

True Drinks Holdings, Inc.  
Form 10-Q  
May 16, 2016

---

---

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, 2016

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  
(State or Other Jurisdiction of Incorporation  
or Organization)

84-1575085  
(IRS Employer Identification No.)

18662 MacArthur Blvd., Suite 110  
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 16, 2016 was 112,948,441.

---

---

Table of Contents

## TRUE DRINKS HOLDINGS, INC.

QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTER ENDED March 31, 2016

## INDEX

	Page	
PART I. FINANCIAL INFORMATION		
<u>ITEM 1.</u>	<u>Financial Statements</u>	<u>1</u>
	<u>Condensed Consolidated Balance Sheets as of March 31, 2016 (unaudited) and December 31, 2015</u>	<u>1</u>
	<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015 (unaudited)</u>	<u>2</u>
	<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015 (unaudited)</u>	<u>3</u>
	<u>Notes to unaudited Condensed Consolidated Financial Statements</u>	<u>4</u>
ITEM 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>14</u>
ITEM 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>17</u>
ITEM 4.	<u>Controls and Procedures</u>	<u>17</u>
PART II. OTHER INFORMATION		
ITEM 1.	<u>Legal Proceedings</u>	<u>17</u>
ITEM 1A.	<u>Risk Factors</u>	<u>17</u>
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>17</u>
ITEM 3.	<u>Defaults Upon Senior Securities</u>	<u>18</u>
ITEM 4.	<u>Mine Safety Disclosures</u>	<u>18</u>
ITEM 5.	<u>Other Information</u>	<u>18</u>
ITEM 6.	<u>Exhibits</u>	<u>19</u>
<u>SIGNATURES</u>		<u>20</u>

Table of Contents

## PART I

## ITEM 1. FINANCIAL STATEMENTS

TRUE DRINKS HOLDINGS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016 (Unaudited)	December 31, 2015
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash	\$ 126,978	\$ 376,840
Accounts receivable, net	232,269	1,843,415
Inventory, net	1,500,333	1,558,719
Prepaid expenses and other current assets	276,986	75,923
<b>Total Current Assets</b>	<b>2,136,566</b>	<b>3,854,897</b>
Restricted Cash	209,413	209,360
Property and Equipment, net	3,873	4,530
Patents, net	1,035,294	1,070,588
Goodwill	3,474,502	3,474,502
<b>Total Assets</b>	<b>\$ 6,859,648</b>	<b>\$ 8,613,877</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,479,738	\$ 1,623,046
Debt	433,041	1,336,819
Derivative liabilities	5,362,699	6,199,021
<b>Total Current Liabilities</b>	<b>7,275,478</b>	<b>9,158,886</b>
<b>Commitments and Contingencies (Note 7)</b>		
<b>Stockholders' Deficit:</b>		
Common Stock, \$0.001 par value, 300,000,000 shares authorized, 112,948,441 and 111,434,284 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	112,949	111,434
Preferred Stock – Series B (liquidation preference of \$4 per share), \$0.001 par value, 2,500,000 shares authorized, 1,317,870 shares issued and outstanding at March 31, 2016 and December 31, 2015	1,318	1,318
Preferred Stock – Series C (liquidation preference \$100 per share), \$0.001 par value, 150,000 shares authorized, 62,217 and 48,853 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	62	49
Additional paid in capital	30,997,633	29,690,834
Accumulated deficit	(31,527,792)	(30,348,644)
<b>Total Stockholders' Deficit</b>	<b>(415,830)</b>	<b>(545,009)</b>

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

Total Liabilities and Stockholders' Deficit \$ 6,859,648 \$ 8,613,877

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

-1-

---

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
Net Sales	\$ 583,298	\$ 764,975
Cost of Sales	733,411	620,728
Gross (Loss) Profit	(150,113)	144,247
Operating Expenses		
Selling and marketing	1,068,913	650,365
General and administrative	1,068,350	1,421,268
Total operating expenses	2,137,263	2,071,633
Operating Loss	(2,287,376)	(1,927,386)
Other Income (Expense)		
Change in fair value of derivative liabilities	1,139,365	(142,922)
Interest expense	(12,214)	(207,737)
Other expense	(18,923)	-
	1,108,228	(350,659)
NET LOSS	\$ (1,179,148)	\$ (2,278,045)
Declared dividends on Preferred Stock	66,626	66,872
Net loss attributable to common stockholders	\$ (1,245,774)	\$ (2,344,917)
Loss per common share, basic and diluted	\$ (0.01)	\$ (0.05)
Weighted average common shares outstanding, basic and diluted	112,219,264	50,548,805

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

Table of Contents

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

	Three Months Ended March 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (1,179,148)	\$ (2,278,045)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	657	876
Amortization	35,294	42,144
Provision for bad debt expense	140,152	(6,847)
Provision for inventory losses	110,000	-
Change in estimated fair value of derivative	(1,139,365)	142,922
Fair value of stock issued for services	18,000	453,062
Stock based compensation	61,555	129,098
Change in operating assets and liabilities:		
Accounts receivable	1,470,994	(194,805)
Inventory	(51,614)	(65,643)
Prepaid expenses and other current assets	(201,063)	(85,180)
Accounts payable and accrued expenses	(141,493)	(270,954)
Net cash used in operating activities	(876,031)	(2,133,372)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Restricted cash	(53)	(33)
Net cash used in investing activities	(53)	(33)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from warrants exercised for cash	30,000	-
Proceeds from issuance of Series C Preferred Stock	1,000,000	4,500,000
Repayments on debt	(403,778)	(2,986,118)
Net cash provided by financing activities	626,222	1,513,882
<b>NET DECREASE IN CASH</b>	<b>(249,862)</b>	<b>(619,523)</b>
CASH- beginning of period	376,840	668,326
CASH- end of period	\$ 126,978	\$ 48,803
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid in cash	\$ 13,119	\$ 122,556
Non-cash financing and investing activities:		
Conversion of preferred stock to common stock	\$ 698	\$ 2,222
Conversion of notes payable and accrued interest to Series C preferred stock	\$ 500,000	\$ 1,214,206
Dividend paid in common stock	\$ 68,441	\$ 85,573
Dividends declared but unpaid	\$ 66,626	\$ 66,872
Warrants issued in connection with Series C Preferred Offering	\$ 303,043	\$ -

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, 2016

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 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 18662 MacArthur Boulevard, Suite 110, 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 per share (“Common Stock”), is currently listed for quotation on the OTC Pink Marketplace under the symbol “TRUU.”

Recent Developments

January 2016 Note Exchange. On January 20, 2016, the Company and holders of certain senior subordinated secured promissory notes (“Secured Notes”) in the principal amount of \$500,000 entered into Note Exchange Agreements, pursuant to which these holders exchanged the outstanding principal balance of their Secured Notes into an aggregate total of 4,413 shares of Series C Preferred and five-year warrants to purchase up to an aggregate total of 1,029,413 shares of Common Stock for \$0.17 per share.

Amendment to Series C Preferred Certificate of Designation

On April 13, 2016, in connection with the April Series C Offering (defined below), the Company filed the Third Amended and Restated Certificate of Designation, Preferences, Rights and Limitations of the Series C Convertible Preferred Stock (the “Series C Amendment”), with the Nevada Secretary of State in order to: (i) prohibit, except in certain circumstances, any holder of shares of the Company’s Series C Convertible Preferred Stock (“Series C Preferred”) from voting more than 50% of the total voting power of the outstanding shares of capital stock of the Company; (ii) increase the number of shares of Preferred Stock designated as Series C Preferred from 150,000 to 200,000, and (iii) permit the issuance of shares of Series C Preferred and certain warrants to purchase shares of the Company’s Common Stock.

April Series C Offering

On April 13, 2016 (the “Initial Investment Date”), the Company and one of the Company’s current shareholders, Red Beard Holdings, LLC (the “Red Beard”), entered into a Securities Purchase Agreement (the “April Purchase Agreement”), wherein Red Beard, together with any other signatories to the April Purchase Agreement

(collectively, the “Purchasers”), agreed to purchase up to 50,000 shares of Series C Preferred for \$100 per share over the course of two separate closings (the “April Series C Offering”). The Company issued an aggregate total of 25,000 shares of Series C Preferred on the Initial Investment Date, and anticipates issuing 25,000 shares on or before July 12, 2016.

As additional consideration for participating in the April Series C Offering, the Purchasers will receive five-year warrants to purchase up to an aggregate total of approximately 33.3 million shares of Common Stock for \$0.15 per share. On the Initial Investment Date, the Company issued to Red Beard warrants to purchase approximately 16.7 million shares of Common Stock.

## Table of Contents

### Basis of Presentation and Going Concern

The accompanying condensed consolidated balance sheet as of December 31, 2015, which has been derived from audited financial statements included in the Company's Form 10-K for the year ended December 31, 2015, 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, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016, 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, 2015 filed with the SEC on March 24, 2016.

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, 2016, the Company incurred a net loss of \$----- 1,179,148, has negative working capital of \$5,138,912, and an accumulated deficit of \$31,527,792. The Company had \$336,391 in cash at March 31, 2016 with \$209,413 of this cash being restricted, as discussed below. The Company will require additional capital, not only to satisfy its contractual obligations under the Niagara Agreement, but also 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 might result in the event the Company was unable to generate sufficient cash from operations, execute its business, marketing or operating plan, or obtain additional working capital, if necessary.

### Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries True Drinks, 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.

### Restricted Cash

At March 31, 2016, the Company had \$209,413 in restricted cash with a financial institution securing a letter of credit. The letter of credit matures in August 2017 and was issued as part of the contractual obligations related to the Licensing Agreement, by and between the Company and Disney Consumer Products, Inc. (“Disney”) during the quarter ended September 30, 2015 (the “Disney Agreement”).

#### 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 \$250,000 and \$110,000 at March 31, 2016 and December 31, 2015, 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.

Table of Contents

We utilized a variety of suppliers to purchase raw materials for the AquaBall™ Naturally Flavored Water during the quarter ended March 31, 2016. Beginning in May 2016, all production of AquaBall™ will be done by Niagara Bottling, LLC through our 5-year bottling agreement. Niagara will handle all aspects of production including the procurement of all raw materials necessary to produce AquaBall™.

We rely 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, 2016 and 2015, sales of AquaBall™ accounted for 91% and 97% 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. The Company maintained inventory reserves of \$110,000 and \$0 as of March 31, 2016 and December 31, 2015.

Inventory is comprised of the following:

	March 31, 2016 (unaudited)	December 31, 2015
Purchased materials	\$ 501,796	\$ 689,703
Finished goods	1,108,537	869,016
Allowance for obsolescence reserve	(110,000 )	-
Total	\$ 1,500,333	\$ 1,558,719

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, 2016.

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, 2016.

## 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 during the three months period ended March 31, 2016.

## Income Taxes

For the quarters ended March 31, 2016 and 2015, the Company incurred tax net operating losses, and accordingly, had no income tax provision. At March 31, 2016, the Company had tax net operating loss carryforwards and a related deferred tax asset, which had a full valuation allowance.

## Table of Contents

### Stock-Based Compensation

For the three-month periods ended March 31, 2016 and 2015, general and administrative expenses included stock based compensation expense of \$61,555 and \$129,098, 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 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 (see Note 3, “Warrants”).

### 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.

### 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, 2016 and 2015, the Company had 132,899,032 and 155,365,213 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, 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 position, results of operations or cash flows.

On February 25, 2016, the FASB issued 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

NOTE 2 — SHAREHOLDERS' EQUITY

Securities

**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 the Company's Common Stock. Dividends have no cumulative rights and dividends will not accumulate if the Board of Directors does not declare such dividends.

**Series A Preferred.** 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.

**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 was 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, 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 March 31, 2016, the Company declared \$66,626 in dividends on outstanding shares of its Series B Preferred. The Company issued a total of 414,823 shares of Common Stock to pay \$68,441 of cumulative unpaid dividends. As of March 31, 2016, there remained \$66,626 in cumulative unpaid dividends on the Series B Preferred. These dividends were paid by issuing 483,691 shares in April 2016.

**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.

Issuances

On November 25, 2015, the Company and certain accredited investors entered into securities purchase agreements to purchase up to 30,000 shares of Series C Preferred for \$100 per share over the course of three separate closings. The Company issued an aggregate total of 10,000 shares of Series C Preferred and five-year warrants to purchase 2,333,333 shares of Common Stock, exercisable at \$0.15 per share, on November 25, 2015, 10,000 shares of Series C Preferred and five-year warrants to purchase 2,333,333 shares of Common Stock, exercisable at \$0.15 per share, on December 16, 2015, and 10,000 shares of Series C Preferred and five-year warrants to purchase 2,333,333 shares of Common Stock, exercisable at \$0.15 per share, on January 19, 2016. Each warrant contains a price-protection feature that adjusts the exercise price in the event of certain dilutive issuances of securities. Such price-protection feature is

determined to be a derivative liability and, as such, the value of all such warrants issued was recorded to derivative liabilities with \$548,022 being recorded between November and December 2015, and \$210,275 recorded in January 2016.

As described under Note 1 above, under the heading “Recent Developments,” on January 20, 2016, the Company and holders of certain Secured Notes in the principal amount of \$500,000 entered into Note Exchange Agreements, pursuant to which these holders exchanged the outstanding principal balance of their Secured Notes into an aggregate total of 4,413 shares of Series C Preferred and five-year warrants to purchase up to an aggregate total of 1,029,413 shares of Common Stock for \$0.17 per share. Each warrant contains a price-protection feature that adjusts the exercise price in the event of certain dilutive issuances of securities. Such price-protection feature is determined to be a derivative liability and, as such, the value of all such warrants issued, totaling \$92,768, was recorded to derivative liabilities.

During the three months ended March 31, 2016, the Company received \$30,000 upon the exercise of warrants to purchase 200,000 shares of Common Stock at \$0.15 per share.

During the three months ended March 31, 2016, holders of 1,049 shares of the Series C Preferred Stock converted those shares into 699,334 shares of Common Stock.

Table of Contents

During the three months ended March 31, 2016, the Company issued 200,000 shares of Common Stock in connection with certain consulting agreements. The Company expensed the fair value of the Common Stock issued of \$18,000 to consulting expense.

## NOTE 3 — WARRANTS

## Warrants

A summary of the Company's warrant activity for the three months ended March 31, 2016 is presented below:

	Warrants Outstanding	Weighted Average Exercise Price
Outstanding, December 31, 2015	66,919,107	\$ 0.18
Granted	3,362,746	0.16
Exercised	(200,000)	0.15
Expired	(61,453)	30.00
Outstanding, March 31, 2016	70,020,400	\$ 0.16

As of March 31, 2016, 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.)
1,474,435	\$ 0.38	1.28
1,120,479	\$ 0.25	1.49
1,164,476	\$ 0.19	4.51
1,029,413	\$ 0.17	4.81
65,231,597	\$ 0.15	3.92
70,020,400	\$ 0.16	3.85

Table of Contents

## NOTE 4 — DEBT

A summary of debt as of March 31, 2016, is as follows:

	Amount
Outstanding, December 31, 2015	\$ 1,336,819
Borrowings	-
Repayments	(403,778)
Conversions to Series C Preferred Stock	(500,000)
Outstanding, March 31, 2016	\$ 433,041

As described under Note 2, “Shareholder’s Equity” above, in January 2016, the Company entered into Note Exchange Agreements with the holders of Secured Notes in the aggregate principal amount of \$500,000, pursuant to which the Secured Note holders exchanged the outstanding principal balance of their Secured Notes into an aggregate total of 4,413 shares of Series C Preferred and five-year warrants to purchase up to an aggregate total of 1,029,413 shares of Common Stock for \$0.17 per share.

## 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, 2016, the total outstanding on the line-of-credit approximated \$78,000 and the Company did not have any availability to borrow. The line-of-credit bears interest at Prime rate 3.25% as of March 31, 2016 plus 4.50% 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 they are funded against.

Table of Contents

NOTE 5 — COMMITMENTS AND CONTINGENCIES

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

The Company leases its corporate office in Irvine, California on a one-year term. The term was set to expire on July 31, 2016. In January 2016, the Company moved into new offices and signed an addendum to its lease, which extended the term through December 31, 2016. Total rent expense related to the Company's operating lease for the three months ended March 31, 2016 was \$12,318. Total remaining payments on the lease through December 31, 2016 are \$42,687.

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.

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

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.

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 three months ended March 31, 2016. The Company had no Level 1 or 2 fair value measurements at March 31, 2016 or

December 31, 2015.

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 the dates indicated:

-11-

---

Table of Contents

	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 – March 31, 2016	\$ 5,362,699	\$ -	\$ -	\$ 5,362,699
Derivative liabilities – December 31, 2015	\$ 6,199,021	\$ -	\$ -	\$ 6,199,021

The following table presents the changes in recurring fair value measurements included in net loss for the three months ended March 31, 2016 and 2015:

	Recurring Fair Value Measurements Changes in Fair Value Included in Net Loss		
	Other Income	Other Expense	Total
Derivative liabilities – March 31, 2016	\$ 1,139,365	\$ -	\$ 1,139,365
Derivative liabilities – March 31, 2015	\$ -	\$ (142,922)	\$ (142,922)

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, 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	March 31, 2016
Derivative liabilities	\$ 6,199,021	\$ 303,043	\$ -	\$ (1,139,365)	\$ 5,362,699

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

## NOTE 7 – LICENSING AGREEMENTS

We originally 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”) (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.

During the quarter ended September 30, 2015, we entered into renewed Licensing Agreements with both Marvel Characters B.V. (“Marvel”) and Disney, pursuant to which we secured licenses to feature certain Marvel and Disney characters on bottles of AquaBall™ Naturally Flavored Water through 2017. Our agreement with Marvel expires on December 31, 2017, and requires payment of a 5% royalty rate on sales of AquaBall™ Naturally Flavored Water adorned with Marvel characters, paid quarterly, with a total guarantee of \$200,000. Our agreement with Disney expires on March 31, 2017, and requires payment of a 5% royalty rate on sales of AquaBall™ Naturally Flavored Water adorned with Disney characters, paid quarterly, with a total guarantee of \$450,870. We are also required to make an annual ‘common marketing fund’ contribution equal to 1% of our sales, and must spend a total of \$820,000 on advertising and promotional opportunities over the term of the agreement with Disney.



Table of Contents

NOTE 8 – SUBSEQUENT EVENTS

April Series C Offering

As described in Note 1 above, under the heading “Recent Developments,” on April 13, 2016 (the “Initial Investment Date”), the Company and one of the Company’s current shareholders, Red Beard Holdings, LLC (the “Red Beard”), entered into a Securities Purchase Agreement (the “April Purchase Agreement”), wherein Red Beard, together with any other signatories to the April Purchase Agreement (collectively, the “Purchasers”), agreed to purchase up to 50,000 shares of Series C Preferred for \$100 per share over the course of two separate closings (the “April Series C Offering”). The Company issued an aggregate total of 25,000 shares of Series C Preferred on the Initial Investment Date, and anticipates issuing 25,000 shares on or before July 12, 2016.

As additional consideration for participating in the April Series C Offering, the Purchasers will receive five-year warrants to purchase up to an aggregate total of approximately 33.3 million shares of Common Stock for \$0.15 per share. On the Initial Investment Date, the Company issued to Red Beard warrants to purchase approximately 16.7 million shares of Common Stock.

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, 2015.

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 18662 MacArthur Boulevard, Suite 110, 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 per share ("Common Stock"), is currently listed for quotation on the OTC Pink Marketplace 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, 2015.

Comparison of the Three Months Ended March 31, 2016 to the Three Months Ended March 31, 2015.

#### Net Sales

Net sales for the three months ended March 31, 2016 were \$583,298, compared with sales of \$764,975 for the three months ended March 31, 2015, a 24% decrease. The decrease in sales for the three months ended March 31, 2016 is principally attributable to two factors. First, we are shifting away from shipping directly to retailers in favor of building a direct store distribution network. This network is currently being built out. Second, we are phasing out our current formula of AquaBall in anticipation of our new preservative-free formula for which production is beginning in May 2016 with Niagara Bottling. Many of our new direct store distributors are waiting for the new formulation rather than taking in our current formulation and then transitioning to the new formula. We expect sales to remain consistent until the launch of our preservative free formulation from Niagara's bottling facilities in the beginning of the second quarter of fiscal 2016.

Table of Contents

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

Product Category	Three Months Ended March 31, 2016 (% of Sales)
AquaBall™	91%
Bazi®	9%

## Gross Profit (Loss) and Gross Margin

Gross loss for the three months ended March 31, 2016 was \$150,113, compared to gross profit of \$144,247 for the three months ended March 31, 2015. Gross profit as a percentage of revenue (gross margin) during three months ended March 31, 2016 was negative 26%. Our negative margin is the result of discounts given on our product as we transition out of our current cold-fill formulation to our new preservative-free, hot-fill formulation. We recorded an inventory reserve of \$110,000 which accounted for 19% of the negative margin for the quarter.

Gross margin will likely remain at current or below current levels through the second quarter of 2016, during the transition from our current bottling facilities to Niagara. We anticipate an increase in gross margin as early as the third quarter of 2016 as a result of decreased manufacturing costs once Niagara becomes the sole manufacturer of AquaBall™. At that time, Niagara will provide finished goods to the Company and bill the Company for the product as it is shipped to customers. Our costs will be much more stable upon commencing production with Niagara.

## Sales, General and Administrative Expense

Sales, general and administrative expenses were \$2,137,263 for the three months ended March 31, 2016, as compared to \$2,071,633 for the three months ended March 31, 2015. These expenses remained relatively consistent from last year, including employee-related expenses. Additionally, we recorded approximately \$184,000 in bad debt expense in the three months ended March 31, 2016, but had lower non-cash consulting expenses than the three months ended March 31, 2015.

## Change in Fair Value of Derivative Liabilities

The Company recorded a gain on the change in fair value of derivative liabilities for the three months ended March 31, 2016 of \$1,139,365.

## Interest Income

Interest expense for the three months ended March 31, 2016 was \$12,214, as compared to \$207,737 for the three months ended March 31, 2015. Interest expense consists of interest and fees due on promissory notes generated in the third quarter of 2015, most of which were converted into shares of Series C Preferred the January Note Exchange during the first quarter of 2016.

## Income Taxes

There is no income tax expense recorded for the three months ended March 31, 2016 and 2015, due to the Company's net losses. As of March 31, 2016, 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, 2016 was \$1,179,148 as compared to a net loss of \$2,278,045 for the three months ended March 31, 2015. This year-over-year decrease in net loss is primarily attributable to the difference in the change in fair value of derivative liabilities. On a per share basis, our loss was \$0.01 per share for the three months ended March 31, 2016, as compared to a loss of \$0.05 per share for the three months ended March 31, 2015.

-15-

---

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, 2015, 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, 2016, the Company incurred a net loss of \$1,179,148. At March 31, 2016, the Company has negative working capital of \$5,138,912 and an accumulated deficit of \$31,527,792. Although, during the year ended December 31, 2015 and the three-months ended March 31, 2016 the Company raised approximately \$15.5 million from the sale of shares of Series C Preferred and \$800,000 from the issuance of Secured Notes, additional capital will be necessary to advance the marketability of the Company's products to the point at which the Company can sustain operations, including satisfying our contractual obligations with Niagara. 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 are insufficient to fund our operating requirements for the next twelve months. As a result we will require additional capital to continue operating as a going concern. No assurances can be given that we will be successful. In the event we are unable to obtain additional financing in the short-term, we will not be able to fund our working capital requirements, and therefore will be unable to continue as a going concern.

Series C Offerings, Note Payments, Note Exchange and Issuance of Secured Notes

November 2015 Series C Offering. On November 25, 2015, the Company and certain accredited investors entered into securities purchase agreements to purchase up to 30,000 shares of Series C Preferred for \$100 per share over the course of three separate closings. The Company issued an aggregate total of 10,000 shares of Series C Preferred and five-year warrants to purchase 2,333,333 shares of Common Stock, exercisable at \$0.15 per share, on November 25, 2015, 10,000 shares of Series C Preferred and five-year warrants to purchase 2,333,333 shares of Common Stock, exercisable at \$0.15 per share, on December 16, 2015, and 10,000 shares of Series C Preferred and five-year warrants to purchase 2,333,333 shares of Common Stock, exercisable at \$0.15 per share, on January 19, 2016. Each warrant contains a price-protection feature that adjusts the exercise price in the event of certain dilutive issuances of securities. Such price-protection feature is determined to be a derivative liability and, as such, the value of all such warrants issued was recorded to derivative liabilities with \$548,022 being recorded between November and December 2015, and \$210,275 recorded in January 2016.

January 2016 Note Exchange. On January 20, 2016, the Company and holders of Secured Notes from the September 2015 Secured Note Offering in the principal amount of \$500,000 entered into Note Exchange Agreements pursuant to which the holders agreed to convert the outstanding principal balance of their Secured Notes into an aggregate total of 4,413 shares of Series C Preferred and warrants to purchase up to an aggregate total of 1,029,413 shares of Common Stock for \$0.17 per share. Neither holder received warrants to purchase shares of the Company's Common Stock in connection with their respective Secured Notes, and agreed to waive any unpaid interest accrued under the Secured Notes prior to the execution of the Note Exchange Agreement.

April 2016 Series C Offering. On April 13, 2016, the Company and Red Beard entered into a securities purchase agreement, pursuant to which Red Beard agreed to purchase an aggregate total of 50,000 shares of Series C Preferred for \$100 per share over the course of two closings. The Company issued 25,000 shares of Series C Preferred to Red Beard on April 13, 2016, and anticipates issuing the remaining 25,00 shares of Series C Preferred on July 12, 2016. As additional consideration, investors will receive five-year warrants to purchase up to an aggregate total of approximately 33.3 million shares of Common Stock for \$0.15 per share. On April 13, 2016, the Company issued to Red Beard warrants to purchase approximately 16.7 million shares of Common Stock.

#### 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, 2016, the total outstanding on the line-of-credit approximated \$78,000 and the Company did not have any availability to borrow. The line-of-credit bears interest at Prime rate 3.25% as of March 31, 2016 plus 4.50% 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.

Table of Contents

Off-Balance Sheet Items

We had no off-balance sheet items as of March 31, 2016.

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

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, 2015, filed on March 24, 2016. 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, 2016, 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.

Table of Contents

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

-18-

---

Table of Contents

ITEM 6. EXHIBITS

(a)	EXHIBITS
4.1	Third Amended and Restated Certificate of Designation, Preferences, Rights and Limitations of the Series B Convertible Preferred Stock of True Drinks Holdings, Inc., dated April 13, 2016, incorporated herein by reference from Exhibit 3.1 to the Current Report on Form 8-K filed August 19, 2015
10.1	Form of Securities Purchase Agreement, dated April 13, 2016, incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K, filed April 19, 2016
10.2	Form of Common Stock Purchase Warrant, dated April 13, 2016, incorporated by reference from Exhibit 10.2 to the Current Report on Form 8-K, filed April 19, 2016
10.3	Form of Amendment No. 1 to Registration Rights Agreement, dated April 13, 2016, incorporated by reference from Exhibit 10.3 to the Current Report on Form 8-K, filed April 19, 2016
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 16, 2016

TRUE DRINKS HOLDINGS, INC.

By: /s/ Kevin Sherman  
Kevin Sherman  
Chief Executive Officer and Director  
(Principal Executive Officer)

Date: May 16, 2016

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