

True Drinks Holdings, Inc.
Form 10-Q
May 14, 2015

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 March 31, 2015

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

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

Commission file number 001-32420

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

Nevada
(State or Other Jurisdiction of Incorporation
or Organization)

84-1575085
(IRS Employer Identification No.)

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

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

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

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

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

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

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

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

The number of shares of Common Stock, with \$0.001 par value, outstanding on May 14, 2015 was 53,691,225.

TRUE DRINKS HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2015

INDEX

| | Page |
|-----------------------------------|---|
| <u>PART FINANCIAL INFORMATION</u> | |
| <u>I.</u> | |
| <u>ITEM 1.</u> | <u>FINANCIAL STATEMENTS</u> 1 |
| | <u>Condensed Consolidated Balance Sheets as of March 31, 2015 (unaudited) and December 31, 2014</u> 1 |
| | <u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014 (unaudited)</u> 2 |
| | <u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014 (unaudited)</u> 3 |
| | <u>Notes to unaudited Condensed Consolidated Financial Statements</u> 4 |
| <u>ITEM 2.</u> | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> 13 |
| <u>ITEM 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> 16 |
| <u>ITEM 4.</u> | <u>Controls and Procedures</u> 16 |
| <u>PART OTHER INFORMATION</u> | |
| <u>II</u> | |
| <u>ITEM 1.</u> | <u>Legal Proceedings</u> 17 |
| <u>ITEM 1A.</u> | <u>Risk Factors</u> 17 |
| <u>ITEM 2.</u> | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 17 |
| <u>ITEM 3.</u> | <u>Defaults Upon Senior Securities</u> 17 |
| <u>ITEM 4.</u> | <u>Mine Safety Disclosures</u> 17 |
| <u>ITEM 5.</u> | <u>Other Information</u> 17 |
| <u>ITEM 6.</u> | <u>Exhibits</u> 17 |
| <u>SIGNATURES</u> | 18 |

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

TRUE DRINKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | March 31, 2015 (Unaudited) | December 31, 2014 |
|---|----------------------------------|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 48,803 | \$ 668,326 |
| Accounts receivable, net | 545,361 | 343,709 |
| Inventory | 1,429,086 | 1,363,443 |
| Prepaid expenses and other current assets | 713,855 | 628,675 |
| Total Current Assets | 2,737,105 | 3,004,153 |
| Restricted Cash | 133,231 | 133,198 |
| Property and Equipment, net | 3,711 | 4,587 |
| Patents, net | 1,176,470 | 1,211,765 |
| Trademarks, net | - | 6,849 |
| Goodwill | 3,474,502 | 3,474,502 |
| Total Assets | \$ 7,525,019 | \$ 7,835,054 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 1,565,423 | \$ 1,922,285 |
| Debt | 129,884 | 4,263,002 |
| Derivative liabilities | 3,396,940 | 1,569,522 |
| Total Current Liabilities | 5,092,247 | 7,754,809 |
| Commitments and Contingencies (Note 5) | | |
| Stockholders' Equity: | | |
| Common Stock, \$0.001 par value, 120,000,000 shares authorized, 53,691,225 and 48,622,675 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively | 53,691 | 48,623 |
| Preferred Stock – Series B (liquidation preference of \$4 per share), \$0.001 par value, 2,750,000 shares authorized, 1,342,870 and 1,490,995 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively | 1,343 | 1,491 |
| Preferred Stock – Series C (liquidation preference \$100 per share), \$0.001 par value, 90,000 shares authorized, 57,148 and 0 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively | 57 | - |
| Additional paid in capital | 23,013,807 | 18,388,212 |
| Accumulated deficit | (20,636,126) | (18,358,081) |
| Total Stockholders' Equity | 2,432,772 | 80,245 |

| | | |
|--|--------------|--------------|
| Total Liabilities and Stockholders' Equity | \$ 7,525,019 | \$ 7,835,054 |
|--|--------------|--------------|

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

-1-

Table of Contents

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

| | Three Months Ended March 31, | |
|---|---------------------------------|----------------|
| | 2015 | 2014 |
| Net Sales | \$ 764,975 | \$ 650,532 |
| Cost of Sales | 620,728 | 529,301 |
| Gross Profit | 144,247 | 121,231 |
| Operating Expenses | | |
| Selling and marketing | 650,365 | 570,528 |
| General and administrative | 1,421,268 | 991,806 |
| Total operating expenses | 2,071,633 | 1,562,334 |
| Operating Loss | (1,927,386) | (1,441,103) |
| Other Expense | | |
| Change in fair value of derivative liabilities | (142,922) | (2,125,537) |
| Interest expense | (207,737) | (37,129) |
| | (350,659) | (2,162,666) |
| NET LOSS | \$ (2,278,045) | \$ (3,603,769) |
| Declared dividends on Preferred Stock | 66,872 | 133,204 |
| Net loss attributable to common stockholders | \$ (2,344,917) | \$ (3,736,973) |
| Loss per common share, basic and diluted | \$ (0.05) | \$ (0.13) |
| Weighted average common shares outstanding, basic and diluted | 50,548,805 | 27,902,154 |

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

Table of Contents

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

| | Three Months Ended March 31, | |
|--|---------------------------------|------------------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (2,278,045) | \$ (3,603,769) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation | 876 | 3,530 |
| Amortization | 42,144 | 47,794 |
| Provision for bad debt expense | (6,847) | - |
| Change in estimated fair value of derivative | 142,922 | 2,125,537 |
| Fair value of stock issued for services | 453,062 | 39,875 |
| Stock based compensation | 129,098 | 123,364 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (194,805) | (132,852) |
| Restricted cash | (33) | - |
| Inventory | (65,643) | (180,038) |
| Prepaid expenses and other current assets | (85,180) | 42,365 |
| Accounts payable and accrued expenses | (270,954) | (287,219) |
| Net cash used in operating activities | (2,133,405) | (1,821,413) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | - | (2,349) |
| Net cash used in investing activities | - | (2,349) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends Paid | - | (2,194) |
| Proceeds from issuance of Series B Preferred Stock, net | - | 1,887,412 |
| Proceeds from issuance of Series C Preferred Stock | 4,500,000 | - |
| Repayments on debt | (2,986,118) | (270,000) |
| Net cash provided by financing activities | 1,513,882 | 1,615,218 |
| NET DECREASE IN CASH | (619,523) | (208,544) |
| CASH- beginning of period | 668,326 | 3,136,766 |
| CASH- end of period | \$ 48,803 | \$ 2,928,222 |
| SUPPLEMENTAL DISCLOSURES | | |
| Interest paid in cash | \$ 122,556 | \$ 7,944 |
| Non-cash financing and investing activities: | | |
| Conversion of preferred stock to common stock | \$ 2,222 | \$ 6,033 |
| Conversion of notes payable and accrued interest to common stock | \$ - | \$ 764,938 |
| Conversion of notes payable and accrued interest to Series C preferred stock | \$ 1,214,206 | \$ - |
| Dividend paid in common stock | \$ 85,573 | \$ - |

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

| | | | | |
|--|----|-----------|----|---------|
| Dividends declared but unpaid | \$ | 66,872 | \$ | 133,204 |
| Cashless exercise of warrants | \$ | - | \$ | 616,411 |
| Warrants issued in connection with Series B Preferred Offering | \$ | - | \$ | 7,944 |
| Warrants issued in connection with Series C Preferred Offering | \$ | 1,684,496 | \$ | - |

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)
March 31, 2015

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business

Overview

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

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

Recent Developments

Amendment to Series B Preferred Certificate of Designation

On February 18, 2015, the Company filed the First Amended and Restated Certificate of Designation, Preferences, Rights and Limitations of the Series B Convertible Preferred Stock (the "Series B Amendment") with the Nevada Secretary of State in order to: (i) eliminate certain provisions pertaining to the adjustment of the conversion price of the Series B Convertible Preferred Stock ("Series B Preferred") and (ii) eliminate the protective provision preventing the Company from issuing securities senior to or pari passu in rank to the Series B Preferred without first receiving approval from holders of 66% of the issued and outstanding shares of Series B Preferred. The Series B Amendment was approved by the written consent of stockholders holding approximately 79% of the issued and outstanding shares of Series B Preferred.

Creation of Series C Convertible Preferred Stock.

On February 18, 2015, the Company filed the Certificate of Designation, Preferences, Rights and Limitations of the Series C Convertible Preferred Stock with the Nevada Secretary of State, designating 50,000 shares of the Company's preferred stock, par value \$0.001 per share, as Series C Convertible Preferred Stock (the "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 C Offering

On February 20, 2015 (the "Initial Investment Date"), the Company and certain accredited investors (the "Investors") entered into a Securities Purchase Agreement (each a "Purchase Agreement") wherein the Investors agreed to purchase up to 43,000 shares of Series C Preferred for \$100 per share in three separate closings (the "Series C Offering"). The Company issued an aggregate total of 18,000 shares of Series C Preferred on the Initial Investment Date, 15,000 shares on April 1, 2015 and anticipates issuing the remaining 10,000 shares on or before June 30, 2015. The Purchase Agreement also provides for the appointment of one member, designated by the Investors, to the Company's Board of Directors. As additional consideration for participating in the Series C Offering, each Investor is entitled to receive five-year warrants (the "Series C Warrants"), exercisable at \$0.15 per share. Each Series C Warrant contains a price-protection feature that adjusts the exercise price in the event of certain dilutive issuances of securities. Such price-protection feature is determined to be a derivative liability and, as such, the value of all Series C Warrants issued, totaling \$464,164, was recorded to derivative liabilities.

Table of Contents

Amendment to Series C Certificate of Designation.

On March 26, 2015, the Company filed the First Amended and Restated Certificate of Designation, Preferences, Rights and Limitations (the “Series C Amendment”) with the Nevada Secretary of State in order to increase the number of shares of the Company’s preferred stock designated as Series C Preferred from 50,000 to 90,000 and to permit the transactions contemplated by the Note Payments and the Note Exchange, as described below.

Note Payments and Note Exchange.

Following the filing of the Series C Amendment, on March 27, 2015, the Company and the Investors entered into an amendment to the Purchase Agreement (the “Purchase Agreement Amendment”) wherein the Company sold to one of the Investors an additional 27,000 shares of Series C Preferred (the “Additional Shares”), for gross proceeds of \$2.7 million, which the Company subsequently used to satisfy approximately \$2.7 million of the Company’s \$3.8 million in outstanding secured promissory notes (the “Notes”) (the “Note Payments”). As additional consideration for the purchase of the Additional Shares, the Investor received five-year warrants on substantially similar terms to those offered in the Series C Offering, exercisable for \$0.15 per share (the “Additional Warrants”). Each Additional Warrant contains a price-protection feature that adjusts the exercise price in the event of certain dilutive issuances of securities. Such price-protection feature is determined to be a derivative liability and, as such, the value of all Additional Warrants issued, totaling \$841,651, was recorded to derivative liabilities.

Following the Note Payments, the Company and each of the holders (the “Holders”) of the Notes remaining after the Note Payments entered into Note Exchange Agreements (the “Exchange Agreements”), wherein the Holders agreed to exchange all remaining principal and accrued interest of any such Notes into shares of Series C Preferred on substantially similar terms to those offered in the Series C Offering (the “Note Exchange”). As a result of the execution of the Exchange Agreements and the consummation of the Note Exchange, the Company issued to the Holders an aggregate total of 12,148 shares of Series C Preferred and Series C Warrants to purchase approximately 2.8 million shares of Common Stock. Each Series C Warrant issued in connection with the Note Exchange 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 Series C Warrants issued in connection with the Note Exchange, totaling \$378,681, was recorded to derivative liabilities.

Basis of Presentation and Going Concern

The accompanying condensed consolidated balance sheet as of December 31, 2014, which has been derived from audited financial statements included in the Company’s Form 10-K for the year ended December 31, 2014, 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 three-month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015, 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, 2014 filed with the SEC on April 2, 2015.

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplates continuation of the Company as a going concern. As of and for the three months ended March 31, 2015, the Company incurred a net loss of \$2,278,045, has negative working capital of \$2,355,142, and an accumulated deficit of \$20,636,126. The Company had \$182,034 in cash at March 31, 2015 with \$133,231 of this cash being restricted, as discussed below. The Company will require additional capital to execute its business, marketing and operating plan, and therefore sustain operations, which capital may not be available on favorable terms, if at all. The accompanying condensed consolidated financial statements do not include any adjustments that might result in the event the Company was unable to generate sufficient cash from operations, execute its business, marketing or operating plan, or obtain additional working capital, if necessary.

Table of Contents

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 of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include, among others, derivative liabilities, provision for losses on accounts receivable, allowances for obsolete and slow moving inventory, stock compensation, deferred tax asset valuation allowances, and the realization of long-lived and intangible assets, including goodwill. Actual results could differ from those estimates.

Restricted Cash

At March 31, 2015, the Company had \$133,231 in restricted cash with a financial institution securing a letter of credit. The letter of credit matures in August 2015 and was issued as part of contractual obligations related to one of our licensing agreements with Disney Consumer Products, Inc.

Accounts Receivable

We maintain an allowance for doubtful accounts, which is analyzed on a periodic basis to ensure that it is adequate to the best of management's knowledge. Management develops an estimate of the allowance for doubtful accounts receivable based on the perceived likelihood of ultimate payment. Although the Company expects to collect amounts due, actual collections may differ from these estimated amounts. The allowance for doubtful accounts was approximately \$155,000 and \$162,000 at March 31, 2015 and December 31, 2014, respectively.

Concentrations

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

We utilized a variety of suppliers to purchase raw materials for the AquaBall™ Naturally Flavored Water during the three-months ended March 31, 2015 and 2014.

During 2014 and into 2015, we relied significantly on one supplier for 100% of our purchases of certain raw materials for Bazi®. Bazi, Inc. has sourced these raw materials from this supplier since 2007 and we do not anticipate any issues with the supply of these raw materials.

A significant portion of our revenue comes from sales of the AquaBall™ Naturally Flavored Water. For the three months ended March 31, 2015 and 2014, sales of AquaBall™ accounted for 95% and 91% of the Company's total revenue, respectively.

Inventory

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

Management reviews the carrying value of inventory in relation to its sales history and industry trends to determine an estimated net realizable value. Changes in economic conditions or customer demand could result in obsolete or slow moving inventory that cannot be sold or must be sold at reduced prices and could result in an inventory reserve. No inventory reserves were considered necessary as of March 31, 2015 and December 31, 2014.

-6-

Table of Contents

Inventory is comprised of the following:

| | March 31, 2015 (unaudited) | December 31, 2014 |
|---------------------|----------------------------------|----------------------|
| Purchased materials | \$ 973,822 | \$ 796,609 |
| Finished goods | 455,264 | 566,834 |
| Total | \$ 1,429,086 | \$ 1,363,443 |

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 March 31, 2015.

Intangible Assets

Intangible assets consists of the direct costs incurred for application fees and legal expenses associated with trademarks on the Company's products, customer list, and the estimated value of GT Beverage Company, LLC's interlocking spherical bottle patent. The Company's intangible assets are amortized over their estimated remaining useful lives. The Company evaluates the useful lives of its intangible assets annually and adjusts the lives according to the expected useful life. No impairment was deemed necessary during the quarter ended March 31, 2015.

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired that are individually identified and separately recognized. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are tested for impairment at least annually, typically in the fourth quarter. No impairment charges have been recorded for goodwill.

Income Taxes

For the quarters ended March 31, 2015 and 2014, the Company incurred tax net operating losses, and accordingly, had no income tax provision. At March 31, 2015, 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 three-month periods ended March 31, 2015 and 2014, general and administrative expenses included stock based compensation expense of \$129,098 and \$123,364, respectively.

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

assumed at the date of the grant (see Note 3, “Stock Options and Warrants”).

Fair Value Matters

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.

-7-

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. The Company may engage in other similar complex debt transactions in the future, but not with the intention to enter into derivative instruments. Derivatives and embedded derivatives, if applicable, are measured at fair value using the binomial lattice (“Binomial Lattice”) pricing model and marked to market and reflected on our condensed consolidated statement of operations as other (income) expense at each reporting period. However, such new and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation of derivatives often incorporate significant estimates and assumptions, which may impact the level of precision in the financial statements. Furthermore, depending on the terms of a derivative or embedded derivative, the valuation of derivatives may be removed from the financial statements upon conversion of the underlying instrument into some other security.

Net Loss Per Share

Earnings per share requires presentation of both basic earnings per common share and diluted earnings per common share. Since the Company has a net loss for all periods presented, Common Stock equivalents are not included in the weighted average calculation since their effect would be anti-dilutive. At March 31, 2015 and 2014, the Company had 155,365,213 and 90,832,975 shares of Common Stock equivalents outstanding, respectively.

Research and Development

Research and development costs are expensed as incurred.

Recent Accounting Pronouncements

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

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

NOTE 2 — SHAREHOLDERS’ EQUITY

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.

On January 18, 2013, upon the filing of the Amendment to the Articles of Incorporation, the Company converted 1,544,565 shares of Series A Preferred issued to former True Drinks shareholders into 25,304,017 shares of the

Company's Common Stock. In February 2015, the Company filed a Certificate of Elimination with the State of Nevada to eliminate the Series A Preferred Stock.

In the three months ended March 31, 2015, the Company declared \$66,872 in dividends on its Series B Preferred shares. The Company issued a total of 450,248 shares of Common Stock to pay \$85,573 of cumulative unpaid dividends. As of March 31, 2015, there remained \$81,377 in cumulative unpaid dividends.

As described in Note 1 above, under the heading "Recent Developments", on February 20, 2015, the Company and certain Investors entered into a Purchase Agreements in connection with the Company's Series C Offering, wherein the Investors agreed to purchase up to 43,000 shares of Series C Preferred for \$100 per share in three separate closings. The Company issued an aggregate total of 18,000 shares of Series C Preferred on the Initial Investment Date, 15,000 shares on April 1, 2015 and anticipates issuing the remaining 10,000 shares on or before June 30, 2015. As additional consideration for participating in the Series C Offering, Investors were issued a total of 4,200,000 Series C Warrants, exercisable at \$0.15 per share. Each Series C Warrant contains a price-protection feature that adjusts the exercise price in the event of certain dilutive issuances of securities. Such price-protection feature is determined to be a derivative liability and, as such, the value of all Series C Warrants issued, totaling \$464,164, was recorded to derivative liabilities.

Table of Contents

On March 27, 2015, the Company sold to an Investor 27,000 Additional Shares of Series C Preferred, for gross proceeds of \$2.7 million. As additional consideration for the purchase of the Additional Shares, the Investor was issued a total of 6,300,000 Additional Warrant, on terms substantially similar to those issued in connection with the Series C Offering. Each Additional Warrant contains a price-protection feature that adjusts the exercise price in the event of certain dilutive issuances of securities. Such price-protection feature is determined to be a derivative liability and, as such, the value of all Additional Warrants issued, totaling \$841,651, was recorded to derivative liabilities.

On March 27, 2015, holders of outstanding notes and accrued interest totaling \$1,214,207 agreed to exchange all remaining principal and accrued interest of any such Notes into shares of Series C Preferred on substantially similar terms to those offered in the Series C Offering. As a result of the execution of the Exchange Agreements and the consummation of the Note Exchange, the Company issued to the Holders an aggregate total of 12,148 shares of Series C Preferred and Series C Warrants to purchase 2,834,536 shares of Common Stock for \$0.15 per share. Each Series C Warrant issued in connection with the Note Exchange 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 Series C Warrants issued in connection with the Note Exchange, totaling \$378,681, was recorded to derivative liabilities.

During the quarter ended March 31, 2015, the Company issued 2,248,302 shares of Common Stock in connection with certain consulting agreements. The Company expensed the fair value of the Common Stock issued of \$453,062 to consulting expense.

NOTE 3 — STOCK OPTIONS AND WARRANTS

Warrants

A summary of the Company's warrant activity for the three months ended March 31, 2015 is presented below:

| | Warrants Outstanding | Weighted Average Exercise Price |
|--------------------------------|-------------------------|--|
| Outstanding, December 31, 2014 | 16,375,270 | \$ 0.40 |
| Granted | 13,334,536 | 0.15 |
| Exercised | - | - |
| Expired | - | - |
| Outstanding, March 31, 2015 | 29,709,806 | \$ 0.21 |

As of March 31, 2015, 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.) |
|-------------------------|---|---|
| 61,453 | \$ 30.00 | 0.81 |
| 29,648,353 | \$ 0.15 | 4.24 |
| 29,709,806 | \$ 0.21 | 4.23 |

Non-Qualified Stock Options

The Company did not grant any non-qualified stock options to employees during the three months ended March 31, 2015.

Stock option activity during the three months ended March 31, 2015 is summarized as follows:

| | Options Outstanding | Weighted-Average Exercise Price |
|--|------------------------|------------------------------------|
| Options outstanding at December 31, 2014 | 12,379,593 | \$ 0.37 |
| Exercised | - | - |
| Granted | - | - |
| Forfeited | - | - |
| Expired | - | - |
| Options outstanding at March 31, 2015 | 12,379,593 | \$ 0.37 |

The following table summarizes information about the Company's stock options outstanding as of March 31, 2015:

| Range of Exercise Prices | Number | Outstanding Options | | Exercisable Options | |
|--------------------------------|------------|--|---------------------------------|---------------------|---------------------------------|
| | | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value | Number | Aggregate Intrinsic Value |
| \$ 0.61 | 256,725 | 0.29 | \$ - | - | \$ - |
| \$ 1.02 | 122,870 | 0.47 | - | 122,870 | \$ - |
| \$ 0.25 | 2,348,173 | 8.85 | - | 1,121,429 | \$ - |
| \$ 0.38 | 9,651,825 | 6.63 | - | 2,219,814 | \$ - |
| Totals | 12,379,593 | 6.91 | \$ - | 3,464,113 | \$ - |

Table of Contents

NOTE 4 — DEBT

A summary of debt as of March 31, 2015, is as follows:

| | Amount |
|---|--------------|
| Outstanding, December 31, 2014 | \$ 4,263,002 |
| Borrowings | - |
| Repayments | (2,986,118) |
| Conversions to Series C Preferred Stock | (1,147,000) |
| Outstanding, March 31, 2015 | \$ 129,884 |

As disclosed in Note 1 above under the heading “Recent Developments”, in March 2015, the Company received gross proceeds of \$2.7 million from the sale of 27,000 shares of Series C Preferred to an accredited, existing investor, which proceeds were subsequently used to satisfy approximately \$2.7 million of the Company’s \$3.8 million in outstanding Notes. Following the Note Payments, the Company and each of the Holders of the Notes remaining after the Note Payments entered into Exchange Agreements, wherein the Holders agreed to exchange all remaining principal and accrued interest of any such Notes into shares of Series C Preferred on substantially similar terms to those offered in the Series C Offering.

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 March 31, 2015, the total outstanding on the line-of-credit approximated \$130,000 and the Company had approximately \$0 available to borrow. The line-of-credit bears interest at Prime rate (3.25% as of March 31, 2015) plus 4.50% per annum as well as a monthly fee of 0.50% on the average amount outstanding on the line.

Secured Notes

Between September and December 2014, the Company issued secured promissory notes, or Notes, in the aggregate principal amount of \$3,420,000 to certain accredited investors. The Notes accrue interest at a rate of 12% per annum and are secured by an interest in all inventory, books and records pertaining to the inventory, and all proceeds with respect sale or other disposition of the inventory. The Notes mature one year from the date of issuance. In the event the Notes are paid in a form other than cash, the Company is obligated to pay to the Holder of the Secured Notes a lender's fee equal to 10%, which amount shall be added to the principal amount due and owing the Holder. As of March 31, 2015, each of these Notes were either paid in full, or exchanged for shares of Series C Preferred in the Note Exchange described under Note 1 above, under the heading “Recent Developments”.

In September 2014, the Company issued a Note in the principal amount of \$200,000 to Scot Cohen, a member of the Company’s Board of Directors. The Note accrued interest at a rate of 12% and was secured by an interest in all inventory, books and records pertaining to the inventory, and all proceeds with respect sale or other disposition of the inventory. The Note originally matured in September 2014, was in default as of December 31, 2014 and was paid in full in February 2015.

NOTE 5 — COMMITMENTS AND CONTINGENCIES

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

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

The Company leases its corporate office in Irvine, California on a one-year term, which term expires in July 2015. Total rent expense related to the Company's operating lease for the three months ended March 31, 2015 and 2014 was \$14,270 and \$15,568, respectively. Total remaining payments on the lease through July 31, 2015 are \$17,596.

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.

-10-

Table of Contents

Legal Proceedings

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

On April 22, 2014, a lawsuit was filed in the Superior Court of California, County of Orange, against the Company by Advantage Sales and Marketing, LLC. The plaintiff initially seeks damages of \$92,064 for outstanding invoices. This lawsuit was settled in January 2015 for the payment of \$69,000 in cash over three installments.

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.

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 quarter ended March 31, 2015. The Company had no Level 1 or 2 fair value measurements at March 31, 2015 or December 31, 2014.

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 March 31, 2015:

| Total carrying value | Level 1 Quoted market prices in active | Level 2 Internal Models with significant | Level 3 Internal models with significant unobservable |
|----------------------------|--|--|---|
|----------------------------|--|--|---|

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

| | | markets | observable market parameters | market parameters |
|------------------------|--------------|---------|------------------------------------|----------------------|
| Derivative liabilities | \$ 3,396,940 | \$ - | \$ - | \$ 3,396,940 |

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 December 31, 2014:

| | Total carrying value | Level 1 Quoted market prices in active markets | Level 2 Internal Models with significant observable market parameters | Level 3 Internal models with significant unobservable market parameters |
|------------------------|----------------------------|---|--|---|
| Derivative liabilities | \$ 1,569,522 | \$ - | \$ - | \$ 1,569,522 |

Table of Contents

The following table presents the changes in recurring fair value measurements included in net loss for the three months ended March 31, 2015:

| | Recurring Fair Value Measurements Changes in Fair Value Included in Net Loss For the Three Months Ended March 31, 2015 | | |
|------------------------|--|--------------|--------------|
| | Revenues | Expenses | Total |
| Derivative liabilities | \$ - | \$ (142,922) | \$ (142,922) |

The following table presents the changes in recurring fair value measurements included in net loss for the three months ended March 31, 2014:

| | Recurring Fair Value Measurements Changes in Fair Value Included in Net Loss For the Three Months Ended March 31, 2014 | | |
|------------------------|--|----------------|----------------|
| | Revenues | Expenses | Total |
| Derivative liabilities | \$ - | \$ (2,125,537) | \$ (2,125,537) |

The table below sets forth a summary of changes in the fair value of our Level 3 financial liabilities for the three months ended March 31, 2015:

| | December 31, 2014 | Recorded New Derivative Liabilities | Reclassification of Derivative Liabilities to Additional Paid in Capital | Change in Estimated Fair Value Recognized in Results of Operations | March 31, 2015 |
|------------------------|-------------------|-------------------------------------|--|--|----------------|
| Derivative liabilities | \$ 1,569,522 | \$ 1,684,496 | \$ - | \$ 142,922 | \$ 3,396,940 |

The table below sets forth a summary of changes in the fair value of our Level 3 financial liabilities for the three months ended March 31, 2014:

| | December 31, 2013 | Recorded New Derivative Liabilities | Reclassification of Derivative Liabilities to Additional Paid in Capital | Change in Estimated Fair Value Recognized in Results of Operations | March 31, 2014 |
|------------------------|-------------------|-------------------------------------|--|--|----------------|
| Derivative liabilities | \$ 1,619,021 | \$ 616,411 | \$ - | \$ 2,125,537 | \$ 4,360,969 |

NOTE 7 – LICENSING AGREEMENTS

We entered into a three-year licensing agreement with Disney Consumer Products, Inc. ("Disney") and an 18-month licensing agreement with Marvel Characters, B.V. ("Marvel") (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. The terms of the Disney Licensing Agreement ("Disney Agreement") stipulates a royalty rate of 4% on the sales of AquaBall™ Naturally Flavored Water adorned with Disney characters, paid quarterly, with a total royalty guarantee of \$231,600 over the term of the Disney Agreement which has a term ending date of May 31, 2015. In addition, the Company is required to spend 1% of sales on advertising and promotional opportunities. The Company and Disney are in discussions to extend this agreement.

The terms of the Marvel Licensing Agreement ("Marvel Agreement") stipulates a royalty rate of 5% on the sales of AquaBall™ Naturally Flavored Water adorned with Marvel characters, paid quarterly. The Company recently extended the Marvel Agreement through the end of 2015. The total royalty guarantee for the period from April 1, 2015 through December 31, 2015 is \$56,250.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to March 31, 2015 through the date that the accompanying condensed consolidated financial statements were filed with the Securities and Exchange Commission for transactions and other events which may require adjustment of and/or disclosure in such financial statements.

Table of Contents

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend to identify forward-looking statements in this report by using words such as "believes," "intends," "expects," "may," "will," "should," "plan," "projected," "contemplates," "anticipates," "estimates," "predicts," "potential," "continue," or similar terms. These statements are based on our beliefs as well as assumptions we made using information currently available to us. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Because these statements reflect our current views concerning future events, these statements involve risks, uncertainties, and assumptions. Actual future results may differ significantly from the results discussed in the forward-looking statements. These risks include changes in demand for our products, changes in the level of operating expenses, our ability to expand our network of customers, changes in general economic conditions that impact consumer behavior and spending, product supply, the availability, amount, and cost of capital to us and our use of such capital, and other risks discussed in this report. Additional risks that may affect our performance are discussed under "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

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

Overview

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

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

Critical Accounting Policies and Estimates

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

evaluate our estimates; including those related to collection of receivables, inventory obsolescence, sales returns and non-monetary transactions such as stock and stock options issued for services. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe there have been no changes to our critical accounting policies subsequent to the filing of our annual report on Form 10-K for the year ended December 31, 2014.

Table of Contents

Comparison of the Three Months Ended March 31, 2015 to the Three Months Ended March 31, 2014.

Net Sales

Net sales for the three months ended March 31, 2015 were \$774,601 compared to \$650,532 for the three months ended March 31, 2014, a 19% increase. The increase in sales for the three months ended March 31, 2015 is principally attributable to utilization of key direct store distributors in areas such as New York and certain areas in the Mid-West. While no assurances can be given, management anticipates continued growth in the sale of AquaBall™ as the Company executes its business plan, and realizes sales from current distribution agreements negotiated and closed in recent periods.

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

| Product Category | Three Months Ended March 31, 2015 (% of Sales) |
|------------------|---|
| AquaBall™ | 95% |
| Bazi® | 5% |

Gross Profit

Gross profit for the three months ended March 31, 2015 was \$153,874, compared to \$121,231 for the three months ended March 31, 2014. Gross profit as a percentage of revenue (gross margin) during three months ended March 31, 2015 was 20%. Gross margins were flat due to a similar package mixture during the first quarters of 2015 and 2014.

Sales, General and Administrative Expense

Sales, general and administrative expenses were \$2,074,412 for the three months ended March 31, 2015, as compared to \$1,562,334 for the three months ended March 31, 2014. The total for 2015 consists of approximately \$450,000 in stock issued for services, a large increase over 2014. The total also includes increased marketing expenditures totaling approximately \$275,000 in the first three months of 2015, compared to \$85,000 in 2014.

Change in Fair Value of Derivative Liabilities

The Company recorded a loss for the change in fair value of derivative liabilities for the three months ended March 31, 2015 of \$142,922.

Interest Expense

Interest expense for the three months ended March 31, 2015 was \$207,737, as compared to \$37,130 for the three months ended March 31, 2014. Interest expense for 2015 consists of interest and fees due on promissory notes generated in late 2014 which were all either repaid or converted into shares of Series C Preferred in connection with the Note Exchange during the three months ended March 31, 2015.

Income Taxes

There is no income tax expense recorded for the three months ended March 31, 2015 and 2014, due to the Company's net losses. As of March 31, 2015, 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 three months ended March 31, 2015 was \$2,271,197, as compared to a net loss of \$3,603,769 for the three months ended March 31, 2014. On a per share basis, our loss was \$0.05 and \$0.13 per share for the three months ended March 31, 2015 and 2014, respectively.

Table of Contents

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, 2014, 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 three months ended March 31, 2015, the Company incurred a net loss of \$2,271,197. At March 31, 2015, the Company has negative working capital of \$2,355,142 and an accumulated deficit of \$20,629,277. Although, during the year ended December 31, 2014, the Company raised approximately \$1.9 million resulting from the sale of shares of Series B Preferred, approximately \$4.0 million in promissory notes, and, during the quarter ended March 31, 2015 raised approximately \$4.5 million from the sale of shares of Series C Preferred, as discussed below, additional capital will be 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 continue to contain expenses, expand distribution and sales of its AquaBall™ Naturally Flavored Water as rapidly as economically possible, and raise capital through equity and debt offerings to execute the Company's business plan and achieve profitability from continuing operations. The accompanying condensed consolidated financial statements do not include any adjustments that might result in the event the Company is unsuccessful in its plans.

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

Series C Offering, Note Payments and Note Exchange

As described in Note 1 to the Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q, on February 20, 2015, the Company and certain Investors entered into Purchase Agreements wherein the Investors agreed to purchase up to 43,000 shares of newly created Series C Preferred for \$100 per share in three separate closings. The Company issued an aggregate total of 18,000 shares of Series C Preferred on the Initial Investment Date of February 20, 2015, 15,000 shares on April 1, 2015 and anticipates issuing the remaining 10,000 shares on or before June 30, 2015. As additional consideration for participating in the Series C Offering, each Investor received five-year Series C Warrants, exercisable for \$0.15 per share.

On March 27, 2015, the Company and the Investors entered into the Purchase Agreement Amendment wherein the Company sold to one of the Investors 27,000 Additional Shares of Series C Preferred for gross proceeds of \$2.7 million, which the Company subsequently used to satisfy approximately \$2.7 million of the Company's \$3.8 million in outstanding Notes. As additional consideration for the purchase of the Additional Shares, the Investor received Additional Warrants on terms substantially similar to the Series C Warrants issued in connection with the Series C Offering.

Following the Note Payments, the Company and each of the Holders of the Notes remaining after the Note Payments entered into Exchange Agreements, wherein the Holders agreed to exchange all remaining principal and accrued interest of any such Notes into shares of Series C Preferred on substantially similar terms to those offered in the Series C Offering. As a result of the execution of the Exchange Agreements and the consummation of the Note Exchange, the Company issued to the Holders an aggregate total of 12,148 shares of Series C Preferred and Series C Warrants to purchase approximately 2.8 million shares of Common Stock.

As of March 31, 2015, the Company has issued 57,148 shares of Series C Preferred and Series C Warrants to purchase an aggregate total of 13.3 million shares of Common Stock (including the Additional Warrants) during the Series C Offering, resulting in gross proceeds of \$4.5 million and satisfaction of all amounts owed under the Notes.

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 March 31, 2015, the total outstanding on the line-of-credit approximated \$130,000 and the Company had approximately \$0 available to borrow. The line-of-credit bears interest at Prime rate (3.25% as of March 31, 2015) plus 4.50% per annum as well as a monthly fee of 0.50% on the average amount outstanding on the line.

Off-Balance Sheet Items

We had no off-balance sheet items as of March 31, 2015.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

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

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

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

(b) Changes in internal controls over financial reporting.

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

Table of Contents

PART II

ITEM 1. LEGAL PROCEEDINGS

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

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

On April 22, 2014, a lawsuit was filed in the Superior Court of California, County of Orange, against the Company by Advantage Sales and Marketing, LLC. The plaintiff initially seeks damages of \$92,064 for outstanding invoices. This lawsuit was settled in January 2015 for the payment of \$69,000 in cash over three installments.

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

Our results of operations and financial condition are subject to numerous risks and uncertainties described in our Annual Report on Form 10-K for our fiscal year ended December 31, 2014, filed on April 2, 2015. You should carefully consider these risk factors in conjunction with the other information contained in this Quarterly Report. Should any of these risks materialize, our business, financial condition and future prospects could be negatively impacted. As of March 31, 2015, there have been no material changes to the disclosures made in the above-referenced Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Table of Contents

SIGNATURES

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

Date: May 14, 2015

TRUE DRINKS HOLDINGS, INC.

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

Date: May 14, 2015

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