liabilities	67,528	5,792,572
Total Current Liabilities	2,170,136	7,160,506
Debt, long-term	1,570,963	-
Total Liabilities	3,741,099	7,160,506
Commitments and Contingencies (Note 5)		
Stockholders' Equity (Deficit):		
Common Stock, \$0.001 par value, 300,000,000 shares authorized, 214,622,929 and 119,402,009 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	214,623	119,402

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

Preferred Stock – Series B (liquidation preference of \$4 per share), \$0.001 par value, 2,500,000 shares authorized, 1,285,585 and 1,292,870 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	1,285	1,293
Preferred Stock – Series C (liquidation preference \$100 per share), \$0.001 par value, 200,000 and 150,000 shares authorized, 105,704 and 109,352 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	106	109
Preferred Stock – Series D (liquidation preference \$100 per share), \$0.001 par value, 50,000 and 0 shares authorized, 38,750 and 0 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	39	-
Additional paid in capital	42,625,878	33,456,325
Accumulated deficit	(41,788,458)	(35,794,206)
Total Stockholders' Equity (Deficit)	1,053,473	(2,217,077)
Total Liabilities and Stockholders' Equity (Deficit)	\$4,794,572	\$4,943,429

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





Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Sales	\$1,030,008	\$961,949	\$4,494,713	\$2,028,216
Cost of Sales	720,080	628,195	2,918,945	1,884,309
Gross Profit	309,928	333,754	1,575,768	143,907
Operating Expenses				
Selling and marketing	1,913,814	558,899	4,864,499	2,696,295
General and administrative	1,680,234	956,614	4,825,983	3,573,520
Total operating expenses	3,594,048	1,515,513	9,690,482	6,269,815
Operating Loss	(3,284,120)	(1,181,759)	(8,114,714)	(6,125,908)
Other (Expense) Income				
Change in fair value of derivative liabilities	33,347	3,051,973	2,272,697	3,026,433
Interest (expense) income	(59,311)	(10,428)	(104,229)	(39,632)
Other (expense) income	-	178	(48,006)	(18,745)
Total Other (Expense) Income	(25,964)	3,041,723	2,120,462	2,968,056
NET (LOSS) INCOME	(3,310,084)	1,859,964	(5,994,252)	(3,157,852)
Declared dividends on Preferred Stock	66,080	66,080	196,085	198,929
Net (loss) income attributable to common stockholders	\$(3,376,164)	\$1,793,884	\$(6,190,337)	\$(3,356,781)
Net (loss) income per common share				
Basic:	\$(0.02)	\$0.01	\$(0.03)	\$(0.03)
Diluted:	\$(0.02)	\$0.01	\$(0.03)	\$(0.03)
Weighted average common shares outstanding				
Basic:	208,056,810	121,989,573	186,111,074	118,978,522
Diluted:	208,056,810	210,146,167	186,111,074	118,978,522

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

-2-



Table of Contents

TRUE DRINKS HOLDINGS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

	Nine Months Ended September 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(5,994,252)	\$(3,157,852)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	3,934	3,557
Amortization	90,000	105,882
Accretion of debt discount	17,846	-
Provision for bad debt expense	(18,204)	140,152
Provision for inventory losses	-	110,000
Change in estimated fair value of derivative	(2,272,697)	(3,026,433)
Fair value of common stock issued for services	605,500	18,000
Stock based compensation	480,043	229,858
Change in operating assets and liabilities:		
Accounts receivable	291,541	1,258,991
Inventory	(169,849)	707,364
Prepaid expenses and other current assets	(55,967)	(160,523)
Accounts payable and accrued expenses	1,379,568	(623,123)
Net cash used in operating activities	(5,642,537)	(4,394,127)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Restricted cash	209,570	(158)
Purchase of property and equipment	-	(11,775)
Net cash provided by (used in) investing activities	209,570	(11,933)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from warrants exercised for cash	-	45,000
Proceeds from issuance of Series C Preferred Stock	-	6,000,000
Proceeds from issuance of Series D Preferred Stock	4,562,500	-
Borrowings on debt	1,350,000	94,998
Principal repayment on debt	(208,602)	(703,778)

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

Net borrowing on line-of-credit facility	(68,763)	-
Net cash provided by financing activities	5,635,135	5,436,220
NET INCREASE IN CASH	202,168	1,030,160
CASH AND CASH EQUIVALENTS- beginning of period	15,306	376,840
CASH AND CASH EQUIVALENTS- end of period	\$217,474	\$1,407,000
SUPPLEMENTAL DISCLOSURES		
Interest paid in cash	\$ 69,885	\$41,758
Non-cash financing and investing activities:		
Conversion of preferred stock to common stock	\$7,131	\$1,473
Dividends paid in common stock	\$196,086	\$198,449
Dividends declared but unpaid	\$196,086	\$198,929
Debt discount recorded in connection with borrowings on debt	\$164,411	\$-
Notes payable issued in exchange for accounts payable	\$1,049,564	\$-
Conversion of notes payable and accrued interest to Series C Preferred Stock	\$-	\$500,000
Warrants exchanged for common stock	\$6,080,278	\$-
Issuance of restricted stock	\$-	\$2,620
Warrants issued in connection with Preferred Offering	\$2,627,931	\$3,159,721

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, 2017

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”), 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 zero-sugar, zero-calorie, preservative-free, vitamin-enhanced, naturally flavored water drink. 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 online and through our existing database of customers.

Our principal place of business is 4 Executive Circle, Suite 280, Irvine, California, 92614. Our telephone number is (949) 203-3500. Our corporate website address is <http://www.truedrinks.com>. Our common stock, par value \$0.001 per share (“Common Stock”), is currently listed for quotation on the OTC Pink Marketplace under the symbol “TRUU”.

Basis of Presentation and Going Concern

The accompanying condensed consolidated balance sheet as of December 31, 2016, which has been derived from audited financial statements included in the Company’s Form 10-K for the year ended December 31, 2016, 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, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017, 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, 2016 filed with the SEC on March 31, 2017.

The accompanying condensed consolidated financial statements have been prepared in conformity with GAAP, which contemplates continuation of the Company as a going concern. As of and for the nine months ended September 30, 2017, the Company had a net loss of \$5,994,252, negative working capital of \$1,017,196, and an accumulated deficit of \$41,788,458. The Company had \$217,474 in cash at September 30, 2017. The Company currently requires additional capital to execute its business plan, 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 will result if the Company is unable to secure the capital necessary to execute its business, marketing or operating plan.

#### Principles of Consolidation

The accompanying condensed consolidated 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 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.





## Table of Contents

### Restricted Cash

At September 30, 2017, the Company did not have any restricted cash. The Company had a letter of credit which matured on August 31, 2017, originally issued as part of the contractual obligations related to the Licensing Agreement entered into with Disney Consumer Products, Inc. (“Disney”) during the quarter ended September 30, 2015. Currently, the Company’s renewed licensing agreement with Disney is secured by a letter of credit, which letter is secured by the Company’s largest investor.

### Accounts Receivable

The Company records its trade accounts receivable at net realizable value. This value includes an appropriate allowance for estimated sales returns and allowances, and uncollectible accounts to reflect any losses anticipated and charged to the provision for doubtful accounts. Credit is extended to our customers based on an evaluation of their financial condition; generally, collateral is not required. An estimate of uncollectible amounts is made by management based upon historical bad debts, current customer receivable balances, age of customer receivable balances, the customer’s financial condition and current economic trends, all of which are subject to change. Actual uncollected amounts have historically been consistent with the Company’s expectations. Receivables are charged off against the reserve for doubtful accounts when, in management’s estimation, further collection efforts would not result in a reasonable likelihood of receipt, or later as proscribed by statutory regulations.

### 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.

All production of AquaBall® is done by Niagara Bottling, LLC (“Niagara”), under the terms and conditions of the bottling agreement first executed by the Company and Niagara in October 2015, and subsequently amended (the “Niagara Agreement”). Niagara handles all aspects of production, including the procurement of all raw materials necessary to produce AquaBall®. We currently utilize a separate facility to handle all repackaging of AquaBall® into six packs or 15-packs for club customers.

During the three months ended September 30, 2017, 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 does not anticipate any issues with the supply of these raw materials.

No customer made up more than 10% of accounts receivable at September 30, 2017 or December 31, 2016. No customer made up more than 10% of net sales for each of the three or the nine-month periods ended September 30, 2017 and September 30, 2016.

A significant portion of our revenue comes from sales of AquaBall® Naturally Flavored Water. For the three months ended September 30, 2017 and 2016, sales of AquaBall® accounted for 92% and 97% of the Company’s total revenue, respectively. For the nine months ended September 30, 2017 and 2016, sales of AquaBall® accounted for 96% and 93% of the Company’s total revenue, respectively.

### Inventory

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

The Company contracts for the manufacturing, for resale, of a vitamin-enhanced flavored water beverage and a liquid dietary supplement.

Inventories are stated at the lower of cost (based on the first-in, first-out method) or market (net realizable value). Cost includes shipping and handling fees and costs, which are subsequently expensed to cost of sales. The Company provides for estimated losses from obsolete or slow-moving inventories, and writes down the cost of inventory at the time such determinations are made. Reserves are estimated based on inventory on hand, historical sales activity, industry trends, the retail environment and the expected net realizable value.

The Company maintained inventory reserves of \$110,000 as of September 30, 2017 and December 31, 2016.

Inventory is comprised of the following:

	September 30, 2017	December 31, 2016
Purchased materials	\$37,775	\$89,358
Finished goods	560,986	339,554
Allowance for obsolescence reserve	(110,000)	(110,000)
Total	\$488,761	\$318,912



## Table of Contents

### 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, 2017.

### Goodwill and identifiable intangible assets

As a result of acquisitions, we have goodwill and other identifiable intangible assets. In business combinations, goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Accounting for acquired goodwill in accordance with GAAP requires significant judgment with respect to the determination of the valuation of the acquired assets and liabilities assumed in order to determine the final amount of goodwill recorded in business combinations. Goodwill is not amortized, rather, it is evaluated for impairment on an annual basis, or more frequently when a triggering event occurs between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying value. Such impairment evaluations compare the reporting unit's estimated fair value to its carrying value.

Identifiable intangible assets consist primarily of customer relationships recognized in business combinations. Identifiable intangible assets with finite lives are amortized over their estimated useful lives, which represent the period over which the asset is expected to contribute directly or indirectly to future cash flows. Identifiable intangible assets are reviewed for impairment whenever events and circumstances indicate the carrying value of such assets or liabilities may not be recoverable and exceed their fair value. If an impairment loss exists, the carrying amount of the identifiable intangible asset is adjusted to a new cost basis. The new cost basis is amortized over the remaining useful life of the asset. Tests for impairment or recoverability require significant management judgment, and future events affecting cash flows and market conditions could adversely impact the valuation of these assets and result in impairment losses.

During the year ended December 31, 2016, we recognized impairment on identifiable intangible assets of \$679,411 related to the interlocking spherical bottle patent acquired in the acquisition of GT Beverage Company, Inc., and adjusted the carrying value of this patent to \$250,000 as of December 31, 2016. As of September 30, 2017, no additional impairment had been recognized on identifiable intangible assets.

### Income Taxes

As the Company's calculated provision (benefit) for income tax is based on annual expected tax rates, no income expense was recorded for the three and nine-month periods ended September 30, 2017 and 2016. At September 30, 2017, the Company had tax net operating loss carryforwards and a related deferred tax asset, which had a full valuation allowance.

### Stock-Based Compensation

For the nine-month periods ended September 30, 2017 and 2016, general and administrative expenses included stock based compensation expense of \$480,043 and \$229,858, 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 not accounted for as derivatives. 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 Staff Accounting Bulletin ("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.

The fair value for restricted stock awards is calculated based on the stock price on the date of grant.

#### Fair Value of Financial Instruments

The Company does not have any assets or liabilities carried at fair value on a recurring or non-recurring basis, except for derivative liabilities.

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses, and debt. Management believes that the carrying amount of these financial instruments approximates their fair values, due to their relatively short-term nature.



## Table of Contents

### 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. 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.

### Basic and Diluted (loss) Income per share

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

(Loss) income per common share is computed by dividing net (loss) income by the weighted average number of shares of common stock outstanding during the respective periods. Basic and diluted (loss) per common share is the same for periods in which the Company reported an operating loss because all warrants and stock options outstanding are anti-dilutive. At September 30, 2017 and 2016, we excluded 119,187,105 and 106,713,737, respectively, shares of Common Stock equivalents as their effect would have been anti-dilutive.

### Research and Development

Research and development costs are expensed as incurred. During the three and nine months ended September 30, 2017 and 2016, we did not incur any costs associated with research and development.

### 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.



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, 2017, including interim reporting periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact this accounting standard will have on the Company's financial statements.

The Company has elected to adopt the guidance beginning in fiscal 2018 using the full retrospective approach, which applies the standard to all periods presented. The Company is performing a preliminary assessment of the impact of adoption of this guidance, including required disclosures, and does not expect a significant impact on processes, systems or controls. The Company will continue to evaluate the impact of adoption of this guidance.

On February 25, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-2, “Leases” (Topic 842), which is intended to improve financial reporting for lease transactions. This ASU will require organizations that lease assets, such as real estate, airplanes and manufacturing equipment, to recognize on their balance sheet the assets and liabilities for the rights to use those assets for the lease term and obligations to make lease payments created by those leases that have terms of greater than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as finance or operating lease. This ASU will also require disclosures to help investors and other financial statement users better understand the amount and timing of cash flows arising from leases. These disclosures will include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The ASU is effective for the Company for the year ending December 31, 2019 and interim reporting periods within that year, and early adoption is permitted. Management has not yet determined the effect of this ASU on the Company's financial statements.



## Table of Contents

In August 2016, FASB issued ASU No. 2016-15, “Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,” (“ASU 2016-15”) which eliminates the diversity in practice related to the classification of certain cash receipts and payments. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The retrospective transition method, requiring adjustment to all comparative periods presented, is required unless it is impracticable for some of the amendments, in which case those amendments would be prospectively adopted as of the earliest date practicable. ASU 2016-15 is effective for the Company’s annual and interim reporting periods beginning January 1, 2018. The Company is currently evaluating the effect this guidance will have on our financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 will become effective for the Company beginning January 1, 2019, or fiscal 2019. ASU 2016-18 is required to be applied retrospectively. Upon the adoption, amounts described as restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statements of cash flows.

## NOTE 2 — SHAREHOLDERS’ EQUITY

### Securities

Our authorized capital stock currently consists of 300.0 million shares of Common Stock, and 5.0 million shares of preferred stock, \$0.001 par value per share, of which 2.75 million shares have been designated as Series B Convertible Preferred Stock (“Series B Preferred”), 200,000 shares have been designated as Series C Convertible Preferred Stock (“Series C Preferred”) and 50,000 shares have been designated as Series D Convertible Preferred Stock (“Series D Preferred”). Below is a summary of the rights and preferences associated with each type of security.

**Common Stock.** The holders of Common Stock are entitled to receive, when and as declared by the Board of Directors, dividends payable either in cash, in property or in shares of Common Stock of the Company. Dividends have no cumulative rights and dividends will not accumulate if the Board of Directors does not declare such dividends.

**Series B Preferred.** Each share of the Company’s Series B Preferred Convertible Stock (“Series B Preferred”) has a stated value of \$4.00 per share (“Stated Value”) and accrued annual dividends equal to 5% of the Stated Value, payable by the Company in quarterly installments, in either cash or shares of Common Stock. 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 “Series B Conversion Shares”). The Company also has the option to require the conversion of the Series B Preferred into Series B Conversion Shares in the event: (i) there were sufficient authorized shares of Common Stock reserved as Series B Conversion Shares; (ii) the Series B Conversion Shares were registered under the Securities Act of 1933, as amended (the “Securities Act”), or the Series B Conversion Shares were 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, equaled at least \$250,000 for 20 consecutive trading days; and (iv) the average closing price of the Company’s Common Stock was at least \$0.62 per share for 10 consecutive trading days.

During the three months ended September 30, 2017, the Company declared \$66,080 in dividends on outstanding shares of its Series B Preferred. During the nine months ended September 30, 2017, the Company declared \$196,085

in dividends on outstanding shares of its Series B Preferred. As of September 30, 2017, there remained \$66,080 in cumulative unpaid dividends on the Series B Preferred. These dividends were paid by issuing 528,661 shares of the Company's Common Stock in October 2017.

Series C Preferred. Each share of Series C Preferred has a stated value of \$100 per share, and is convertible, at the option of each respective holder, into that number of shares of Common Stock equal to \$100, divided by \$0.15 per share (the "Series C Conversion Shares"). The Company also has the option to require conversion of the Series C Preferred into Series C Conversion Shares in the event: (i) there are sufficient authorized shares of Common Stock reserved as Series C Conversion Shares; (ii) the Series C Conversion Shares are registered under the Securities Act of 1933, or the Series C Conversion Shares are freely tradable, without restriction, under Rule 144 of the Securities Act; and (iii) the average closing price of the Company's Common Stock is at least \$0.62 per share for 10 consecutive trading days.

Series D Preferred. Each share of Series D Preferred has a stated value of \$100 per share, and, following the expiration of the 20 day calendar day period set forth in Rule 14c-2(b) under the Exchange Act, commencing upon the distribution of an Information Statement on Schedule 14C to the Company's stockholders, each share of Series D Preferred is convertible, at the option of each respective holder, into that number of shares of the Company's Common Stock equal to the stated value, divided by \$0.15 per share (the "Series D Conversion Shares"). The Certificate of Designation also gives the Company the option to require the conversion of the Series D Preferred into Series D Conversion Shares in the event: (i) there are sufficient authorized shares of Common Stock reserved as Series D Conversion Shares; (ii) the Series D Conversion Shares are registered under the Securities Act, or the Series D Conversion Shares are freely tradable, without restriction, under Rule 144 of the Securities Act; and (iii) the average closing price of the Company's Common Stock is at least \$0.62 per share for 10 consecutive trading days.



Table of Contents

## Issuances of Securities

Between February 8, 2017 and August 21, 2017, the Company issued an aggregate total of 45,625 shares of Series D Preferred for \$100 per share in a series of private placement transactions (the “Series D Financing”). As additional consideration, investors in the Series D Financing received warrants to purchase up to 60,833,353 shares of Common Stock, an amount equal to 200% of the Series D Conversion Shares issuable upon conversion of shares of Series D Preferred purchased under the Series D Financing, exercisable for \$0.15 per share. In accordance with the terms and conditions of the Securities Purchase Agreement executed in connection with the Series D Financing, all warrants issued were exchanged for shares of Common Stock pursuant to the Warrant Exchange Program (defined below). During the nine months ended September 30, 2017, 6,875 shares of Series D Preferred were converted to Common Stock.

Beginning on February 8, 2017 the Company and holders of outstanding Common Stock purchase warrants (the “Outstanding Warrants”) entered into Warrant Exchange Agreements pursuant to which each holder agreed to cancel their respective Outstanding Warrants in exchange for one-half of a share of Common Stock for every share of Common Stock otherwise issuable upon exercise of Outstanding Warrants (the “Warrant Exchange Program”). As of the date of this Quarterly Report on Form 10-Q, the Company has issued 79,040,135 shares of Common Stock, in exchange for the cancellation of 158,080,242 Outstanding Warrants.

## NOTE 3 — WARRANTS AND STOCK BASED COMPENSATION

## Warrants

On July 26, 2017, the Company commenced an offering of Senior Secured Promissory Notes (the “Secured Notes”) in the aggregate principal amount of up to \$1.5 million to certain accredited investors (the “Secured Note Financing”). As additional consideration for participating in the Secured Note Financing, investors received five-year warrants, exercisable for \$0.15 per share, to purchase that number of shares of the Company’s Common Stock equal to 50% of the principal amount of the Secured Note purchased, divided by \$0.15 per share. Between July 26, 2017 and September 30, 2017, the Company offered and sold Secured Notes in the aggregate principal amount of \$1,350,000 and issued Warrants to purchase up to 4,500,001 shares of Common Stock to participating investors.

A summary of the Company’s warrant activity for the three and nine months ended September 30, 2017 is presented below:

	Warrants Outstanding	Weighted Average Exercise Price
Outstanding, December 31, 2016	101,396,416	\$0.16
Granted	50,000,010	0.15
Exercised	-	-
Expired	-	-
Exchanged	(146,212,905)	0.15
Outstanding, March 31, 2017	5,183,521	\$0.20
Granted	3,000,002	0.15
Exercised	-	-
Expired	-	-
Exchanged	(3,000,002)	0.15

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

Outstanding, June 30, 2017	5,183,521	\$0.20
Granted	11,733,340	0.15
Exercised	-	-
Expired	-	-
Exchanged	(7,267,333)	0.15
Outstanding, September 30, 2017	9,649,528	\$0.18





Table of Contents

As of September 30, 2017, 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.)
7,747,459	\$0.15	3.30
427,633	\$0.19	2.97
737,218	\$0.25	0.44
737,218	\$0.38	0.44
9,649,528	\$0.18	2.85

## Stock-Based Compensation

## Non-Qualified Stock Options

During the quarter ended September 30, 2017, the Company granted options to certain employees and each member of the Company's Board of Directors to purchase an aggregate total of 39,390,782 shares of Common Stock. Each option granted during the quarter ended September 30, 2017 has an exercise price of \$0.07 per share, and expires five years from the date of issuance. As further described below, certain of these options were issued in exchange for the cancellation of previously issued restricted stock awards to our Chief Marketing Officer, Chief Financial Officer and Chief Operating Officer.

During the three and nine months ended September 30, 2017 and 2016, the Company granted stock options to purchase an aggregate of 31,390,782 and 3,460,000 shares of Common Stock, respectively. The weighted average estimated fair value per share of the stock options at grant date was \$0.03 per share. Such fair values were estimated using the Black-Scholes stock option pricing model and the following weighted average assumptions.

2017

Expected life	30 months
Estimated volatility	75%
Risk-free interest rate	1.1%
Dividends	-

Stock option activity during the nine months ended September 30, 2017 is summarized as follows:

	Options Outstanding	Weighted Average Exercise Price
Options outstanding at December 31, 2016	3,460,000	\$0.15

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

Exercised	-	-
Granted	41,390,782	0.07
Forfeited	(1,220,000)	0.15
Expired	-	-
Options outstanding at September 30, 2017	43,630,782	\$0.08

Restricted Stock Awards

During the quarter ended September 30, 2017, our Chief Marketing Officer, Chief Financial Officer and Chief Operating Officer cancelled 10,720,252 previously issued restricted stock awards in exchange for stock options to purchase an aggregate total of 10,720,252 shares of Common Stock. In addition, the Company issued a total of 1,302,084 shares of restricted stock to James Greco, our Chief Executive Officer, pursuant to the employment agreement entered into by the Company and Mr. Greco in April 2017, and an aggregate total of 2,289,156 shares of restricted stock to our directors as payment of accrued but unpaid board fees.

During the three and nine months ended September 30, 2017, the Company granted an aggregate total of 3,591,240 restricted stock awards to under the Company's 2013 Stock Incentive Plan, as amended. The Company did not grant any restricted stock awards during the three and nine months ended September 30, 2016. A summary of the Company's restricted Common Stock activity during the nine months ended September 30, 2017 is summarized as follows:

Restricted Common Stock Awards

Outstanding, December 31, 2016	12,772,229
Granted	3,591,240
Issued	(2,289,156)
Forfeited	(10,720,252)
Outstanding, September 30, 2017	3,354,061



Table of Contents

## NOTE 4 — DEBT

## Line-of-Credit Facility

The Company entered into a line-of-credit agreement with a financial institution on June 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, 2017, the total outstanding on the line-of-credit was \$40,919 and the Company did not have any availability to borrow. The line-of-credit bears interest at Prime rate (5.42% as of September 30, 2017) plus 4.5% per annum, as well as a monthly fee of 0.50% on the average amount outstanding on the line, and is secured by the accounts receivables that are funded against.

A summary of the line-of-credit as of September 30, 2017 and December 31, 2016 is as follows:

	Amount
Outstanding, December 31, 2016	\$109,682
Net Borrowings	(68,763)
Outstanding September 30, 2017	\$40,919

## Note Payable

In April 2017, the Company converted approximately \$1,050,000 of accounts payable into a secured note payable agreement with Niagara (the “Niagara Note”). At September 30, 2017, the total principal amount outstanding under the Niagara Note was approximately \$841,000. The Niagara Note calls for monthly payments of principal and interest totaling \$25,000 through December 2017, and monthly payments of approximately \$52,000 through maturity. The note bears interest at 8% per annum, matures in April 2019 and is secured by the personal guarantee which secures the Niagara Agreement.

## Secured Note Financing

As disclosed in Note 3 above, on July 26, 2017, the Company commenced an offering of Secured Notes in the aggregate principal amount of up to \$1.5 million to certain accredited investors. Between July 26, 2017 and September 30, 2017, the Company offered and sold Secured Notes in the aggregate principal amount of \$1,350,000 and issued warrants to purchase up to 4,500,001 shares of Common Stock to participating accredited investors. The warrants were valued at \$164,411 and were recorded as a discount to notes payable. During the three months ended September 30, 2017, a total of \$17,846 of the debt discount was amortized and recorded as interest expense.

The Secured Notes (i) bear interest at a rate of 8% per annum, (ii) have a maturity date of 1.5 years from the date of issuance, and (iii) are subject to a pre-payment and change in control premium of 125% of the principal amount of the Secured Notes at the time of pre-payment or change in control, as the case may be. To secure the Company’s obligations under the Secured Notes, the Company granted to participating investors a continuing security interest in substantially all of the Company’s assets pursuant to the terms and conditions of a Security Agreement (the “Security Agreement”).

A summary of the note payable as of September 30, 2017 and December 31, 2016 is as follows:

Amount

Outstanding, December 31, 2016	\$-
Conversion of accounts payable into note payable	1,049,564
Borrowings on secured notes	1,350,000
Recording of debt discount on secured notes	(164,411)
Amortization of debt discount to interest expense	17,846
Repayments	(208,602)
Outstanding September 30, 2017	\$2,044,397

NOTE 5 — COMMITMENTS AND CONTINGENCIES

During the quarter ended September 30, 2017, we moved our corporate headquarters and entered into a new lease for the facility, which lease will expire on March 31, 2019. Base rent during the term of the lease is \$5,331 per month for the first 12 months, and \$5,563 for the final six months, and total rent payments on the lease through March 31, 2019, the expiration date, are \$97,350. Total rent expense related to our operating lease for the nine months ended September 30, 2017 was \$44,981.

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.

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations.



Table of Contents

## 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.

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 nine months ended September 30, 2017. The Company had no Level 1 or 2 fair value measurements at September 30, 2017 or December 31, 2016.

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, 2017 and December 31, 2016:

		Level 1	Level 2	Level 3
	Total carrying value	Quoted market prices in active markets	Internal Models with significant observable market parameters	Internal models with significant unobservable market parameters
Derivative liabilities – September 30, 2017	\$67,528	\$-	\$-	\$67,528
Derivative liabilities – December 31, 2016	\$5,792,572	\$-	\$-	\$5,792,572

The following table presents the changes in recurring fair value measurements included in net loss for the nine-months ended September 30, 2017 and 2016:

Recurring Fair Value Measurements

Changes in Fair Value  
Included in Net Income

	Other Income	Other Expense	Total
Derivative liabilities – September 30, 2017	\$2,272,697	\$-	\$2,272,697
Derivative liabilities – September 30, 2016	\$3,026,433	\$-	\$3,026,433

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, 2017:

	December 31, 2016	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, 2017
Derivative liabilities	\$5,792,572	\$2,627,931	\$(6,080,278)	\$(2,272,697)	\$67,528





Table of Contents

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, 2016:

	December 31, 2015	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, 2016
Derivative liabilities	\$6,199,021	\$3,159,721	\$-	\$(3,026,433)	\$6,332,309

## NOTE 7 – LICENSING AGREEMENTS

We first entered into licensing agreements with Disney Consumer Products, Inc. (“Disney”) and an 18-month licensing agreement with Marvel Characters, B.V. (“Marvel”) (collectively, the “Licensing Agreements”) in 2012. Each Licensing Agreement allows us to feature popular Disney and Marvel characters on AquaBall® Naturally Flavored Water, allowing AquaBall® to stand out among other beverages marketed towards children. Under the terms and conditions of the Licensing Agreements, we work with the Disney and Marvel teams to create colorful, eye-catching labels that surround the entire spherical shape of each AquaBall®. Once the label designs are approved, we work with Disney and Marvel to set retail calendars, rotating the placement of different AquaBall® designs over the course of the year.

In March 2017, the Company and Disney entered into a renewed Licensing Agreement, which extended the Company’s license with Disney through March 31, 2019. The terms of the Disney Agreement entitle Disney to receive a royalty rate of 5% on sales of AquaBall® Naturally Flavored Water adorned with Disney characters, paid quarterly, with a total guarantee of \$807,000 over the period from April 1, 2017 through March 31, 2019. In addition, the Company is required to make a ‘common marketing fund’ contribution equal to 1% of sales due annually during the agreement.

On August 22, 2015, the Company and Marvel entered into a renewed Licensing Agreement to extend the Company's license to feature certain Marvel characters on bottles of AquaBall® Naturally Flavored Water through December 31, 2017. The Marvel Agreement requires the Company to pay to Marvel a 5% royalty rate on sales of AquaBall® Naturally Flavored Water adorned with Marvel characters, paid quarterly, through December 31, 2017, with a total guarantee of \$200,000 over the period from January 1, 2016 through December 31, 2017. The Company has decided not to renew the Marvel Agreement for another term. The Licensing Agreement will, therefore, terminate at the expiration of the current agreement on December 31, 2017.

## NOTE 8 – INCOME TAXES

The Company does not have significant income tax expense or benefit for the nine months ended September 30, 2017 or 2016. Tax net operating loss carryforwards have resulted in a net deferred tax asset with a 100% valuation allowance applied against such asset at September 30, 2017 and 2016. Such tax net operating loss carryforwards (“NOL”) approximated \$35.5 million at September 30, 2017. Some or all of such NOL may be limited by Section 382 of the Internal Revenue Code.

The income tax effect of temporary differences between financial and tax reporting and net operating loss carryforwards gives rise to a deferred tax asset at September 30, 2017 and 2016 as follows:

	2017	2016
Deferred tax asset –NOL’s	\$15,600,000	\$13,500,000
Less valuation allowance	(15,600,000)	(13,500,000)
Net deferred tax asset	\$-	\$-

NOTE 9 – SUBSEQUENT EVENTS

On October 19, 2017, we received a notice of breach and request for meet and confer from Niagara with respect to certain past due payment obligations under the Niagara Agreement. Pursuant to the Niagara Agreement, the Company has 30 days from the date of the notice to bring all amounts due current or negotiate a settlement with Niagara for the amounts owed. Failure to do so may result in an event of default under the Niagara Agreement.

On October 27, 2017, the Company offered and sold Secured Notes in the aggregate principal amount of \$100,000 and issued Warrants to purchase up to 333,334 shares of Common Stock to participating investors.

Management has reviewed and evaluated subsequent events and transactions occurring after the balance sheet date through the filing of this Quarterly Report on Form 10-Q and determined that, except as disclosed herein, no subsequent events occurred.



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 terminology. 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, 2016.

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 holding company for True Drinks, Inc., is a healthy beverage provider which produces several unique products. Our flagship product is AquaBall® Naturally Flavored Water which we believe to be the healthiest children's beverage on the market. True Drinks has licensing agreements with Disney Consumer Products, Inc. ("Disney") and Marvel Characters, B.V. ("Marvel") for use of their characters on bottles of AquaBall®. AquaBall® is a naturally flavored, vitamin-enhanced, zero-calorie, preservative-free, dye-free, sugar-free alternative to juice and soda. AquaBall® is currently available in four flavors: fruit punch, grape, strawberry lemonade and berry. Our target consumers: kids, young adults, and their guardians, are attracted to the product by the entertainment and media characters on the bottle and continue to consume the beverage because of its health benefits and great taste. 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.

We distribute AquaBall® nationally through select retail channels, such as grocery stores, mass merchandisers, convenience 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.

True Drinks is continuing to innovate to meet the healthy hydration demands of the American consumer. Health and wellness awareness has increased significantly, resulting in growing demand for beverages with little or no calories and natural ingredients. AquaBall® is directly responsive to this need for children and we plan to increase our

offerings for this and other age groups.

Our strategy is to continue to (i) grow our presence - both in store and online - and continue to build out our distribution network, (ii) increase brand awareness through public relations, social media and guerrilla marketing and (iii) expand our platform through line extensions.

Sales of beverages tend to be seasonal with the highest volume typically realized during the summer and warmer months. However, as our sales velocity and distribution has been increasing over the year this trend may not apply to us. As a result, our operating results from one fiscal quarter to the next may not be comparable. Additionally, our operating results are affected by numerous factors, including changes in consumer preference for beverage products, competitive pricing in the marketplace and weather conditions.

Our principal place of business is 4 Executive Circle, Suite 280, Irvine, California, 92614. Our telephone number is (949) 203-3500. Our corporate website address is <http://www.truedrinks.com>. Our common stock, par value \$0.001 per share ("Common Stock"), is currently listed for quotation on the OTC Pink Marketplace under the symbol "TRUU."



Table of Contents

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, 2016.

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

Net Sales

Net sales for the three months ended September 30, 2017 were \$1,030,008, compared with sales of \$961,649 for the three months ended September 30, 2016, a 7% increase. This increase is primarily the continued result of chain authorizations secured by our sales team for shelf resets at retailers beginning in February 2017 and continuing through June 2017, thus increasing sales based revenues in the three months ended September 30, 2017 compared to the three months ended September 30, 2016.

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

Product Category	Three Months Ended September 30, 2017 (% of Sales)
AquaBall®	92%
Bazi®	8%

Gross Profit and Gross Margin

Gross profit for the three months ended September 30, 2017 was \$309,928, compared to gross profit of \$333,754 for the three months ended September 30, 2016. Gross profit as a percentage of revenue (gross margin) during the three months ended September 30, 2017 was 30.1%, compared to 34.7% for the same period in 2016. This decrease in gross profit is a result of a small change in our sales mix. We sold more of our lower margin six packs in the three months ended September 30, 2017 than in the three months ended September 30, 2016. While we are updating our packaging to reduce costs on six packs, we are still currently selling the remaining six packs which were produced at higher costs. We anticipate maintaining margins in the 30-40% range.

Sales, General and Administrative Expense

Sales, general and administrative expense was \$3,594,048 for the three months ended September 30, 2017, as compared to \$1,515,513 for the three months ended September 30, 2016. This period over period increase of



\$2,078,535 is the result of an increase of approximately \$1.2 million in marketing expenditures composed of direct retailer marketing and brand awareness marketing in the New England region. We also saw increases in stock-based compensation and the issuance of equity to consultants of approximately \$400,000.

#### Change in Fair Value of Derivative Liabilities

The Company recorded a change in fair value of derivative liabilities of a gain of \$33,347 for the three months ended September 30, 2017, as compared to a gain of \$3,051,973 for the change in fair value of derivative liabilities for the three months ended September 30, 2016.

#### Interest Expense

Interest expense for the three months ended September 30, 2017 was \$59,311, as compared to interest expense of \$10,428 for the three months ended September 30, 2016.

#### Income Taxes

There is no income tax expense recorded for the three months ended September 30, 2017 and 2016, as the Company's calculated provision (benefit) for income tax is based on annual expected tax rates. As of September 30, 2017, the Company has tax net operating loss carryforwards and a related deferred tax asset, offset by a full valuation allowance.



Table of Contents

Net Loss

Our net loss for the three months ended September 30, 2017 was \$3,310,084 as compared to a net income of \$1,859,964 for the three months ended September 30, 2016. This year-over-year difference of approximately \$5.17 million is primarily due an increase in operating expenses of approximately \$2.1 million, and a difference in the change of fair value of derivatives of approximately \$3.0 million in other income. On a basic and diluted per share basis, our loss was \$0.02 per share for the three months ended September 30, 2017, as compared to income of \$0.01 per share for the three months ended September 30, 2016.

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

Net Sales

Net sales for the nine months ended September 30, 2017 was \$4,494,713, compared with sales of \$2,028,216 for the nine months ended September 30, 2016, a 122% increase. This increase is primarily the result of chain authorizations secured by our sales team for shelf resets at retailers beginning in February 2017 and continuing through June 2017. These authorizations have also allowed our team to secure distributor partners in 45 states. Many of these distributors received their initial shipments in February and March, with the remaining distributors having received their initial shipments in April through June.

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

	Nine Months Ended September 30, 2017
Product Category (% of Sales)	
AquaBall™	96%
Bazi®	4%

Gross Profit and Gross Margin

Gross profit for the nine months ended September 30, 2017 was \$1,575,768, compared to gross profit of \$143,907 for the nine months ended September 30, 2016. Gross profit as a percentage of revenue (gross margin) during the nine months ended September 30, 2017 was 35.1%. This increase in gross profit is a great improvement for our Company, and is a direct result of our relationship with Niagara, who provides finished goods to the Company and bills the Company for the product as it is shipped to customers, reducing our costs and improving product quality. It is also attributable to our shift away from focusing on the low-margin club channel to mainstream grocery and convenience channels. We expect to maintain gross margins in the 30-40% range moving forward.

Sales, General and Administrative Expense

Sales, general and administrative expenses were \$9,690,482 for the nine months ended September 30, 2017, as compared to \$6,269,815 for the nine months ended September 30, 2016. This increase in the 2017 period, when compared to the 2016 period, is the result of increased direct selling expenses and marketing expenses at new retailers, each resulting from the first quarter of 2017 being a much more active selling season for AquaBall®. As a percentage of sales, our sales, general and administrative expense was 216% of sales compared to 309% in the same period in 2016.

#### Change in Fair Value of Derivative Liabilities

The Company recorded a gain on the change in fair value of derivative liabilities for the nine months ended September 30, 2017 of \$2,272,697, as compared to a gain of \$3,026,433 for the change in fair value of derivative liabilities for the nine months ended September 30, 2016.

#### Interest Income

Interest expense for the nine months ended September 30, 2016 was \$104,229, as compared to interest expense of \$39,632 for the nine months ended September 30, 2016.

-16-



## Table of Contents

### Income Taxes

There is no income tax expense recorded for the nine months ended September 30, 2017 and 2016, due to the Company's net losses. As of September 30, 2017, 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, 2017 was \$5,994,252 as compared to a net loss of \$3,157,852 for the nine months ended September 30, 2016. This year-over-year difference of approximately \$2.8 million in net income is due to an increase in operating expenses of about \$3.4 million, offset by increase in gross profit of approximately \$1.4 million and \$0.8 million in other income. On a basic and diluted per share basis, our loss was \$0.03 per share for the nine months ended September 30, 2017 and 2016.

We expect to continue to incur a net loss in subsequent periods, and plan to fund our operations using proceeds received from capital raising activities until our operations become profitable. Although we anticipate a continued growth in sales and gross margins as a result of increased velocity, distribution and brand awareness these increases may not occur, may take longer than anticipated, or may not be sufficient to produce net income in any subsequent quarters.

### Liquidity and Capital Resources

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, 2016, 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. For the nine months ended September 30, 2017, the Company had a net loss of \$5,944,252, negative working capital of \$1,017,196, and an accumulated deficit of \$41,788,458. Although, during the year ended December 31, 2016 and the nine-months ended September 30, 2017 the Company raised approximately \$6.7 million from financing activities, including sale of shares of Series C Convertible Preferred Stock and Series D Convertible Preferred Stock, as well as Senior Secured Promissory Notes (described below), additional capital is necessary to advance the marketability of the Company's products to the point at which the Company can sustain operations. Management's plans are to focus on raising capital through equity and/or debt offerings to execute the Company's business plan, while continuing to contain expenses. The accompanying condensed consolidated financial statements do not include any adjustments that will result in the event the Company is unsuccessful in securing the capital necessary to execute our business plan.

The Company has financed its operations through sales of equity and debt securities, and, to a lesser extent, cash flow provided by sales of its products. Despite recent sales of preferred stock and the issuance of Senior Secured Promissory Notes, funds generated from sales of our securities, and cash flow provided by sales are insufficient to fund our operating requirements for the next twelve months. As a result, we require additional capital to continue operating as a going concern. No assurances can be given that we will be successful. In the event we are unable to obtain additional financing, we may not be able to fund our working capital requirements, and therefore may be unable to continue as a going concern.



## Table of Contents

### Recent Capital Raising Activity

Series D Offering and Warrant Exchange. On February 8, 2017, the Company and certain accredited investors entered into Securities Purchase Agreements, for the private placement of up to 50,000 shares of Series D Convertible Preferred Stock (“Series D Preferred”) for \$100 per share. As additional consideration for participation in the private placement, investors received warrants to purchase up to 200% of the shares of Common Stock issuable upon conversion of shares of Series D Preferred purchased, with an exercise price of \$0.15 per share (the “Series D Financing”).

In February 2017, the Company issued an aggregate total of 31,750 shares of Series D Preferred, as well as warrants to purchase up to an aggregate total of 42,333,341 shares of Common Stock. Between February 2017 and March 2017, the Company issued an additional 5,000 shares of Series D Preferred and warrants to purchase up to an aggregate total of 6,666,669 shares of Common Stock. Between April 1, 2017 and August 21, 2017, the Company has issued an additional 8,875 shares of Series D Preferred and warrants to purchase up to an aggregate total of 11,833,343 shares of Common Stock. The issuance of the shares of Series D Preferred during the nine months ended September 30, 2017 resulted in gross proceeds to the Company of \$4.56 million. Each warrant issued during the Series D Financing 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 such warrants issued during the nine months, totaling \$2,627,931, was recorded to derivative liabilities.

Warrant Exchange. Beginning on February 8, 2017, the Company and certain holders of outstanding Common Stock purchase warrants (the “Outstanding Warrants”), entered into Warrant Exchange Agreements, pursuant to which each holder agreed to cancel their respective Outstanding Warrants in exchange for one-half of a share of Common Stock for every share of Common Stock otherwise issuable upon exercise of Outstanding Warrants. The Company expects to issue up to 79.0 million shares of Common Stock in exchange for the cancellation of 158.0 million Outstanding Warrants, including the Warrants issued in connection with the Series D Financing, over the course of the Warrant Exchange Program.

During the nine months ended September 30, 2017, the Company issued 79,040,135 shares of Common Stock in exchange for the cancellation of 158,080,242 Outstanding Warrants.

Secured Note Financing. On July 26, 2017, we commenced an offering of Senior Secured Promissory Notes (the “Secured Notes”) in the aggregate principal amount of up to \$1.5 million to certain accredited investors (the “Secured Note Financing”). As additional consideration for participating in the Secured Note Financing, investors received five-year warrants, exercisable for \$0.15 per share, to purchase that number of shares of our Common Stock equal to 50% of the principal amount of the Secured Note purchased, divided by \$0.15 per share. Between July 26, 2017 and September 30, 2017, we offered and sold Secured Notes in the aggregate principal amount of \$1,350,000 and issued Warrants to purchase up to 4.5 million shares of Common Stock to participating investors.

The Secured Notes (i) bear interest at a rate of 8% per annum, (ii) have a maturity date of 1.5 years from the date of issuance, and (iii) are subject to a pre-payment and change in control premium of 125% of the principal amount of the Secured Notes at the time of pre-payment or change in control, as the case may be. To secure the Company’s obligations under the Secured Notes, the Company granted to participating investors a continuing security interest in substantially all of the Company’s assets pursuant to the terms and conditions of a Security Agreement (the “Security Agreement”).

### Off-Balance Sheet Items



We had no off-balance sheet items as of September 30, 2017.

-18-



Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not a required disclosure for smaller reporting companies.

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.

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.

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. 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

Investing in our securities involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2016 before investing in our securities. The risks described below are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition and/or operating results. If any of the following risks are realized, our business, financial condition and results of operations could be materially and adversely affected.

-19-



Table of Contents

Risks Related to the Company

We have a history of operating losses and, despite consummation of recent financings, we require additional financing to satisfy our current contractual obligations and execute our business plan.

We have not been profitable since inception. We had a net loss of \$5,994,252 and \$5,445,563 for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively. Additionally, sales of AquaBall™ Naturally Flavored Water are significantly below levels necessary to achieve positive cash flow.

Although we have recently consummated equity and debt financings that have resulted in aggregate gross proceeds of approximately \$6.7 million for the nine months ended September 30, 2017, our cash position was approximately \$215,000 at September 30, 2017, and we used approximately \$5,463,000 of cash for operations during the nine months ended September 30, 2017. To continue as a going concern, and to satisfy our contractual obligations under the bottling agreement executed by the Company and Niagara Bottling, LLC (“Niagara”) in October 2015 (the “Niagara Agreement”), we need to secure proceeds from the sale of additional debt or equity securities, whether in a private or public offering, in the near term. No assurances can be given that we will be successful in our attempts to generate proceeds to fund our operations. In the event we are unable to raise additional capital through the issuance of additional debt or equity securities, we will be unable to continue as a going concern.

We are currently in breach of the Niagara Agreement, which could, in turn, have a materially adverse effect on our business, financial condition and results of operation. No assurances can be given that we can cure the breach or otherwise satisfy our remaining obligation.

On October 19, 2017, we received a notice of breach and request for meet and confer from Niagara with respect to certain past due payment obligations under the Niagara Agreement. Pursuant to the Niagara Agreement, the Company has 30 days from the date of the notice to bring all amounts due current or negotiate a settlement with Niagara for the amounts owed. Failure to do so may result in an event of default under the Niagara Agreement, which would have a material adverse effect on our business, financial condition and results of operations.

We may not be able to satisfy recently incurred debt obligations when due.

We recently issued Senior Secured Promissory Notes (the “Secured Notes”) in the aggregate principal amount of \$1,500,000, which Secured Notes will mature in January 2019. Additionally, we granted the holders of the Secured Notes a continuing security interest in substantially all of our assets to secure our obligations under the Secured Notes.

If we are unable to successfully execute our business and marketing plan, we may not achieve profitability, and may not be able to satisfy our obligations under the Secured Notes when due, or otherwise satisfy the debt covenants. We may seek additional financing to satisfy our obligations, which financing may not be available on a timely basis, on terms that are acceptable or at all. Failure to meet our obligations under the Secured Notes, including paying off the Secured Notes when it becomes due and payable would result in a default of the Secured Notes, which default would have a material adverse effect our business, results of operations and financial condition, and therefore threaten our financial viability.

Substantially all of our assets are pledged to secure obligations under our outstanding indebtedness.

We have granted a continuing security interest in substantially all of our assets to the holders of the Secured Notes we issued in July 2017 as security for our obligations under the Secured Notes. If we default on any of our obligations under the Secured Notes, the holders of the Secured Notes will be entitled to exercise remedies available to them

resulting from such default, including increasing the applicable interest rate on all amounts outstanding under the Secured Notes, declaring all amounts due thereunder immediately due and payable, assuming control of the pledged assets. Our results of operations and financial condition would be materially harmed as a result of the Secured Note holders' exercise of their remedies in the event of a default.

We face substantial uncertainties in executing our business plan.

We must attain certain objectives in order to successfully execute our business plan over, including certain sales and distribution of AquaBall® Naturally Flavored Water required by the minimum volume requirements for each 12-month period under the Niagara Agreement. Failure to sustain sales sufficient to meet our Annual Commitment to Niagara will have a material adverse impact on our business, and no assurances can be given that we will be successful in our efforts.

We believe that, in order to execute our business plan and achieve sales growth, we must, among other things, successfully recruit additional personnel in key positions, develop a larger distribution network, establish a broader customer base and increase awareness of our brand name. In order to implement any of these initiatives, we will be required to materially increase our operating expenses, which may require additional working capital. If we are unable to secure additional working capital, we will be unable to accomplish our objectives, and if we are unable to accomplish one or more of these objectives, our business may fail.





## Table of Contents

Our licensing agreements are critical components of the marketing of the AquaBall® line, and there is no guarantee the licensing agreements will be renewed at the end of each agreement's term.

We currently have licensing agreements with Disney Consumer Products, Inc. and Marvel Characters, B.V. that allow us to place popular Disney and Marvel characters on labels of AquaBall® Naturally Flavored Water. The use of these characters, including Disney Princesses and other Disney characters, is critical to making AquaBall™ stand out among our competitors. These licensing agreements have varying terms, the Disney Agreement expires on March 31, 2017 and the Marvel Agreement expires on December 31, 2017, and there is no guarantee we will renew these agreements upon expiration, nor are we able to guarantee that we will have licensing agreements with other companies when the Disney Agreement and Marvel Agreement expire.

Certain large shareholders may have certain personal interests that may affect the Company.

As a result of securities held by Mr. Vincent C. Smith, the Vincent C. Smith, Jr. Annuity Trust 2015-1 (the "Smith Trust"), and Red Beard, an entity affiliated with Mr. Smith, Mr. Smith may be deemed the beneficial owner of, in the aggregate, approximately 49% of the Company's outstanding voting securities. As a result, Mr. Smith, the Smith Trust and/or Red Beard has the potential ability to exert influence over both the actions of the Board of Directors and the outcome of issues requiring approval by the Company's shareholders. This concentration of ownership may have effects such as delaying or preventing a change in control of the Company that may be favored by other shareholders or preventing transactions in which shareholders might otherwise recover a premium for their shares over current market prices.

Our limited operating history makes it difficult to evaluate our prospects.

We have a limited operating history on which to evaluate our business and prospects. Our current flagship product, AquaBall™ Naturally Flavored Water, was formulated and introduced to the public for sale in 2012. Our other product, Bazi® All Natural Energy, has had limited market success. There can be no assurance that we will achieve significant sales as a result of us focusing our sales efforts on the AquaBall® product, or that our new sales model will be successful.

We also may not be successful in addressing our other operating challenges, such as developing brand awareness and expanding our market presence through retail sales and our direct-to-consumer and online sales strategy. Our prospects for profitability must be considered in light of our evolving business model. These factors make it difficult to assess our prospects.

We are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar other constraints, which can make compliance costly and subject us to enforcement actions by governmental agencies.

The formulation, manufacturing, packaging, labeling, holding, storage, distribution, advertising and sale of our products are affected by extensive laws, governmental regulations and policies, administrative determinations, court decisions and similar constraints at the federal, state and local levels, both within the United States and in any country where we conduct business. There can be no assurance that we, or our independent distributors, will be in compliance with all of these regulations. A failure by us or our distributors to comply with these laws and regulations could lead to governmental investigations, civil and criminal prosecutions, administrative hearings and court proceedings, civil and criminal penalties, injunctions against product sales or advertising, civil and criminal liability for the Company and/or its principals, bad publicity, and tort claims arising out of governmental or judicial findings of fact or conclusions of law adverse to the Company or its principals. In addition, the adoption of new regulations and policies

or changes in the interpretations of existing regulations and policies may result in significant new compliance costs or discontinuation of product sales, and may adversely affect the marketing of our products, resulting in decreases in revenues.

Our ability to increase sales is dependent on growing in our existing markets as well as expanding into new markets in other countries. As we expand into foreign markets, we will become subject to different political, cultural, exchange rate, economic, legal and operational risks. We may invest significant amounts in these expansions with little success.

We currently are focusing our marketing efforts in the United States and, to a lesser extent, Canada. We believe that our future growth will come from both the markets that we are currently operating in and other international markets. We do not have any history of international expansion, and therefore have no assurance that any efforts will result in increased revenue. Additionally, we may need to overcome significant regulatory and legal barriers in order to sell our products, and we cannot give assurance as to whether our distribution method will be accepted. These markets may require that we reformulate our product to comply with local customs and laws. However, there is no guarantee that the reformulated product will be approved for sale by these regulatory agencies or attract local distributors.



## Table of Contents

We are currently dependent on a single manufacturer for the production of AquaBall®, and we do not independently analyze our products before distribution. If we are not able to ensure timely product deliveries, potential distributors and customers may not order our products, and our revenues may decrease. In addition, any errors in our product manufacturing could result in product recalls, significant legal exposure, and reduced revenues and the loss of distributors.

We rely entirely on Niagara to manufacture our flagship product, AquaBall® Naturally Flavored Water. In the event Niagara is unable to satisfy our supply requirements, manufacture our products on a timely basis, fill and ship our orders promptly, provide services at competitive costs or offer reliable products and services, our revenues and relationships with our independent distributors and customers would be adversely impacted. In the event Niagara becomes unable or unwilling to continue to provide us with products in required volumes and at suitable quality levels, we would be required to identify and obtain acceptable replacement manufacturing sources. There is no assurance that we would be able to obtain alternative manufacturing sources on a timely basis. Additionally, Niagara sources the raw materials for AquaBall®, and if we were to use alternative manufacturers we may not be able to duplicate the exact taste and consistency profile of the product from Niagara. An extended interruption in the supply of our products would result in decreased product sales and our revenues would likely decline.

Although we require Niagara to verify the accuracy of the contents of our products, we do not have the expertise or personnel to directly monitor the production of products. We rely exclusively, without independent verification, on certificates of analysis regarding product content provided by Niagara and limited safety testing by them. We cannot be assured that Niagara will continue to supply products to us reliably in the compositions we require. Errors in the manufacture of our products could result in product recalls, significant legal exposure, adverse publicity, decreased revenues, and loss of distributors and endorsers.

We face significant competition from existing suppliers of products similar to ours. If we are not able to compete with these companies effectively, we may not be able to achieve profitability.

We face intense competition from numerous resellers, manufacturers and wholesalers of liquid nutrition drinks similar to ours, from both retail and online providers. We consider the significant competing products in the U.S. market for the AquaBall® to be Capri-Sun, Good to Grow, Bug Juice, and other alternatives marketed towards children, and for Bazi® to be Red Bull®, Monster®, RockStar®, and 5 Hour Energy®. Most of our competitors have longer operating histories, established brands in the marketplace, revenues significantly greater than ours and better access to capital than us. We expect that these competitors may use their resources to engage in various business activities that could result in reduced sales of our products. Companies with greater capital and research capabilities could re-formulate existing products or formulate new products that could gain wide marketplace acceptance, which could have a depressive effect on our future sales. In addition, aggressive advertising and promotion by our competitors may require us to compete by lowering prices because we do not have the resources to engage in marketing campaigns against these competitors, and the economic viability of our operations likely would be diminished.

Adverse publicity associated with our products or ingredients, or those of similar companies, could adversely affect our sales and revenues.

Adverse publicity concerning any actual or purported failure of our Company to comply with applicable laws and regulations regarding any aspect of our business could have an adverse effect on the public perception of our Company. This, in turn, could negatively affect our ability to obtain financing, endorsers and attract distributors or retailers for the AquaBall® and/or Bazi®, which would have a material adverse effect on our ability to generate sales and revenues.

Our distributors' and customers' perception of the safety and quality of our products or even similar products distributed by others can be significantly influenced by national media attention, publicized scientific research or findings, product liability claims and other publicity concerning our products or similar products distributed by others. Adverse publicity, whether or not accurate, that associates consumption of our products or any similar products with illness or other adverse effects, will likely diminish the public's perception of our products. Claims that any products are ineffective, inappropriately labeled or have inaccurate instructions as to their use, could have a material adverse effect on the market demand for our products, including reducing our sales and revenues.

Our products may not meet health and safety standards or could become contaminated.

We have adopted various quality, environmental, health and safety standards. We do not have control over all of the third parties involved in the manufacturing of our products and their compliance with government health and safety standards. Even if our products meet these standards they could otherwise become contaminated. A failure to meet these standards or contamination could occur in our operations or those of our bottlers, distributors or suppliers. This could result in expensive production interruptions, recalls and liability claims. Moreover, negative publicity could be generated from false, unfounded or nominal liability claims or limited recalls. Any of these failures or occurrences could negatively affect our business and financial performance.



Table of Contents

The sale of our products involves product liability and related risks that could expose us to significant insurance and loss expenses.

We face an inherent risk of exposure to product liability claims if the use of our products results in, or is believed to have resulted in, illness or injury. Most of our products contain combinations of ingredients, and there is little long-term experience with the effect of these combinations. In addition, interactions of these products with other products, prescription medicines and over-the-counter drugs have not been fully explored or understood and may have unintended consequences. While our third-party manufacturers perform tests in connection with the formulations of our products, these tests are not designed to evaluate the inherent safety of our products.

Although we maintain product liability insurance, it may not be sufficient to cover all product liability claims and such claims that may arise, could have a material adverse effect on our business. The successful assertion or settlement of an uninsured claim, a significant number of insured claims or a claim exceeding the limits of our insurance coverage would harm us by adding further costs to our business and by diverting the attention of our senior management from the operation of our business. Even if we successfully defend a liability claim, the uninsured litigation costs and adverse publicity may be harmful to our business.

Any product liability claim may increase our costs and adversely affect our revenues and operating income. Moreover, liability claims arising from a serious adverse event may increase our costs through higher insurance premiums and deductibles, and may make it more difficult to secure adequate insurance coverage in the future. In addition, our product liability insurance may fail to cover future product liability claims, which, if adversely determined, could subject us to substantial monetary damages.

The success of our business will depend upon our ability to create brand awareness.

The market for functional beverages is already highly competitive, with many well-known brands leading the industry. Our ability to compete effectively and generate revenue will be based upon our ability to create awareness of our products distinct from those of our competitors. It is imperative that we are able to convey to consumers the benefits of our products. However, advertising and packaging and labeling of such products will be limited by various regulations. Our success will be dependent upon our ability to convey to consumers that our products are superior to those of our competitors.

We must continue to develop and introduce new products to succeed.

The functional beverage and nutritional supplement industry is subject to rapid change. New products are constantly introduced to the market. Our ability to remain competitive depends on our ability to enhance existing products, continue to develop and manufacture new products in a timely and cost effective manner, to accurately predict market transitions, and to effectively market our products. Our future financial results will depend to a great extent on the successful introduction of several new products. We cannot be certain that we will be successful in selecting, developing, manufacturing and marketing new products or in enhancing existing products.

The success of new product introductions depends on various factors, including the following:

- proper new product selection;
- successful sales and marketing efforts;
- timely delivery of new products;

availability of raw materials;  
pricing of raw materials;  
regulatory allowance of the products; and  
customer acceptance of new products.

We may from time to time write off obsolete inventories resulting in higher expenses and consequently greater net losses.

As we sometimes produce product adorned with characters on a promotional schedule, over production of a certain character set could result in write-downs of our inventories. A change in ingredients or labeling requirements could also result in the obsolescence of certain inventory. Write-downs of this type could make it more difficult for us to achieve profitability. We incurred write-downs against inventory of \$0 and \$576,559 for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively.





## Table of Contents

Product returns could require us to incur significant additional expenses, which would make it difficult for us to achieve profitability.

We have not established a reserve in our financial statements for product returns. However, we may experience product returns as we focus on the AquaBall® line of products and expand our market presence nationwide. We will continue to analyze our returns to determine if a reserve is necessary. If our reserves prove to be inadequate, we may incur significant expenses for product returns. As we gain more operating experience, we may need to establish a reserve for product returns.

If we are not able to adequately protect our intellectual property, then we may not be able to compete effectively and we may not be profitable.

Our existing proprietary rights may not afford remedies and protections necessary to prevent infringement, reformulation, theft, misappropriation and other improper use of our products by competitors. We own the formulations contained in our products and we consider these product formulations our critical proprietary property, which must be protected from competitors. We do not have any patents for our product formulations because we do not believe they are necessary to protect our proprietary rights. Although trade secret, trademark, copyright and patent laws generally provide such protection and we attempt to protect ourselves through contracts with manufacturers of our products, we may not be successful in enforcing our rights. In addition, enforcement of our proprietary rights may require lengthy and expensive litigation. We have attempted to protect some of the trade names and trademarks used for our products by registering them with the U.S. Patent and Trademark Office, but we must rely on common law trademark rights to protect our unregistered trademarks. Common law trademark rights do not provide the same remedies as are granted to federally registered trademarks, and the rights of a common law trademark are limited to the geographic area in which the trademark is actually used. Our inability to protect our intellectual property could have a material adverse impact on our ability to compete and could make it difficult for us to achieve a profit.

Compliance with changing corporate governance regulations and public disclosures may result in additional risks and exposures.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and new regulations from the SEC, have created uncertainty for public companies such as ours. These laws, regulations, and standards are subject to varying interpretations in many cases and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. As a result, our efforts to comply with evolving laws, regulations, and standards have resulted in, and are likely to continue to result in, increased expenses and significant management time and attention.

Loss of key personnel could impair our ability to operate.

Our success depends on hiring, retaining and integrating senior management and skilled employees. We are currently dependent on certain current key employees, specifically James Greco, our Chief Executive Officer, and Kevin Sherman, our Chief Marketing Officer, each of who are vital to our ability to grow our business and achieve profitability. As with all personal service providers, our officers can terminate their relationship with us at will. Our inability to retain these individuals may result in our reduced ability to operate our business.

Risks Related to Our Common Stock

A limited trading market currently exists for our securities, and we cannot assure you that an active market will ever develop, or if developed, will be sustained.

There is currently a limited trading market for our securities on the OTC Pink Marketplace. An active trading market for our Common Stock may not develop. Consequently, we cannot assure you when and if an active-trading market in our shares will be established, or whether any such market will be sustained or sufficiently liquid to enable holders of shares of our Common Stock to liquidate their investment in our company. If an active public market should develop in the future, the sale of unregistered and restricted securities by current shareholders may have a substantial impact on any such market.

If, and when, then shares of Common Stock underlying our outstanding derivative securities are issued, our shareholders will experience immediate and substantial dilution in the book value of their investment.

We currently have 216,151,590 shares of Common Stock issued and outstanding. If, and when, holders of our outstanding derivative securities, which securities include Series B Convertible Preferred Stock (“Series B Preferred”), Series C Preferred, Series D Preferred and any warrants that remain outstanding after the completion of the Warrant Exchange Program, decide to exercise or convert those securities into Common Stock, the number of shares of our Common Stock issued and outstanding could increase by as much as 78%. Conversion of all or a portion of our outstanding derivative securities would have a substantial and material dilutive effect on our existing stockholders and on our earnings per share.



Table of Contents

If we issue additional shares of Common Stock in the future, it will result in the dilution of our existing shareholders.

Our Articles of Incorporation authorize the issuance of up to 300.0 million shares of Common Stock. The issuance of any such shares of Common Stock will result in a reduction in value of our outstanding Common Stock. If we do issue any such additional shares of Common Stock, such issuance also will cause a reduction in the proportionate ownership and voting power of all other shareholders. Further, any such issuance may result in a change of control of our corporation.

The price of our securities could be subject to wide fluctuations and your investment could decline in value.

The market price of the securities of a company such as ours with little name recognition in the financial community and without significant revenues can be subject to wide price swings. The market price of our securities may be subject to wide changes in response to quarterly variations in operating results, announcements of new products by us or our competitors, reports by securities analysts, volume trading, or other events or factors. In addition, the financial markets have experienced significant price and volume fluctuations for a number of reasons, including the failure of certain companies to meet market expectations. These broad market price swings, or any industry-specific market fluctuations, may adversely affect the market price of our securities.

Companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation. If we were to become the subject of securities class action litigation, it could result in substantial costs and a significant diversion of our management's attention and resources.

Because our Common Stock may be classified as "penny stock," trading may be limited, and the share price could decline. Moreover, trading of our Common Stock, if any, may be limited because broker-dealers would be required to provide their customers with disclosure documents prior to allowing them to participate in transactions involving our Common Stock. These disclosure requirements are burdensome to broker-dealers and may discourage them from allowing their customers to participate in transactions involving our Common Stock.

We have issued preferred stock with rights senior to our Common Stock, and may issue additional preferred stock in the future, in order to consummate a merger or other transaction necessary to continue as a going concern.

Our Articles of Incorporation authorizes the issuance of up to 5.0 million shares of preferred stock, par value \$0.001 per share, without shareholder approval and on terms established by our directors, of which 2.75 million shares have been designated as Series B Preferred, 200,000 shares have been designated as Series C Preferred and 50,000 shares have been designated as Series D Preferred. We may issue additional shares of preferred stock in order to consummate a financing or other transaction, in lieu of the issuance of Common Stock. The rights and preferences of any such class or series of preferred stock would be established by our board of directors in its sole discretion and may have dividend, voting, liquidation and other rights and preferences that are senior to the rights of the Common Stock.

You should not rely on an investment in our Common Stock for the payment of cash dividends.

Because of our significant operating losses and because we intend to retain future profits, if any, to expand our business, we have never paid cash dividends on our Common Stock and do not anticipate paying any cash dividends in the foreseeable future. You should not make an investment in our Common Stock if you require dividend income. Any return on investment in our Common Stock would only come from an increase in the market price of our stock, which is uncertain and unpredictable.

**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.

-25-



Table of Contents

ITEM 6. EXHIBITS

(a)	EXHIBITS
<u>10.1</u>	Form of Senior Secured Promissory Note, incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K, filed on August 1, 2017
<u>10.2</u>	Form of Warrant, incorporated by reference from Exhibit 10.2 to the Current Report on Form 8-K, filed on August 1, 2017
<u>10.3</u>	Form of Security Agreement, incorporated by reference from Exhibit 10.3 to the Current Report on Form 8-K, filed on August 1, 2017
<u>31.1</u>	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a)
<u>31.2</u>	Certification of the Principal Financial and Accounting Officer pursuant to Rule 13a-14(a) and 15d-14(a)
<u>32.1</u>	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
<u>32.2</u>	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 14, 2017    TRUE DRINKS HOLDINGS, INC.

By: /s/ James J. Greco  
James J. Greco  
Chief Executive Officer and Director  
(Principal Executive Officer)

Date: November 14, 2017    By: /s/ Daniel Kerker  
Daniel Kerker  
Chief Financial Officer  
(Principal Financial and Accounting Officer)