

DNA BRANDS INC  
Form 10-K  
April 16, 2013

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

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

Commission file number 000-53086

DNA BRANDS, INC.

(Exact name of registrant as specified in its Charter)

Colorado

(State or Other Jurisdiction of  
Incorporation or Organization)

26-0394476

(I.R.S. Employer Identification No.)

544 NW 77th Street

Boca Raton, Florida

(Address of Principal Executive Offices)

33487

(Zip Code)

(954) 970-3826

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  
 No

Edgar Filing: DNA BRANDS INC - Form 10-K

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 29, 2012, the last business day of the registrant's most recently completed second fiscal quarter was approximately \$8,426,743 based on the average closing bid and asked prices of such stock on that date as quoted on the Over-the-Counter Bulletin Board.

---

---

---

## TABLE OF CONTENTS

	Page No.
<u>PART I</u>	
<u>Item 1. Business</u>	4
<u>Item</u>	
<u>1A. Risk Factors</u>	14
<u>Item</u>	
<u>1B. Unresolved Staff Comments</u>	25
<u>Item 2 Properties</u>	25
<u>Item 3. Legal Proceedings</u>	25
<u>Item 4. Mine Safety Disclosures</u>	25
<u>PART</u>	
<u>II</u>	
<u>Market for the Registrant's Common Equity and Related Stockholder Matters and Issuer</u>	
<u>Item 5. Purchases of Equity Securities</u>	26
<u>Item 6. Selected Financial Data</u>	26
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item</u>	
<u>7A. Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 8. Financial Statements and Supplementary Data</u>	32
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	33
<u>Item</u>	
<u>9A. Controls and Procedures</u>	33
<u>Item</u>	
<u>9B. Other Information</u>	33
<u>PART</u>	
<u>III</u>	
<u>Item</u>	
<u>10. Directors, Executive Officers and Corporate Governance</u>	34
<u>Item</u>	
<u>11. Executive Compensation</u>	35
<u>Item Security Ownership of Certain Beneficial Owners and Management and Related</u>	
<u>12. Stockholder Matters</u>	36
<u>Item</u>	
<u>13. Certain Relationships and Related Transactions, and Director Independence</u>	37
<u>Item</u>	
<u>14. Principal Accounting Fees and Services</u>	37
<u>PART</u>	
<u>IV</u>	
<u>Item</u>	
<u>15. Exhibits, Financial Statement Schedules</u>	39

Signatures

41

2

---

## FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

Information included or incorporated by reference in this filing may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology.

This filing contains forward-looking statements, including statements regarding, among other things, (a) our projected sales and profitability, (b) our Company's growth strategies, (c) our Company's future financing plans and (d) our Company's anticipated needs for working capital. These statements may be found under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," as well as in this Report generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" and matters described in this filing generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur.

Table of Contents

PART I

ITEM 1. BUSINESS

Company Overview and History

DNA Brands, Inc. (hereinafter referred to as “us,” “our,” “we,” the “Company” or “DNA”) was incorporated in the State of Colorado on May 23, 2007 under the name Famous Products, Inc. Prior to July 6, 2010 we were a holding company operating as a promotion and advertising company. We currently produce, market and sell a proprietary line of three carbonated blends of DNA Energy Drink®, Citrus, Sugar Free Citrus and Sugar Free Cranrazberry.

Our current business commenced in May 2006 in the State of Florida under the name Grass Roots Beverage Company, Inc. (“Grass Roots”). Initial operations of Grass Roots included development of our energy drinks, sampling and other marketing efforts and initial distribution in the State of Florida. In May 2006 we formed DNA Beverage Corporation, a Florida corporation (“DNA Beverage”), which was the entity that sold its assets and liabilities to Famous Products, Inc. in 2010. Our early years were devoted to brand development, creating awareness through heavy sampling programs and creating credibility among our then core demographic by concentrating marketing efforts on action sports locations and events (surf, motocross, skate, etc.).

Effective July 6, 2010, we executed agreements to acquire all of the remaining assets, liabilities and contract rights of DNA Beverage and 100% of the common stock of DNA Beverage’s wholly owned subsidiary Grass Roots Beverage Company, Inc. (“Grass Roots”) in exchange for the issuance of 31,250,000 shares of our common stock. The share issuance represented approximately 94.6% of our outstanding shares at the time of issuance. As a result of this transaction we also changed our name to “DNA Brands, Inc.”

Our principal offices are located at 544 NW 77th Street, Boca Raton, Florida, 33487, telephone (954) 970-3826. Our website is [www.dnabrandsusa.com](http://www.dnabrandsusa.com).

Current Business

As stated above, we currently produce, market and sell a proprietary line of three carbonated blends of DNA Energy Drinks®, including Citrus, Sugar Free Citrus and Sugar Free Cranrazberry. Until recently we also marketed and sold a line of beef jerky and meat sticks. We intend to re-launch the meat snacks during the 4th quarter of 2013 if and when we reach certain goals outlined below relating to the distribution of our energy drinks. We sell and market our products either directly to distributors for resale to retailers, supermarkets, convenience stores, and independents or through regional distributors servicing these same outlets. In addition, we maintain our own distribution operation which services parts of Florida.

During 2012 we experienced a severe shortage of liquidity which curtailed our sales and marketing efforts and was a primary factor in the material decline in revenues from previous years’ results. We believe a significant reason behind our cash shortage was as a result of the failure of a licensed investment banking firm to deliver on its promises. Specifically, on April 9, 2012, we executed an Investment Banking and Advisory Agreement with Charles Morgan Securities, Inc., New York, NY (“CMI”), wherein CMI agreed to provide consulting, strategic business planning, financing on a “best efforts” basis and investor and public relations services, as well as to raise us capital through the issuance of our debt or equity securities. CMI agreed to engage in two separate private offerings with the initial private placement offering up to \$1.5 million and the second private placement offering up to an additional \$2.5 million; each on a “best efforts” basis. Mr. Paul Taboada, the then President of CMI, made numerous promises, both verbally and in emails, assuring us that CMI had already raised all of the initial funds in the first offering. Despite such promises and assurances that they would successfully raise funding for us, CMI did not deliver these funds to us

as promised but only raised an aggregate of \$119,255, which was not sufficient to meet our needs to support sales efforts and marketing efforts.

## Table of Contents

In connection with this agreement we issued CMI or their assigns 750,000 shares of our Common Stock valued at \$0.36 per share or a total value of \$270,000 to Charles Morgan Securities, plus \$84,128 in additional fees, commissions, non-accountable expenses and their legal fees. As of the date of this Report we are considering taking action against both CMI and Mr. Taboada, once we have the financial resources to do so.

### Rebranding

In May 2013 we intend to undertake a major rebranding and launch of our products. New vibrant graphics have been created to reflect and take advantage of our DNA name. At the same time we will introduce three new flavors to complement our award winning citrus and sugar free citrus energy drinks. The new energy drink flavors are: (i) Original - A unique combination of Red Bull® and Monster® energy drinks, our principal competitors, but we believe to be better with no aftertaste; (ii) Cryo- Berry – a refreshing mix of cranberry and raspberry; and (iii) Molecular Melon – a cool and refreshing taste. We are also launching a line of three milk based ready-to-drink energy coffees, Mocha, Latte and Caramel Machiato. The energy coffee market is a category segment that we believe is on the rise and which has been heavily requested by distributors.

Rebranding efforts will begin in several geographic regions based upon opportunities that include retail schedules, store sets, seasonality and distributor needs. Our re-branding efforts will initially be targeted at markets where we expect the fastest turn-around. This rebranding will be concentrated on the Midwest, Mid-Atlantic and Northeast regions of the US. While no assurance can be given, in addition to the distribution networks that service major convenience store chains and independents we anticipate that our pre-selling efforts will lead to direct sales to the larger retail operations. We have entered into discussions with large retailers, including Casey's, Dollar General and Wal-Mart. Currently, no definitive agreements are in place with these companies and no assurances can be provided that any definitive agreement will be reached in the future. It is our goal to have nationwide distribution by 2015 provided we are able to obtain the financing necessary to accomplish this objective. There are no assurances that this will occur within the time parameters referenced herein, or at all.

Currently we are in over 400 Circle-K locations, 70 Race-Trac locations and several hundred independent convenience store locations in Florida. We recently gained authorization for product placement from Piggly-Wiggly and Save More stores in Tennessee, as well as Quick-Trip Stores in Texas. Several new distributors have recently agreed to offer our products, including All Day Distributing in Tennessee, Kimbell Distributing in Fort Worth, Texas and Sunrise Distributing in Arkansas and Missouri. We believe these new distribution agreements occurred as a direct result of our retaining a new Vice President of Sales with significant prior experience and success in marketing and selling energy drinks. We expect that new distributors will continue to be added over the coming months.

In an industry where only 5% of new companies survive we feel our success will be based upon a methodical approach. We believe that building a brand is like running a marathon and not a sprint. We started out with the idea that energy drinks could be functional and delicious tasting at the same time. At our inception we made a conscious decision not to follow the industry leaders taste profile and created energy drinks to set us apart from the competition. In January 2013 these efforts were acknowledged for the second time in three years with receipt of the "1st Place "Platinum Award" as the best tasting energy drink at the prestigious World Beverage Competition™ held in Geneva, Switzerland. More than 30 countries and over 10,000 entrants were submitted in all beverage categories.

As we learned through trial and error, there is a severe lack of meaningful brand-building distribution options available to new non-alcoholic beverages in Florida. This fact forced us to create our own Direct Store Distribution (DSD) entity, Grass Roots Beverage, which was formed in May 2006. We believe having our own DSD has given us insight into what is required from both a manufacturer's and distributor's standpoint to successfully build a beverage brand.



Through rebranding and expansion efforts we are currently seeking mainstream acceptance by marketing our products based upon their exceptional taste, which we believe separates our products from our competitors. Previously, our marketing focus was on the action sports community where a majority of energy drinks were sold and we committed heavily to marketing that demographic. We have been the “title” sponsor of a factory Yamaha AMA super cross team the “DNA Shred Stix Star/Yamaha Racing Team.” AMA Motocross/Supercross is only second to NASCAR in motor sport attendance. While we received documented brands exposure exceeding \$15,000,000, this did not result in corresponding revenues and profitability. We are confident that our revised marketing campaign will provide the positive results that both our management and our investors expect.

## Table of Contents

### Recent Developments

While no assurances can be provided, our management believes that we are on the verge of explosive growth. In support of this contention below are several recent events that have occurred to foster this belief:

- I. **Rebranding.** Energy drinks have evolved into a mainstream product. What was once a product geared to a younger consumer now appeals to a much broader base and has become a \$9.75 billion market according to Convenience Store Products (CSPnet.com, April 2, 2013). In order to appeal to and capture a greater percentage of the market it became necessary for us to take certain affirmative steps including gearing our marketing efforts to emphasize the great taste of our products, as well as to update our can graphics. Before doing so we sought out the advice of the top industry beverage professionals and graphic designers experienced in the creation and launching of numerous brands. Our new can graphics have received a very positive response from distributors and retailers alike.
- II. **Expansion of Product Line.** Building upon the success of our award winning citrus flavor we have created four new energy drink flavor profiles and three brand new ready-to-drink energy coffees. Line expansion has many benefits not the least of which is the ability to command a larger shelf presence emphasizing our brand name. With additional products we will have a larger shelf presence in two separate drink segments, energy drinks and RTD coffee.
- III. **Distribution Opportunities.** Subject to our ability to raise additional capital it is anticipated that we will launch our new products in the spring of 2013 through distributor networks covering several regions which will include the states of TX, TN, MS, AK, ND, SC, MN, and FL. Several additional states in the Midwest, Mid-Atlantic and Northeast regions will be launched over the summer months. In addition to the distribution networks that service major convenience stores chains and independents we are making an effort to engage in direct sales efforts to the larger retail operations including Casey's, Dollar General and Wal-Mart who in many instances demand product to be shipped to central distribution centers where they disburse to their locations.

### Products

We produce, market and sell a proprietary line of five carbonated blends of DNA Energy Drink® (“DNA®”), and expect to increase our offered products to include a line of three milk based DNA Energy Coffee drinks within the next few months. Each of these drinks is sold in a 16 ounce can styled with the name DNA® prominently placed and a corresponding logo that includes our marketing logo, a double helix. We believe the name DNA, our new edgy color schemes, logo and other graphics stand out on store shelves and coolers. Retailers, distributors and industry professionals we have spoken with have offered high praise to our new look and flavors. Our product flavors include:

#### DNA Energy Drink®

Cellular Citrus –Two time winner of World’s Best Tasting Energy Drink - the taste of real oranges with specific citrus nuances;

Cellular Citrus Zero Sugar - High end orange soda taste but with a jolt of energy;

Molecular Lemon – Velvety and smooth lemon lime mix

Cryo Berry – Mixture of cranberries and raspberries, a blast to drink; and

Original - Our unique proprietary blend taste is sure to resonate favorably with the Red Bull® and Monster® consumer.

#### DNA Energy Coffee

Mocha  
Caramel Machiato  
Vanilla Latte



## Table of Contents

### Bag-in-the-Box

BIB is an on premise (bars and restaurants) economical alternative to the # 1 selling energy brand “Red Bull®” in the world.

### Energy Drinks

We believe we have formulated DNA® to the highest flavor profile standard of any of the other energy drink brands in the industry. We also believe DNA® also competes on at least an equal level with any of the name brands on a functionality profile. We have attempted to incorporate the best and highest quality ingredient mix in our proprietary blends which have been formulated to tap into the body’s seven energy sources to maximize energy and awareness levels that result in improved performance on demand.

DNA® makes an immediate and lasting difference in elevating energy levels of consumers. This category is the only one that creates an immediate expectation of an effect on consumer bodily functions. There are many energy drinks that have compromised functionality for cost savings. We believe they have learned all too late that if an energy drink does not deliver on its promise for an immediate and lasting increase in energy levels, it is no more than an expensive soda. Energy drink consumers will go to another reliable brand. We believe one of the several principal reasons new energy drinks entrants commercially fail soon after introduction is because they use inferior ingredients and as a result do not provide the expected results.

DNA® is formulated to ensure that DNA® drinkers will, upon first drink, experience a taste that is “delicious” beyond the typical expected institutionalized medicinal taste that has been the main negative reaction associated with the vast number of brands of energy drinks, including the major brands. We have not sacrificed taste for functionality and performance which we believe gives us a major competitive advantage over other energy drinks and has awarded us with high accolades from distributors and industry insiders, as well as from numerous action sports publications. These early taste accolades for DNA® have converted numerous energy drink consumers to us in those geographic areas of our distribution. We believe that on taste tests alone we are able to quickly convert consumers from other brands. In fact, our tag line, “Tastes Like No Other,” was given to us by a first time consumer in our initial sampling program. Our taste and functionality profiles have begun to create a positive response in the marketplace, including with distributors and with convenience store chains that dominate energy drink distribution. DNA® has also captured industry attention at the highest levels. DNA was awarded the 1st Prize “Platinum Award” by the World Beverage Competition for 2010 which was held in Geneva, Switzerland. More than 30 countries participated and more than 10,000 entrants in all beverage categories submitted for judging. One winner from each category was selected in double blind tasting tests. Lightning then struck for the second time when we again received the same award in December 2012.

We are experimenting with line extensions on these blends and also on completely new items that are in the process of being tested. We will not introduce them until significant distribution and wide name recognition is obtained for our core line offerings.

## Table of Contents

### Sales and Marketing

DNA Energy Drink® and coffee products provide immediate and sustained energy of all groups of people in need of an energy lift to meet the challenges of the day. These groups may include parents, office workers, truck drivers, postal carriers, laborers, students, night watchmen and scores of others in every walk of life. Our new marketing efforts will be focused on re-introducing the ‘new’ DNA to the mass market while keeping our original demographic loyal to the brand. As the energy drink market continues to show double digit growth more product choices are being added. An interesting fact is that energy coffee drinks are also trending up in large part due to it attracting a younger consumer.

In order to reach a wider demographic we will utilize several methods including viral campaigns, grass roots sampling programs, tab and coupon redemption, media advertising and regional athlete/celebrity awareness programs. We do not believe this change in our marketing efforts will have any impact upon our existing loyal base of customers, but we do expect this new campaign to allow us to introduce our product to the general population.

### Viral Component

The objective of our viral program is to accelerate potential in a competitive segment of the beverage market. We want to make DNA® an acronym for energy drinks in every market we enter and use our target market as our brand evangelists to spread the word that DNA® tastes good and is cool to drink. The viral component will be utilized in addition to our more conventional methods like brand sampling and sponsorships. It is what we do to communicate our message on a perpetual basis to accelerate trial of DNA® in our target market.

### Sampling Programs

We train our people to distinguish the benefits of DNA® from other brands in the market. We have outfitted DNA® vehicles, apparel, and signage and take them to locations where people congregate whether it is schools, concerts, festivals, grand openings, conventional sporting events, and extreme sports venues and begin to systematically sample DNA® with our “Cans In Hands” program.

Our sampling techniques are programmed to create interest, trial and demand. We engage consumers about their experiences regarding taste and functionality. We acquire lists of distributors’ store accounts and begin a very organized sampling program both outside and within stores which are designed to create requests for our products before it is available.

The objective of our “Cans In Hands” sample programs is not only to build awareness, introduce newcomers to the category and to our brand but also to compete with the established brands on taste and functionality. We want the consumer to experience and believe that DNA® tastes better and is as effective, if not more effective than all the other brands. We then extend our expansion to the next geographic target.

When our sales team calls on beverage distributors and convenience store retailers in areas where we have begun to market our products, whether chain or independently owned, we believe we are already known to them. Because of the grass roots pull we have created for DNA®, they have been eager to accept meetings with us as we represent a legitimate revenue opportunity for them. Today, we are receiving calls from a wide range of outlets which we believe is occurring as a result of our grass roots efforts. This effort has built good-will with distributors and retailers who frequently express their appreciation to us for developing awareness, expectation and demand ahead of the date the product is on the shelf.

We plan to accelerate the expansion of our community with our web site which will also be a destination point we will use to aggregate community as a one stop resource to learn about all that is going on in various activities, from entertainment to action sports. During 2013 we expect to use the “DNA Report” as an aggregator of all the current action sports stories and events, and drive our target market to the site in all our messaging. Our site will be the place to go to learn about what is going on in action sports.

## Table of Contents

We have successfully developed DNA Facebook, Twitter, My Space, Hookit.com, Sponsor House and a fully interactive website. Our web site includes videos of our teams' performances, daily updates, events and relevant brand news and also includes music components and music tours. We recognize that this is a key component to building a brand.

Although we are expanding our focus to attract and encompass a much larger demographic we will attempt to continue to maintain and grow our original target demographic, the 18-39 year old according to numerous industry publication who still makes up the largest percentage of energy drink consumers. This group tends to be on the cutting edge of style and have a profound influence on cultural trends and fashion.

These action sports include:

- Surfing
- Wake Boarding
- Skim Boarding
- Skate Boarding
- BMX
- Motocross/Supercross
- Free Style Motocross

## Distribution

In Florida, Grass Roots ([www.grassrootsbeverage.com](http://www.grassrootsbeverage.com)) provides distribution services to Circle-K, Race Trac and independent retailers. Currently, Grass Roots has six company branded vehicles. Ralph Sabella, our Vice President of Operations, manages the sales people and sampling teams.

In addition to implementing our events support programs and on street and in-store sampling programs, Grass Roots representatives also call on action sports shops and individual or small convenience stores in Florida. They are trained on how to ask for the order including offering our initial trial offer of three cases and an additional one for free. Most convenience stores agree to take our offer. Our staff provides all of the customer support and repeat orders which they have been trained to promote.

Our goal in Florida for the next 12 months is to continue to secure additional distribution among the chain convenience, pharmacy and grocery locations such as Chevron (1,000 locations), 7 Eleven (750 locations), Gate Petroleum (150 locations) and Publix (1100 locations), among others. In addition we must increase our points of distribution (PODS). Currently we are in approximately less than 10% of the available locations in Florida and seek to close out the 2013 year with a minimum of 30%, as well as increase our same store sales by 50% through increased marketing, advertising and sampling efforts. We are actively pursuing the remaining accounts. There can be no assurance that we will be successful in raising the required capital to achieve these goals or that if we do obtain such capital, whether we will be successful.

In January 2007 we began a business relationship with Circle-K and have been able to maintain that relationship with annual contract extensions throughout 2013. For 2013 our store presence has been expanded to include 5 facings. We intend to leverage Circle K as a means to acquire other similar distribution. In 2011 we began to service Race-Trac convenience/gas locations and are approved through 2013. Additionally, Grass Roots continues to service independents and chain stores throughout a major portion of Florida.

## Advertising

Our budget as it relates to traditional media advertising in the energy drink market is relatively small. In 2012 we spent \$141,000 in marketing and selling expense due to our cash constraints. Our current anticipated budget of \$200,000-\$400,000 will not support traditional advertising on television or radio that would support our growth. We cannot and will not be able to afford to compete by matching our competitor's budget for this type of exposure until we successfully raise additional equity capital. However, we do recognize its importance and are close to being able to address these markets in what we believe is an economical and inventive way. One way we have been able to accomplish this is through arrangements with recognizable personalities. We have developed a strong marketing relationship with radio talk show host "Bubba-The-Love-Sponge" ("Bubba"), who is broadcasted nationally. This arrangement has brought significant attention to DNA Energy Drinks. In return we have developed, produced and are selling DNA CranRazberry in a commemorative "Bubba Army" can, with a portion of the proceeds going to Bubba Clem's "Fallen Officer Foundation."



## Table of Contents

We have completed and test marketed a 30 second TV commercial. We intend to launch the commercial virally and through cable networks in selected tested markets upon funding. We are looking at blending TV, radio and Internet as our source for advertising. We are also looking at compiling all of the action sport web sites and creating a linked presence in each of them. We are developing search engine optimization and key Google and Yahoo ad words to ensure that DNA® is one of the first places to go when energy drinks are searched online. This process is being handled by our own in-house IT specialist who is also responsible for keeping our website current and Facebook, Twitter, MySpace, Hookit and Sponsorship current and interesting. We intend to expand these programs as a strategy of high effective, low cost advertising.

We believe that how we communicate our message must be integrated and coordinated among all of the above initiatives to deliver the message and create the necessary reach. A top down approach as employed by the elite brands is capital intensive and will not allow us to exploit the window of weakness in elite brands' marketing strategy to enter the market. We believe we must communicate with our target market from the ground-up.

While no assurances can be provided, we are confident our products can compete on taste and functionality which we hope will allow us to convert a portion of our competitor's market share. However, their vast marketing dollars and existing national presence make it unrealistic to compete successfully with them on an initial national level for their customer base. To succeed, it is our intention to build and maintain prominent positions in each successive phased geographic location we enter. This means our products must have prominent shelf space in the vast majority of stores that the elite brands occupy in each state we enter. Therefore, we understand we must be competitive on quality; we must expand awareness to accelerate trial, and must provide an appealing value proposition to our customers.

We will not extend our presence beyond our human resources, production capability, and capital means to support each market to the levels we promise to our distributors and retailers. If and when we secure a prominent position in a target territory using our grass roots marketing strategy, we will leverage our relationships and achievements to move to the next area and repeat our programs there.

## Manufacturing and Production

### Energy Drinks

Our energy drink products are based on a proprietary formulation we have created with our contract development group. Our energy drinks are currently manufactured at Seven-Up Snapple Southeast ("SUS") f/k/a/ Southeast Atlantic Beverage in Jacksonville, Florida, pursuant to a confidentiality agreement that is intended to protect our proprietary information. We have recently added Cott Beverages USA as an additional co-packer. Both Cott and SUS are full service contract manufacturers and also manufacture beverages for Welch's Sunkist, Hawaiian Punch and many others. These facilities own all of the manufacturing equipment and were identified by us as having an excellent record for contract manufacturing and the capacity to meet all of our initial growth expectations in the southeastern United States. Cott and SUS have manufacturing plants located throughout the United States, which is expected to provide us a significant benefit if and when our operations expand. As we expand geographically we believe we can use any of these manufacturing plants to expand capacity and save costs on transportation. We believe these facilities can manufacture enough cases to meet all of our immediate needs in the Southeast. Production turnaround time is 14-30 days. Our terms of payment are C.O.D. We do not believe there are any problems that may obstruct the procurement of raw materials. Raw materials are ordered 2-4 weeks in advance. Payment terms for ingredients are 30 days after receipt.

## Table of Contents

Our 16 oz. cans are manufactured by both Crown Cork and Seal and Rexam Can Company at their Pennsylvania and North Carolina facilities respectively. Both Crown and Rexam (formerly American Can Company), are two of the largest producers of cans in the world. Estimated turn-around time varies from season to season and runs between 14-30 days. The manufacturer has the capacity to produce over 50 billion cans per annum. Upon completion, the cans are shipped by truck to the contract manufacturer where they are filled. We do not believe there are any problems in procuring the raw materials to manufacture the cans.

We purchase our raw materials for our energy drink from several producers, including Energy Blend from Fortitech, Inc. of Schenectady, NY. Our flavors come from Seethness Greenleaf in Illinois. Prices are fixed for a period of one year and all bought against purchase orders. The raw materials portion of our beverage represents approximately 33% of the cost of goods sold of our product. We receive delivery of shipment at contract manufacturers (cans & producer) within 14 days of our order for which we pay C.O.D.

Can costs represent approximately 33% percent of our cost of goods sold.

## Coffee Drinks

As with our DNA Energy Drinks®, our three flavors of coffee drinks are also based on proprietary formulas created with a development group, in this case Dairy Farmers of America located in Missouri. A retort process which is a form of sterilization used in pasteurization is utilized during the production to make the 16 once milk based product shelf stable for a 14 month period. Because of the retort process special coating is required and they are supplied by Ball Corporation of Colorado, another of the world's largest can producers.

## Industry Overview

The Global Sports and Energy Drink Market is projected to be a \$52 billion market by 2016 according to BEVNET® October 21, 2012, the beverage industry's source. According to Packaging Digest, February 13, 2013 sales of energy drinks and shots topped \$12.5 billion in 2012 with about 80% attributed to energy drinks. The same report states that in five years, that figure could reach \$21.5 billion. According to Mintel, a product research firm, we can increase 13% growth for years 2013-2014. Ready-to-drink coffee and tea showed 22.69% gains for the 52 week period through January 27, 2013. Energy drinks, ready-to-drink coffee, ready-to-drink tea and sports beverages grew aggressively in 2012 while carbonated soft drinks stumbled again according to Beverage Marketing, the leading provider of consulting, financial services and data to the global beverage industry. For the first time, energy drinks have outsold bottled water according to the Beverage Industry 2012 State of the Industry report. The report stated that during the 52 week period ending April 15, 2012 energy drinks sale generated more revenue than bottled water sales.

The Sports and Energy Drink beverage category is made up of a line of functional beverages that address specific health and performance needs. These beverages range from Gatorade, introduced in the 1960's initially to replace electrolytes for athletes, to drinks filled with vitamins and nutrients to improve energy, awareness and hydration, among numerous other functions. According to BEVNET.com, Inc, a leading trade source in the industry, this segment is rapidly gaining in popularity over carbonated sodas and juices as people are becoming more health conscience and seeking an edge to improve their performance either athletically or to handle their daily challenges with more vigor. New categories are constantly finding ways into the New Age beverage sector. The Bevnet report also indicated that the sport and energy drink category will continue to penetrate new and untapped markets such as baby boomers and senior citizens. Worldwide sales with European consumption leading the way is expected to grow at a rapid pace within the next five years.

The entire beverage U.S. liquid refreshment beverage market grew by 0.9% according to preliminary data from Beverage Marketing Corporation. This marked the second year of growth after two consecutive declines with total

liquid refreshment beverage volume exceeding 29.5 gallons in 2011. Larger, more established segments such as carbonated soft drinks and fruit beverages failed to grow once again.

Industry experts appear to be in agreement that the energy drink market is and continues to be the fastest growing segment of the functional drink market. Energy drinks were introduced initially in the United States by Red Bull in 1997 after its major success in Europe. By 2001, the energy drink market had developed to almost \$400 million in retail sales. By 2005, it had grown to approximately \$4 billion. In 2011 the Energy Drink produced segment alone grew to \$7.7 billion in scanned data and this trend has continued. Energy drinks as a category are no longer considered a fad. It has been on a steep growth curve since its introduction over 10 years ago. New brands are constantly being introduced to meet the growing demand.

Table of Contents

In 1998 Red Bull, the largest selling energy drink in the world, introduced its Red Bull Energy Drink in the United States to a younger demographic, ages 18-39, of people who are highly active and in need of energy. Despite injecting significant funds into its initial marketing campaign, there were many obstacles to overcome including a high price barrier of \$2 and more for an 8 ounce can and a medicinal taste. Red Bull developed a highly disciplined training program for their employees and introduced Red Bull in several key major trend setting markets. They sampled heavily, made it available initially in the major and most popular night clubs and events. With discipline, Red Bull demonstrated that with its high quality ingredients, it provided consumers with the energy lift they wanted. They were able to define the category and set price point acceptance among a highly motivated and developing consumer base. Beyond its initial target they expanded their marketing to include all those people in need of energy in their daily routine.

Approximately 85% (NAACS Jan 31, 2012) of all purchases of energy drinks at retail are sold through the 148,126 individual and chain convenience store outlets and gas stations with attached convenience stores in single serve cold cans. Moreover, the top brands are finding their way onto supermarket shelves and also into branded coolers. Other sales outlets included among the 739,441 total combined retail/on-premise locations are restaurants, bars, actions sport shops, grocers, pharmacies, parks, beaches and generally everywhere drinks are sold. Our principal focus has been and will continue to be on convenience stores. Once we have made inroads into convenience stores in a particular territory, we will work with Royal's broker network and with relevant distributors to move into supermarket, mass market and pharmacy stores as outlets for DNA®.

Top Convenience Store States (National Association of Convenience Stores "NACS" January 2012)

State	Stores
Texas	14,776
California	10,763
Florida	9,510
New York	7,929
Georgia	6,535
North Carolina	6,269
Ohio	5,359
Michigan	4,865
Illinois	4,553
Virginia	4,451

The typical consumers of energy drinks are 18-39 year olds, active in or fans of action sports (Bev Net, Nacs, Convenience Store News, Supermarket news). Energy drink users consume drinks before, during and after activities and at any other time when an additional source of energy is wanted. Although there is brand loyalty, energy drink purchasing continues to be in good portion an impulse purchase in single cans. With the introduction of the category into large retail outlets, energy drinks are now being sold in multi-can cartons, which serve to lessen some of the impulse buying and augers well for the category as it competes with other beverage categories including carbonated soda and coffees. According to the Mintel Oxygen Report's Global Market Navigator, August 2010, American's consume 3.05 liters of energy drinks per capita each year, which translates into approximately two cans per day for energy drinkers. On the heels of Red Bull's success, numerous other brands were developed.

Numerous major beverage companies have no presence in this category but do have large distribution and marketing capacity to leverage. We believe that that the typical energy drink consumer does not connect to the corporate culture that these large beverage companies carry with them. Therefore, it is viewed as a more logical approach that a larger company would acquire an up and coming brand in order to acquire a strong foothold and presence in this side of the industry.



## Table of Contents

To date, the larger beverage companies have not purchased energy drink companies but have made significant contributions to their distribution. Vitamin Water, in the functional beverage category, is a huge success story with Coca Cola purchasing the company for 12 times revenue at a sale price in excess of \$4 billion in 2007. Hansen Natural Beverages was a regionally successful carbonated soda company. It was only when Monster Energy was developed and launched that its sales exceeded \$1 billion per annum. The other top brands are controlled by Coke and Pepsi. We believe that there is room for other energy drink companies to build a successful brand not by competing dollar for dollar with the elite brands, but by seeking a place of prominence in store shelves and with consumers in our target market alongside these elite brands based on the quality of our taste and functional profile, and by establishing intimate ground roots recognition and adoption within DNA's target demographic at low and controlled costs.

### Employees

Currently we have 10 full time employees of which two are executive management. 2 in investor relations, 4 are employed in direct sales and sampling who are predominantly on the road and 2 are in administrative support and fulfillment. Additionally we use contract labor and consultants on an as needed basis primarily in the areas of administration, accounting, investor relations, and on a limited basis, in sales and marketing.

Our employees work at will and are not represented by a collective bargaining unit. We believe our relationship with our employees is good. We require all our employees and consultants to sign a confidentiality and non-disclosure agreement. Our success relies on our ability to hire additional employees, particularly on the local sales side. We believe there are numerous quality people to choose from throughout our area of targeted expansion.

As we grow we anticipate in the near future we will require a national marketing director, an in-house IT director and regional sales directors for each region and a Chief Financial Officer/controller.

### Competition

We are competing with publicly and privately held companies, many of whom having greater resources, both financial and otherwise, than the resources presently available to us. The energy drink market is dominated by five brands including:

**Red Bull:** With estimated worldwide sales in excess of \$5 billion, Red Bull is the largest participant in the energy drink sector. Red Bull is owned by Dietrich Mateschitz, who introduced it to the European market in 1987. Red Bull's distributed more than one billion cans in 2001 without owning a single plant, truck or retail outlet. The taste profile of Red Bull is along medicinal lines with its ingredients being of standard fare. Due to the lack of competition, Red Bull was able to build a strong a brand and a loyal client base. Red Bull caters to the action sports community, on-premise liquor sales, and a "yuppie" contingency. Red Bull is sold through Red Bull exclusive regional distributors in more than 50 countries worldwide.

**Monster Energy:** Monster Energy is owned by Hansen's Natural Beverage and according to Symphony/IRI generated \$1.4 billion in revenue from US distribution in food/drug/convenience stores/mass merchandisers excluding Wal-Mart in 2011. Monster has risen to become the second largest energy drink producer behind Red Bull building a predominately strong core following through the sponsorship of major action sports events and teams.

Rock Star: Rock Star Energy is the third largest producer in the energy drink category with slightly under \$1 billion in revenue. Rock Star is a California/Nevada based operation with strong ties to the entertainment world. Rock Star also has shut off its distributors in favor of a national distribution relationship with Coca-Cola.

Full Throttle: Full Throttle is in fourth position behind Red Bull, Monster and Rock Star. Full Throttle is owned by Coca-Cola but does not compete nearly as well as the top three, we believe because the corporate image behind Coke and Pepsi is viewed as contrary to the images of “cool and credible” that permeates among a younger target market.

AMP: AMP is a new Pepsi product and rounds off the top of the line in the category. We believe it sells on par with Full Throttle and has image issues for similar reasons we raised for Full Throttle.

## Table of Contents

These five brands represented more than 90% of the total dollar sales in the energy drink category in 2010 as reported by Symphony/IRI, an industry beverage publication. The data does not include mass market retailers.

The elite brands today also trade on functionality. However, it is principally the recognition they are able to build with extremely high marketing dollars that maintain their status in the category. Several brands are expanding their SKU's into new energy drink categories including children energy drinks, coffee energy drinks and high concentration long lasting energy drinks as category line extensions. As of the date of this report we are also anticipating development of these new products, which we expect to begin offering in July 2013.

We believe there are several avenues on which we compete including on our high taste and functional profiles. At \$1.89-\$1.99 per 16 ounce can, we are priced at retail at up to \$0.50 less than the existing top brands (even more so with Red Bull as they sell an 8 ounce can at over \$2.49 per can) giving us an advantageous value proposition which is important on three levels: On the distributor level in which the distributor pays less per case for our product and can sell it for more of a profit than other top brands; on the retail level in which retailers are finding they can sell our product over our MSRP but under the retail price suggested by the elite brands to obtain higher margins per ring, and; on a consumer level with those having tried and liked DNA® or heard about it, who are more likely to impulsively reach for it when they see a price of up to \$0.50 lower.

## Government Regulations

While we do not manufacture our products, the production and marketing of our licensed and proprietary products are subject to the rules and regulations of various federal, state and local health agencies, including in particular the U.S. Food and Drug Administration ("FDA"). The FDA also regulates labeling of our products. From time to time, we may receive notifications of various technical labeling or ingredient reviews with respect to our licensed products. We believe that we have a compliance program in place to ensure compliance with production, marketing and labeling regulations.

Packagers of our beverage products presently offer non-refillable, recyclable containers in the U.S. and various other markets. Some of these packagers also offer refillable containers, which are also recyclable. Legal requirements have been enacted in jurisdictions in the U.S. requiring that deposits or certain eco-taxes or fees be charged for the sale, marketing and use of certain non-refillable beverage containers. The precise requirements imposed by these measures vary. Other beverage container related deposit, recycling, eco-tax and/or product stewardship proposals have been introduced in various jurisdictions in the U.S. We anticipate that similar legislation or regulations may be proposed in the future at local, state and federal levels in the U.S.

## ITEM 1A. RISK FACTORS.

An investment in our Common Stock is a risky investment. In addition to the other information contained in this Report, prospective investors should carefully consider the following risk factors before purchasing shares of our Common Stock. We believe that we have included all material risks.

Our independent accountants have expressed a "going concern" opinion.

Our financial statements accompanying this Report have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The financial statements do not include any adjustment that might result from the outcome of this uncertainty. We have a minimal operating history and minimal revenues or earnings from operations. We have no significant assets or financial resources. We will, in all likelihood, sustain operating expenses without corresponding revenues for the immediate future. See "Description of Business" and "Management's Discussion and Analysis of Financial Condition –



Liquidity and Capital Resources.” There are no assurances that we will generate profits from operations.

Table of Contents

We have not generated profits from our operations.

We incurred net losses of \$4,444,344 and \$4,472,848 during the years ending December 31, 2012 and 2011, respectively. Based upon our current business plan, our ability to begin to generate profits from operations is dependent upon our obtaining additional financing and there can be no assurances that we will ever establish profitable operations. As we pursue our business plan, we are incurring significant expenses without corresponding revenues. In the event that we remain unable to generate significant revenues to pay our operating expenses, we will not be able to achieve profitability or continue operations.

Our ability to continue as a going concern is dependent on raising additional capital, which we may not be able to do on favorable terms, or at all.

We need to raise additional capital to support our current operations and fund our sales and marketing programs. We estimate that we will need a minimum of \$1.5 million in additional capital in order to generate profits from operations. We can provide no assurance that additional funding will be available on a timely basis, on terms acceptable to us, or at all. If we are unsuccessful in raising additional funding, our business may not continue as a going concern. Even if we do find additional funding sources, we may be required to issue securities with greater rights than those currently possessed by holders of our common stock. We may also be required to take other actions that may lessen the value of our common stock or dilute our common stockholders, including borrowing money on terms that are not favorable to us or issuing additional equity securities. If we experience difficulties raising money in the future, our business and liquidity will be materially adversely affected.

We do not currently have an external line of credit facility with any financial institution.

As indicated above, we have estimated that we need approximately \$1.5 million in additional capital to generate profits from operations. We have attempted to establish credit facilities with financial institutions but have experienced little or no success in these attempts due primarily to the current economic climate, specifically the reluctance of most financial institutions to provide such lines of credit to relatively new business ventures. We also have limited assets available to secure such a line of credit. We intend to continue to attempt to establish an external line of credit in the future, but there can be no assurances we will be able to do so. The failure to obtain an external line of credit could have a negative impact on our ability to generate profits.

Our financial results may fluctuate from period to period as a result of several factors which could adversely affect our stock price.

Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside our control. Factors that will affect our financial results include:

acceptance of our products and market penetration;

the amount and timing of capital expenditures and other costs relating to the implementation of our business plan;

the introduction of new products by our competitors;

general economic conditions and economic conditions specific to our industry.

As a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service, or marketing decisions or acquisitions that could have a material adverse effect on our business, prospects,

financial condition, and results of operations.

15

---

Table of Contents

We are dependent upon third party suppliers of our raw materials.

We are dependent on outside vendors for our supplies of raw materials. While we believe that there are numerous sources of supply available, if the third party suppliers were to cease production or otherwise fail to supply us with quality raw materials in sufficient quantities on a timely basis and we were unable to contract on acceptable terms for these services with alternative suppliers, our ability to produce our products would be materially adversely affected.

We rely on our distributors, retailers and brokers, and this could affect our ability to efficiently and profitably distribute and market our products, maintain our existing markets and expand our business into other geographic markets.

Our ability to establish a market for our brands and products in new geographic distribution areas, as well as maintain and expand our existing markets, is dependent on our ability to establish and maintain successful relationships with reliable distributors, retailers and brokers strategically positioned to serve those areas. Most of our distributors, retailers and brokers sell and distribute competing products, including non-alcoholic and alcoholic beverages, and our products may represent a small portion of their business. To the extent that our distributors, retailers and brokers are distracted from selling our products or do not employ sufficient efforts in managing and selling our products, including re-stocking the retail shelves with our products, our sales and results of operations could be adversely affected. Our ability to maintain our distribution network and attract additional distributors, retailers and brokers will depend on a number of factors, some of which are outside our control. Some of these factors include:

the level of demand for our brands and products in a particular distribution area;

our ability to price our products at levels competitive with those of competing products;  
and

our ability to deliver products in the quantity and at the time ordered by distributors,  
retailers and brokers.

We may not be able to meet all or any of these factors in any of our current or prospective geographic areas of distribution. Our inability to achieve any of these factors in a geographic distribution area will have a material adverse effect on our relationships with our distributors, retailers and brokers in that particular geographic area, thus limiting our ability to expand our market, which will likely adversely affect our revenues and financial results.

We generally do not have long-term agreements with our distributors, and we incur significant time and expense in attracting and maintaining key distributors.

Our marketing and sales strategy depends in large part on the availability and performance of our independent distributors. We have entered into written agreements with many of our distributors in the U.S., with normal industry terms of one year and automatically renewable for one year terms thereafter. We currently do not have, nor do we anticipate in the future that we will be able to establish, long-term contractual commitments from many of our distributors. In addition, despite the terms of the written agreements with many of our top distributors, there are no minimum levels of purchases under many of those agreements, and most of the agreements may be terminated at any time by us, generally with a termination fee. We may not be able to maintain our current distribution relationships or establish and maintain successful relationships with distributors in new geographic distribution areas. Moreover, there is the additional possibility that we may have to incur additional expenditures to attract and maintain key distributors in one or more of our geographic distribution areas in order to profitably exploit our geographic markets.

If we lose any of our key distributors or regional retail accounts, our financial condition and results of operations could be adversely affected.

We anticipate that, as consumer awareness of our brand develops and increases, we will continue to upgrade and expand our distributor network and accounts, we cannot be assured that we will be able to maintain our key distributor base which may result in an adverse effect on our revenues and financial results, our ability to retain our relationships with our distributors and our ability to expand our market and will place an increased dependence on any one or more of our independent distributors or regional accounts.

## Table of Contents

Because our distributors are not required to place minimum orders with us, we need to manage our inventory levels, and it is difficult to predict the timing and amount of our sales.

Our independent distributors are not required to place minimum monthly or annual orders for our products. In order to reduce inventory costs, independent distributors endeavor to order products from us on a “just in time” basis in quantities, and at such times, based on the demand for the products in a particular distribution area. Accordingly, there is no assurance as to the timing or quantity of purchases by any of our independent distributors or that any of our distributors will continue to purchase products from us in the same frequencies and volumes as they may have done in the past. In order to be able to deliver our products on a timely basis, we need to maintain adequate inventory levels of the desired products, but we cannot predict the number of cases sold by any of our distributors. If we fail to meet our shipping schedules, we could damage our relationships with distributors and/or retailers, increase our shipping costs or cause sales opportunities to be delayed or lost, which would unfavorably impact our future sales and adversely affect our operating results. In addition, if the inventory of our products held by our distributors and/or retailers is too high, they will not place orders for additional products, which would also unfavorably impact our future sales and adversely affect our operating results.

Our business plan and future growth is dependent in part on our distribution arrangements directly with retailers and regional retail accounts. If we are unable to establish and maintain these arrangements, our results of operations and financial condition could be adversely affected.

We currently have distribution arrangements with a few regional retail accounts to distribute our products directly through their venues; however, there are several risks associated with this distribution strategy. First, we do not have long-term agreements in place with any of these accounts and thus, the arrangements are terminable at any time by these retailers or us. Accordingly, we may not be able to maintain continuing relationships with any of these national accounts. A decision by any of these retailers, or any other large retail accounts we may obtain, to decrease the amount purchased from us or to cease carrying our products could have a material adverse effect on our reputation, financial condition or results of operations. In addition, we may not be able to establish additional distribution arrangements with other national retailers.

We have dedicated, and will continue to dedicate, significant resources to our sponsorship agreements and may not realize the benefits expected from those agreements.

Historically, our sponsorship agreements sometimes require us to make substantial annual cash payments, or alternatively, issue shares of our Common Stock in lieu of cash payment, in exchange for certain promotional and branding benefits. There can be no assurance that our association with a particular sponsor at any given time will have a positive effect on our image and brands, or that these agreements will compensate for the annual payment commitments required. Alternatively, we have the option to assign shares of our Common Stock in lieu of making these cash payments. The number of shares to be assigned is determined by the average trading price of our Common Stock during the three day period preceding the due date of a payment. Given our limited cash resources, we intend to continue to use shares of our Common Stock as payment for these sponsorship agreements. There is a risk that we will be unable to recover the costs associated with our sponsorship agreements, which would have an adverse effect on our results of operations.

As of December 31, 2012 we had no sponsorships commitments outstanding.

We rely on independent contract packers of our products, and this dependence could make management of our marketing and distribution efforts inefficient or unprofitable.

We do not own the plants or the majority of the equipment required to manufacture and package our beverage products, and do not directly manufacture our products but instead outsource the manufacturing process to third party bottlers and independent contract packers (co-packers). We do not anticipate bringing the manufacturing process in-house in the future. We currently use 7-Up Southeast Snapple as our primary co-packer to prepare, bottle and package our products. Our contract packers are located in Jacksonville, FL. 7-Up Southeast Snapple has several co-packing plants located throughout the US that are capable of bottling product should we so require. As a consequence, we depend on independent contract packers to produce our beverage products.

Table of Contents

We do not have written agreements with our contract packers.

Our ability to attract and maintain effective relationships with our contract packers and other third parties for the production and delivery of our beverage products in a particular geographic distribution area is important to the achievement of successful operations within each distribution area. While we believe there are other contract packers that can provide the services we need, there are no assurances that we will be able to identify and reach a mutually agreeable arrangement with a new contract packer in a specific geographic region if necessary. This could also affect the economic terms of our agreements with our packers. There is no written agreement with our contract packers and they may terminate their arrangements with us at any time, in which case we could experience disruptions in our ability to deliver products to our customers. We may not be able to maintain our relationships with current contract packers or establish satisfactory relationships with new or replacement contract packers, whether in existing or new geographic distribution areas. The failure to establish and maintain effective relationships with contract packers for a distribution area could increase our manufacturing costs and thereby materially reduce profits realized from the sale of our products in that area. In addition, poor relations with any of our contract packers could adversely affect the amount and timing of product delivered to our distributors for resale, which would in turn adversely affect our revenues and financial condition.

As is customary in the contract packing industry for comparably sized companies, we are expected to arrange for our contract packing needs sufficiently in advance of anticipated requirements. To the extent demand for our products exceeds available inventory and the capacities produced by contract packing arrangements, or orders are not submitted on a timely basis, we will be unable to fulfill distributor orders on demand. Conversely, we may produce more product than warranted by the actual demand for it, resulting in higher storage costs and the potential risk of inventory spoilage. Our failure to accurately predict and manage our contract packaging requirements may impair relationships with our independent distributors and key accounts, which, in turn, would likely have a material adverse effect on our ability to maintain effective relationships with those distributors and key accounts.

Our business and financial results depend on the continuous supply and availability of raw materials.

The principal raw materials we use include aluminum cans, labels and cardboard cartons, flavorings, and proprietary energy blend ingredients which include vitamins and minerals. The cost of our ingredients is subject to fluctuation. If our supply of these raw materials is impaired or if prices increase significantly, our business would be adversely affected.

We may not correctly estimate demand for our products. Our ability to estimate demand for our products is imprecise, particularly with new products, and may be less precise during periods of rapid growth, particularly in new markets. If we materially underestimate demand for our products or are unable to secure sufficient ingredients or raw materials including, but not limited to, cans, glass, labels, flavors, supplements, and certain sweeteners, or sufficient packing arrangements, we might not be able to satisfy demand on a short-term basis. Moreover, industry-wide shortages of certain concentrates, supplements and sweeteners have been experienced and could, from time to time in the future, be experienced, which could interfere with and/or delay production of certain of our products and could have a material adverse effect on our business and financial results.

Disruption of our supply chain could have an adverse effect on our business, financial condition and results of operations.

Our ability and that of our suppliers, business partners (including packagers), contract manufacturers, independent distributors and retailers to make, move and sell products is critical to our success. Damage or disruption to manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemics such as avian flu, strikes or other reasons, could impair our ability to manufacture or sell our products. Failure to take



adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

If we are unable to maintain brand image and product quality, or if we encounter other product issues such as product recalls, our business may suffer.

Our success depends on our ability to maintain brand image for our existing products and effectively build up brand image for new products and brand extensions. There can be no assurance, however, that additional expenditures and our advertising and marketing will have the desired impact on our products' brand image and on consumer preferences. Product quality issues, real or imagined, or allegations of product contamination, even when false or unfounded, could tarnish the image of the affected brands and may cause consumers to choose other products.

Table of Contents

In addition, because of changing government regulations or implementation thereof, allegations of product contamination may require us from time to time to recall products entirely or from specific markets. Product recalls could affect our profitability and could negatively affect brand image. Adverse publicity surrounding obesity concerns, water usage and other concerns could negatively affect our overall reputation and our products' acceptance by consumers.

The inability to attract and retain key personnel would directly affect our efficiency and results of operations.

Our success depends on our ability to attract and retain highly qualified employees in such areas as production, distribution, sales, marketing and finance. We compete to hire new employees, and, in some cases, must train them and develop their skills and competencies. Our operating results could be adversely affected by increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs. We expect that given our continued exploration of strategic alternatives, we may be further impacted by turnover among employees. Any unplanned turnover, particularly involving one of our key personnel, could negatively impact our operations, financial condition and employee morale.

Our inability to protect our trademarks, patents and trade secrets may prevent us from successfully marketing our products and competing effectively.

Failure to protect our intellectual property could harm our brand and our reputation, and adversely affect our ability to compete effectively. Further, enforcing or defending our intellectual property rights, including our trademarks, patents, copyrights and trade secrets, could result in the expenditure of significant financial and managerial resources. We regard our intellectual property, particularly our trademarks, patents and trade secrets to be of considerable value and importance to our business and our success. We rely on a combination of trademark, patent, and trade secrecy laws, confidentiality procedures and contractual provisions to protect our intellectual property rights. There can be no assurance that the steps taken by us to protect these proprietary rights will be adequate or that third parties will not infringe or misappropriate our trademarks, patented processes, trade secrets or similar proprietary rights. In addition, there can be no assurance that other parties will not assert infringement claims against us, and we may have to pursue litigation against other parties to assert our rights. Any such claim or litigation could be costly. In addition, any event that would jeopardize our proprietary rights or any claims of infringement by third parties could have a material adverse effect on our ability to market or sell our brands, profitably exploit our products or recoup our associated research and development costs.

Litigation or legal proceedings could expose us to significant liabilities and damage our reputation.

We may become party to litigation claims and legal proceedings. Litigation involves significant risks, uncertainties and costs, including distraction of management attention away from our current business operations. We evaluate litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we establish reserves and/or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. We caution that actual outcomes or losses may differ materially from those envisioned by our current assessments and estimates. Our policies and procedures require strict compliance by our employees and agents with all United States and local laws and regulations applicable to our business operations, including those prohibiting improper payments to government officials. Nonetheless, there can be no assurance that our policies and procedures will always ensure full compliance by our employees and agents with all applicable legal requirements. Improper conduct by our employees or agents could damage our reputation in the United States and internationally or lead to litigation or legal proceedings that could result in civil or criminal penalties, including substantial monetary fines, as well as disgorgement of profits.



## Table of Contents

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results.

Generally accepted accounting principles and related pronouncements, implementation guidelines and interpretations with regard to a wide variety of matters that are relevant to our business, such as, but not limited to, revenue recognition, stock-based compensation, trade promotions, sports sponsorship agreements and income taxes are highly complex and involve many subjective assumptions, estimates and judgments by our management. Changes to these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported results.

If we are unable to build and sustain proper information technology infrastructure, our business could suffer.

We depend on information technology as an enabler to improve the effectiveness of our operations and to interface with our customers, as well as to maintain financial accuracy and efficiency. If we do not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure, we could be subject to transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of or damage to intellectual property through security breach. Our information systems could also be penetrated by outside parties' intent on extracting information, corrupting information or disrupting business processes. Such unauthorized access could disrupt our business and could result in the loss of assets.

We have no manufacturing facilities and are largely dependent upon third parties to manufacture our products.

We have no manufacturing facilities and have entered into manufacturing arrangements with third parties to manufacture our products. Accordingly, our ability to market our products is partially dependent on our relationships with our third party contract manufacturers and their ability to manufacture our products on a timely basis in accordance with our specifications. While we believe that there are numerous other third party manufacturers capable of manufacturing our products, should we not be able to continue to obtain contract manufacturing on commercially reasonable terms with our current suppliers, we may experience difficulty obtaining inventory rapidly when needed. Any of such events may materially, adversely affect our business, prospects, financial condition, and results of operations.

Our success depends, to an extent, upon the continued services of Darren Marks, our President and Chief Executive Officer and Mel Leiner, our Chief Financial Officer and Chief Operating Officer.

We rely on the services of Darren Marks and Mel Leiner, our founders, for strategic and operational management and the relationships they have built. The loss of either of Messrs. Marks or Leiner could also result in the loss of our favorable relationships with one or more of our customers. We have not entered into an employment agreement with either Mr. Marks or Leiner but expect to do so in the near future. In addition, we do not maintain "key person" life insurance covering any of our management and we do not expect to obtain the same in the future due primarily to the cost of premiums for such insurance and our limited financial resources. This could also preclude our ability to attract and retain qualified persons to agree to become directors of our Company.

The industries in which we operate are highly competitive.

Numerous well-known companies which have substantially greater capital, research and development capabilities and experience than we have, are presently engaged in the energy drink and meat product market. By virtue of having or introducing competitive products on the market before us, these entities may gain a competitive advantage. If we are unable to successfully compete in our chosen markets, our business, prospects, financial condition, and results of operations would be materially adversely affected.

Provisions of our Articles of Incorporation and Bylaws may delay or prevent a take-over that may not be in the best interests of our stockholders.

Provisions of our Articles of Incorporation and Bylaws may be deemed to have anti-takeover effects, which include when and by whom special meetings of our stockholders may be called, and may delay, defer or prevent a takeover attempt.

## Table of Contents

In addition, our Articles of Incorporation authorizes the issuance of up to 10,000,000 shares of Preferred Stock with such rights and preferences determined from time to time by our Board of Directors. As of the date of this Report, none of our Preferred Stock is currently issued or outstanding. Our Board of Directors may, without stockholder approval, issue additional Preferred Stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of our Common Stock.

Our failure to maintain and develop our brand names could adversely affect our revenues.

We believe that maintaining and developing our brand name, including the trademark “DNA®” are critical to our success. The importance of our name recognition may increase as our products gain market acceptance and as we enter additional markets. If our brand building strategy is unsuccessful, we may be unable to increase our future revenues or expand our products and services. Such events would have a material adverse effect on our business, prospects, financial condition and results of operations.

Any inability by us to respond to changes in consumer demands in a timely manner could materially adversely affect our business, prospects, financial condition, and results of operations.

Our success depends on our ability to identify, originate and define product trends in our markets, as well as to anticipate, gauge and react to changing consumer demands in a timely manner. Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to periodic change. We may not be able to meet changing consumer demands in the future. If we misjudge the market for our products, we may be faced with significant excess inventories for some products and missed opportunities for other products. Either of such events could have a material adverse effect on our business, prospects, financial condition, and results of operations.

The requirements of being a public company may strain our resources, divert management’s attention and affect our ability to attract and retain executive management and qualified board members.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources, particularly after we are no longer an “emerging growth company,” as defined in the Jumpstart our Business Startups Act, or the JOBS Act. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management’s attention may be diverted from other business concerns which could adversely affect our business and operating results. We may need to hire more employees in the future or engage outside consultants who will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management’s time and attention from revenue-generating

activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

## Table of Contents

However, for as long as we remain an “emerging growth company,” we may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not “emerging growth companies” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We may take advantage of these reporting exemptions until we are no longer an “emerging growth company.”

We would cease to be an “emerging growth company” upon the earliest of: (i) the first fiscal year following the fifth anniversary of our becoming a reporting company, (ii) the first fiscal year after our annual gross revenues are \$1.0 billion or more, (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities or (iv) as of the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded \$700 million as of the end of the second quarter of that fiscal year.

We also expect that being a public company and these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in this report and in future filings required of a public company, our business and financial condition will become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results.

We are an “emerging growth company” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not “emerging growth companies” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

In addition, Section 107 of the JOBS Act also provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we are choosing to “opt out” of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.





## Table of Contents

### Risks Related to our Common Stock

There is a limited trading market for our Common Stock and there can be no assurance that a larger market will develop in the future.

In the absence of a public trading market, an investor may be unable to liquidate his investment in our Company.

We do not have significant financial reporting experience, which may lead to delays in filing required reports with the Securities and Exchange Commission and suspension of quotation of our securities on the OTCBB which will make it more difficult for you to sell your securities.

The OTCBB, an inter-dealer quotation system, and other national stock exchanges each limits quotations to securities of issuers that are current in their reports filed with the Securities and Exchange Commission (the "SEC"). Because we do not have significant financial reporting experience, we may experience delays in filing required reports with the SEC. Because issuers whose securities are qualified for quotation on the OTCBB or any other national exchange are required to file these reports with the SEC in a timely manner, the failure to do so may result in a suspension of trading or delisting.

There are no automated systems for negotiating trades on the OTCBB and it is possible for the price of a stock to go up or down significantly during a lapse of time between placing a market order and its execution, which may affect your trades in our securities.

Because there are no automated systems for negotiating trades on the OTCBB, they are conducted via telephone. In times of heavy market volume, the limitations of this process may result in a significant increase in the time it takes to execute investor orders. Therefore, when investors place market orders, an order to buy or sell a specific number of shares at the current market price, it is possible for the price of a stock to go up or down significantly during the lapse of time between placing a market order and its execution.

Our stock will be considered a "penny stock" so long as it trades below \$5.00 per share. This can adversely affect its liquidity.

Our Common Stock is considered a "penny stock" and will continue to be considered a penny stock so long as it trades below \$5.00 per share and as such, trading in our Common Stock will be subject to the requirements of Rule 15c-2-07 under the Securities Exchange Act of 1934. Under this rule, broker/dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements. The broker/dealer must make an individualized written suitability determination for the purchaser and receive the purchaser's written consent prior to the transaction.

SEC regulations also require additional disclosure in connection with any trades involving a "penny stock," including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and its associated risks. In addition, broker-dealers must disclose commissions payable to both the broker-dealer and the registered representative and current quotations for the securities they offer. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from recommending transactions in our securities, which could severely limit the liquidity of our securities and consequently adversely affect the market price for our securities. In addition, few broker or dealers are likely to undertake these compliance activities. Other risks associated with trading in penny stocks could also be price fluctuations and the lack of a liquid market.

We do not anticipate payment of dividends, and investors will be wholly dependent upon the market for the Common Stock to realize economic benefit from their investment.

As holders of our Common Stock, you will only be entitled to receive those dividends that are declared by our Board of Directors out of retained earnings. We do not expect to have retained earnings available for declaration of dividends in the foreseeable future. There is no assurance that such retained earnings will ever materialize to permit payment of dividends to you. Our Board of Directors will determine future dividend policy based upon our results of operations, financial condition, capital requirements, reserve needs and other circumstances.

Any adverse effect on the market price of our Common Stock could make it difficult for us to raise additional capital through sales of equity securities at a time and at a price that we deem appropriate.

Sales of substantial amounts of our Common Stock, or in anticipation that such sales could occur, may materially and adversely affect prevailing market prices for our Common Stock.

Table of Contents

The market price of our Common Stock may fluctuate significantly in the future.

We expect that the market price of our Common Stock may fluctuate in response to one or more of the following factors, many of which are beyond our control:

- competitive pricing pressures;
- our ability to market our services on a cost-effective and timely basis;
- our inability to obtain working capital financing, if needed;
- changing conditions in the market;
- changes in market valuations of similar companies;
- stock market price and volume fluctuations generally;
- regulatory developments;
- fluctuations in our quarterly or annual operating results;
- additions or departures of key personnel; and
- future sales of our Common Stock or other securities.

The price at which you purchase shares of our Common Stock may not be indicative of the price that will prevail in the trading market. You may be unable to sell your shares of Common Stock at or above your purchase price, which may result in substantial losses to you and which may include the complete loss of your investment. In the past, securities class action litigation has often been brought against a company following periods of stock price volatility. We may be the target of similar litigation in the future. Securities litigation could result in substantial costs and divert management's attention and our resources away from our business. Any of the risks described above could adversely affect our sales and profitability and also the price of our Common Stock.

The market price of our Common Stock is subject to volatility.

There can be no assurance that an active trading market for the securities offered herein will develop after an Offering, or, if developed, be sustained. Purchasers of our Common Stock may have difficulty selling their securities should they desire to do so and holders may lose their entire investment.

FINRA sales practice requirements may limit a stockholder's ability to buy and sell our stock.

The Financial Industry Regulatory Authority ("FINRA") has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our Common Stock, which may have the effect of reducing the level of trading activity in our Common Stock. As a result, fewer broker-dealers may be willing to make a market in our Common Stock, reducing a stockholder's ability to resell shares of our Common Stock.

State securities laws may limit secondary trading, which may restrict the states in which you can sell the shares offered by this Report.

If you purchase shares of our Common Stock sold in this Offering, you may not be able to resell the shares in any state unless and until the shares of our Common Stock are qualified for secondary trading under the applicable securities laws of such state or there is confirmation that an exemption, such as listing in certain recognized securities

manuals, is available for secondary trading in such state. There can be no assurance that we will be successful in registering or qualifying our Common Stock for secondary trading, or identifying an available exemption for secondary trading in our Common Stock in every state. If we fail to register or qualify, or to obtain or verify an exemption for the secondary trading of, our Common Stock in any particular state, our Common Stock could not be offered or sold to, or purchased by, a resident of that state. In the event that a significant number of states refuse to permit secondary trading in our Common Stock, the market for our Common Stock will be limited which could drive down the market price of our Common Stock and reduce the liquidity of the shares of our Common Stock and a stockholder's ability to resell shares of our Common Stock at all or at current market prices, which could increase a stockholder's risk of losing some or all of his investment.

## Table of Contents

We cannot predict whether we will successfully effectuate our current business plan. Each prospective purchaser is encouraged to carefully analyze the risks and merits of an investment in our Common Stock and should take into consideration when making such analysis, among others, the Risk Factors discussed above.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

We are not an accelerated filer or a large accelerated filer, as defined in Rule 12b-2 of the Exchange Act, or is a well-known seasoned issuer as defined in Rule 405 of the Securities Act and as such, this Item is not applicable.

### ITEM 2. PROPERTIES

Our principal place of business is located at 544 NW 77th Street, Boca Raton, Florida 33487. We moved to this location in November 2012, as part of our efforts to reduce costs. This location consists of 4,200 square feet of office and warehouse. We sublease this property from a related party Royal Strategies and Solutions, Inc. ("RSS"), which is also owned by our management. Effective December 2012 we began paying rent to RSS on a month to month basis at the rate of \$5,316 per month with minimal escalation clauses and are committed to these payments until June 2017 when RSS's lease expires.

Our rent expense for the years ended December 31, 2012 and 2011 was \$151,901 and \$152,593 respectively. We do not anticipate that we will need to expand the office facility for the next 12 months. As we expand our distribution geographically, we anticipate that we will require additional warehousing closer to the manufacturing facility and to the distribution which will create a cost savings on shipping for us as well as allow us to service our accounts on a timely basis. Moreover, those warehouses can support the local and regional sales and sampling staff we take on as we expand our business. Additionally, we own/lease a fleet of 5 DNA® branded vans which are used for selling, delivery and sampling to outlets. We purchase or lease these vans new and used and when we believe the local market can support them. We also spend an average of \$2,000 per vehicle to create the DNA® branded graphics that are distinct to our products.

Until November 2012 our principal place of business was located at 506 NW 77th Street, Boca Raton, Florida 33487. This location consisted of 5,000 square feet of office and conference room space and also housed our primary warehouse which consisted of 11,600 square feet. We subleased this property from RSS. RSS's lease expired in June 2014, but we were able to renegotiate this lease and replace it with our current space described in the paragraph above. Both properties are owned by the same entity.

Our IT, primarily our web site, is hosted remotely with redundancy capability.

We own and/or lease over 21 branded coolers that are placed in strategic locations to help generate sales of our product. We did not purchase any coolers in 2012 due to our liquidity position.

### ITEM 3. LEGAL PROCEEDINGS.

We are not involved in any material legal proceedings, nor are we aware of any legal proceedings threatened or in which any director or officer or any of their affiliates is a party adverse to our Company or has a material interest adverse to us.

### ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.



Table of Contents

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES.

## Market Information

Trading of our Common Stock commenced on the OTCBB in July 2008 under the trading symbol "FPRD." In November 2010 our trading symbol became "DNAX."

The table below sets forth the reported high and low bid prices for the periods indicated. The bid prices shown reflect quotations between dealers, without adjustment for markups, markdowns or commissions, and may not represent actual transactions in our Common Stock.

Quarter Ended	High	Low
March 31, 2012	\$ 0.50	\$ 0.23
June 30, 2012	\$ 0.37	\$ 0.14
September 30, 2012	\$ 0.23	\$ 0.08
December 31, 2012	\$ 0.12	\$ 0.06
March 31, 2011	\$ 1.25	\$ 0.30
June 30, 2011	\$ 1.25	\$ 0.60
September 30, 2011	\$ 1.05	\$ 0.60
December 31, 2011	\$ 0.69	\$ 0.30

As of April 12, 2013 the closing bid price of our Common Stock was \$0.05.

Trading volume in our Common Stock has been very limited since we commenced trading. As a result, the trading price of our Common Stock is subject to significant fluctuations.

## Holders

As of the date of this Report we had 387 holders of record for our Common Shares. The number of record shareholders does not include those persons who hold their shares in "street name."

## Dividend Policy

We have not paid any dividends since our incorporation and do not anticipate the payment of dividends in the foreseeable future. At present, our policy is to retain earnings, if any, to develop and market our products. The payment of dividends in the future will depend upon, among other factors, our earnings, capital requirements, and operating financial conditions.

## ITEM 6. SELECTED FINANCIAL DATA.

Information not required by smaller reporting companies.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.



## Overview

Some of the information in this Report contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as “may,” “will,” “expect,” “anticipate,” “believe,” “estimate” and “continue,” or similar words. You should read statements that contain these words carefully because they:

discuss our future expectations;

contain projections of our future results of operations or of our financial condition;  
and

state other “forward-looking” information.

## Table of Contents

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under “Risk Factors” and “Description of Business” and elsewhere in this Report. See “Risk Factors.”

### Company Overview and History

DNA Brands, Inc. (hereinafter referred to as “us,” “our,” “we,” the “Company” or “DNA”) was incorporated in the State of Colorado on May 23, 2007 under the name Famous Products, Inc. Prior to July 6, 2010 we were a holding company operating as a promotion and advertising company. We currently produce, market and sell a proprietary line of three carbonated blends of DNA Energy Drink®, Citrus, Sugar Free Citrus and Sugar Free Cranrazzberry.

Effective July 6, 2010, we executed agreements to acquire all of the remaining assets, liabilities and contract rights of DNA Beverage Corporation of Boca Raton, Florida (“DNA Beverage”), and 100% of the common stock of DNA Beverage’s wholly owned subsidiary Grass Roots Beverage Company, Inc. (“Grass Roots”) in exchange for the issuance of 31,250,000 shares of our common stock. As part of the terms of these transactions, our former President agreed to voluntarily redeem 19,274,400 common shares back to us. The share issuance represented approximately 94.6% of our outstanding shares at the time of issuance. As a result of this transaction we changed our name to DNA Brands, Inc.

Our current business commenced in May 2006 in the State of Florida under the name Grass Roots Beverage Company, Inc. (“Grass Roots”). Initial operations of Grass Roots included development of our energy drinks, sampling and other marketing efforts and initial distribution in the State of Florida.

Our principal offices are located at 544 NW 77th Street, Boca Raton, Florida, 33487, telephone (954) 970-3826. Our website is [www.dnabrandsusa.com](http://www.dnabrandsusa.com).

Presented below are our results of operations for our fiscal years ended December 31, 2012 and 2011.

### Results Of Operations

#### Comparison of Results of Operations for the years ended December 31, 2012 and 2011

##### Revenue

Revenue for the year ended December 31, 2012 was \$249,416 compared to \$1,191,688 for the year ended December 31, 2011. This material decrease in revenue compared to the prior year is primarily attributable to our discontinuation of our meat snacks line, the decline in sales of our energy drink products as we continue to test our products through a variety of distribution channels, and our lack of liquidity. This shortage of working capital has prevented us from making timely inventory purchases in sufficient quantities of the better selling SKU's. Also, the lack of liquidity has limited our marketing, advertising and promotions which are critical revenue drivers in the energy drink industry.

Currently we are in the process of re-branding our product as described throughout this Report. We expect that our new re-branding efforts and increasing marketing activity, combined with our increasing brand recognition and the awards we have received for the quality of our products will continue to generate incremental revenues for us. However, our ability to achieve increased revenue is dependent upon our success in raising additional capital. No assurances can be provided that we will successfully raise the funding necessary to support our marketing efforts, or that these efforts will generate increased revenues. See “Liquidity and Capital Resources,” below.

## Gross Margin

We calculate gross margin by subtracting cost of goods sold from revenue. Gross margin percentage is calculated by dividing the gross margin by revenue. Our gross margin for the year ended December 31, 2012 decreased to \$72,013 in 2012 compared to \$391,648 for the year ended December 31, 2011. Our gross margin percentage decreased during 2012 to 28.9% from 32.9% in 2011. The primary reasons for the decrease in gross margin over the prior year is due to a change in the sales mix of our business and the recording of sampling expenses as a component of selling and marketing instead of being charged to cost of goods sold. Due to the low volume of sales in 2012 and our rebranding efforts described throughout this Report, our gross margin percentage in 2012 may not be indicative of the future gross margin for our business.

## Table of Contents

Since we are in a growth phase and continue to test varying price structures, a small number of sales and transactions can impact our gross margin percentage either positively or negatively. We do not believe that the gross margin percentages for the years ended December 31, 2012 and 2011 are necessarily indicative of future results if applied to larger sales volumes.

### Compensation and Benefits

Compensation and benefits for the year ended December 31, 2012 were \$1,485,301 compared to \$1,747,714 for the year ended December 31, 2011. The decrease in compensation and benefits in 2011 when compared to the prior year is primarily attributable to a significant reduction in the number of employees and the higher level of grants of common stock to employees as incentive compensation in 2011.

Our two executive officers have deferred cash payment of their salaries since 2008. For both the years ended December 31, 2012 and 2011, we recorded \$250,000 in compensation expense related to these deferrals. During 2012 and 2011, these principals were issued an aggregate of 1,000,000 shares in each year of our common stock, respectively, valued at \$100,000 and \$330,000, respectively, against their deferrals. At December 31, 2012, the recorded value of these salary deferrals totaled \$820,000 and was included in accrued liabilities on our Consolidated Balance Sheet.

### General and Administrative

General and administrative expense (“G&A”) for the year ended December 31, 2012 decreased significantly to \$689,282, compared to \$945,060 for the year ended December 31, 2011. General and administrative expenses are primarily comprised of rent, utilities, insurance, travel and entertainment, and other expenses. The decrease in G&A expenses for the year ended December 31, 2012 as compared to the same period in the prior year is due to reduced spending for travel and other administrative activities consistent with our reduced revenue levels.

### Professional and outside services

Professional and outside services for the year ended December 31, 2012 was \$1,282,929 compared to \$950,965 for the year ended December 31, 2011. Professional and outside services are comprised primarily of accounting fees, legal fees, investor and public relations expenses and other miscellaneous services. The increase in 2012 professional and outside services compared to 2011 is primarily attributable to approximately \$213,000 more in increased fees paid in the form of common stock in 2012 compared to 2011.

### Selling and marketing expenses

Selling and marketing expenses for the year ended December 31, 2012 was \$274,493 compared to \$1,043,129 for the year ended December 31, 2011. The material decrease in selling and marketing expenses over the prior year is primarily attributable to our rebranding efforts and our lack of working capital.

### Interest expense

Interest expense for the year ended December 31, 2012 was \$984,880, compared to \$159,087 for the year ended December 31, 2011. The material increase in interest expense during the year ended December 31, 2012 over the prior year period is primarily attributable to the non-cash amortization of loan discounts related to convertible debentures. During the year ended December 31, 2012, we issued an aggregate principal value of \$437,668 in convertible debentures. These debentures were issued with beneficial conversion features or other inducements to the lender to

provide funding to us. As a result, we have recorded discounts against these loans that will be amortized over their terms. During the year ended December 31, 2012, we recorded \$360,887 and \$63,045 respectively, in non-cash interest expense relative to the loan discounts on these notes.

## Table of Contents

### Net loss

We incurred a net loss of \$4,444,344 during the year ended December 31, 2012, or (\$0.09) per share, compared to a net loss of \$4,472,848 or (\$0.12) per share, for the year ended December 31, 2011. Since our inception, we have generated material operating losses. A significant portion of our losses are non-cash in nature; however, our losses remain substantial even after excluding those items.

The weighted average number of basic and fully diluted shares outstanding for the years ended December 31, 2012 and 2011 was 50,237,728 and 38,082,802, respectively. There were no dilutive equivalents included in our calculation of fully diluted shares during either period since their inclusion would be anti-dilutive due to our net loss per share.

### Liquidity and Capital Resources

At December 31, 2012, we had \$11,042 in bank loans outstanding as a result of overdrafts on our cash and cash equivalents' bank accounts.

As reflected in the accompanying financial statements, we recorded net losses of \$4,444,344 and \$4,472,848 for the years ended December 31, 2012 and 2011, respectively. Net cash used in operations from the same periods were \$1,706,337 and \$2,904,825 respectively. At December 31, 2012, we had a working capital deficit of \$4,078,865 and a stockholders' deficit of \$4,727,981. This operating performance raises a substantial doubt about our ability to continue as a going concern. See "Risk Factors," above.

Net cash used in operations was \$1,600,137 for the year ended December 31, 2012, compared to \$2,904,825 for the year ended December 31, 2011. The decrease in net cash used in operating activities of \$1,198,488 is primarily due to the inclusion of \$822,792 in non-cash interest related to convertible debentures compared to \$63,045 in the prior year period and due to an increase in accrued liabilities.

Net cash provided by investing activities was zero for the year ended December 31, 2012, compared to cash used of \$10,641 during the same period in 2011. The reduction in net cash used in investing activities of was due to a net change of \$8,246 in loan receivables from a related party in 2011.

Net cash provided by financing activities was \$1,600,137 for the year ended December 31, 2012, compared to \$2,819,580 for the same period in 2011. The decrease in net cash provided by financing activities of \$1,113,242 from the prior year is primarily due to the decrease of \$1,106,750 in proceeds from the issuance of convertible, preferred stock.

In the first half of 2011, a number of our employees agreed to defer a portion of their cash compensation to assist us in improving our liquidity position. In return, we issued 230,000 shares of our common stock to our employees; and, additionally to provide a means for paying consultants and service providers.

In February 2011, we undertook a private offering of our convertible preferred stock whereby we offered up to 4,000,000 shares at an offering price of \$0.25 per share to accredited investors. We sold an aggregate of 4,427,000 shares (including an over-allotment of 427,000 shares) and have received proceeds of \$1,106,750 therefrom. This offering was closed to investors in the second quarter of 2011.

In February 2011, we issued a secured, convertible debenture to an existing shareholder in the principal amount of \$500,000, which becomes due three years from the date of issuance. The debenture bears interest at 12% per annum and is payable quarterly beginning in May 2011. In addition, as further inducement for loaning us funds, we issued 125,000 restricted shares of our common stock to the holder upon execution. The common shares were valued at

\$31,250, their fair market value, and recorded as discount to the debenture. These costs will be amortized using the effective interest method over the term of the debenture and recorded as interest expense in our financial statements. Further, we agreed to pay to the maker an annual transaction fee of \$30,000 in equal installments on a quarterly basis beginning in May 2011. The balance due under the debenture is collateralized by all of our assets, including but not limited to inventory, receivables, vehicles and warehouse equipment. Lastly, we agreed to issue 750,000 shares of our common stock (the "Escrowed Shares"), in favor of the maker, to be held in escrow by a mutually agreeable party. In the event of failure to pay all or any portion of the principal and interest due under the debenture, including any and all rights to cure, the Escrowed Shares shall be released to the maker. The Escrowed Shares are not entitled to voting rights, or to receive any dividends if and when declared unless and until the Escrowed Shares are released. As of the date of this Report we have timely made all payments due.

Table of Contents

In May 2011, we commenced a private offering of our common stock whereby we are offering up to 13,333,333 shares at an offering price of \$0.45 per share, or \$6,000,000, to accredited investors. As of December 31, 2011, we sold an aggregate of 1,115,887 shares and received proceeds of \$527,150 therefrom.

In June 2011, we issued a convertible debenture to an existing shareholder in the amount of \$125,000. The debenture bears interest at 12% per annum, which is payable with common stock at the time of maturity. The debenture is convertible at any time prior to maturity into 150,000 shares.

We are working on generating new sales from additional retail outlets, distribution centers or through sponsorship agreements; and allocating sufficient resources to continue with advertising and marketing efforts. Based upon our current operating activity, we believe will require a minimum of approximately \$1.5 million in new funding to execute our business plan during the next year. There can be no assurances that if we can secure these funds we will be able to generate a sufficient level of revenue to sustain our ongoing cash flow requirements.

In June 2011, we issued a convertible debenture to an existing shareholder in the amount of \$125,000. The debenture bears interest at 12% per annum, which is payable in our common stock at the time of maturity. The debenture is convertible at any time prior to maturity into 150,000 shares of our common stock. This beneficial conversion feature was valued at \$90,750, using Black-Sholes methodology, and recorded as a discount to the debenture. These costs will be amortized using the effective interest method over the term of the debenture and recorded as interest expense in our financial statements.

In July and August 2011, we issued a series of secured convertible debentures to accredited investors aggregating \$275,000 in gross proceeds. All proceeds from these debentures were utilized solely for the purpose of funding raw materials and inventory purchases through the use of an escrow agent. The debentures bear interest at 12% per annum, payable in monthly installments. The debentures are convertible at any time prior to maturity at a conversion price equal to 80% of the average share price of the Company's common stock for the 10 previous trading days prior to conversion, but not less than \$0.70. In addition, as further inducement for loaning the Company funds, the Company issued the lenders 68,750 restricted shares of its common stock and 137,500 common stock warrants exercisable at \$1.25 per share.

In February 2012, we issued a convertible debenture to an existing shareholder in the amount of \$75,000. The debenture bears interest at 12% per annum, which is payable in our common stock at the time of maturity. The debenture is convertible at any time prior to maturity into 280,000 shares of our common stock. As further inducement, we issued the lender 280,000 common stock warrants exercisable at \$1.50 per share. If unexercised, the warrants will expire on January 31, 2017. Using the Black-Scholes model, the warrants were valued at \$63,620 and recorded as a discount to the principal amount of the debenture. This discount will be amortized using the effective interest method over the term of the debenture and recorded as interest expense in our financial statements.

In February and March 2012, we converted \$524,950 of loans payable to our officers into convertible debentures. These debentures were offered by our officers to certain accredited investors and a portion the proceeds therefrom were deposited by us. The debentures have no maturity date and bear no interest. The debentures were converted into 3,499,666 shares of our common stock. We determined that this term created a beneficial conversion feature. Using the Black-Scholes model, the beneficial conversion feature was valued at \$524,950, the ceiling of its intrinsic value. Due to the nature of the debentures, the full value of the beneficial conversion feature was immediately recorded as interest expense in our financial statements. In August 2012, these convertible debentures were converted into 3,499,666 shares of our common stock.

In April 2012, we sold 216,667 shares of our common stock and received \$65,000 in gross proceeds. In August and September 2012, we sold 2,343,734 shares of our common stock and received \$140,624 in gross proceeds.





## Table of Contents

In July 2012, we received proceeds from convertible debentures totaling \$182,668 in connection with our CMI investment banking agreement. The debentures bear interest at 12% per annum, which is payable in cash or our common stock at the time of conversion or maturity. The debentures are convertible at any time prior to maturity at a conversion price equal to the lesser of 75% of the average share price of our common stock for the five previous trading days prior to conversion or \$0.35, but not less than \$0.15. In the event that we offer or issue shares of our common stock at a share price less than \$0.15, the floor conversion price will adjust to the new lower price. We determined that the terms of the debentures created a beneficial conversion feature. Using the Black-Scholes model, the beneficial conversion feature was valued at \$160,813 and recorded as a discount to the principal amount of the debentures. The discount is amortized using the effective interest method over the term of the debenture and recorded as interest expense in the Company's financial statements.

On August 7, 2012, we issued a convertible debenture in the amount of \$50,000. The debenture does not bear interest. As an inducement, we agreed to issue the lender 20,000 shares of our common stock. The common shares were valued at their trading price on the date of the agreement and recorded as interest expense in our results of operations. We determined that the terms of the debenture created a beneficial conversion feature. Using the Black-Scholes model, the beneficial conversion feature was valued at \$50,000, the ceiling of its intrinsic value, and recorded as a discount to the principal amount of the debenture. The discount is amortized using the effective interest method over the term of the debenture and recorded as interest expense in our financial statements.

On September 25, 2012, we issued a convertible debenture in the amount of \$50,000. The debenture bears interest at 6% per annum, which is payable in our common stock at the time of conversion or maturity. The debenture is convertible at any time prior to maturity at a conversion price equal to 70% of the lowest closing bid price of our common stock on the five previous trading days prior to and day of conversion, but not less than \$0.0001. We determined that the terms of the debenture created a beneficial conversion feature. Using the Black-Scholes model, the beneficial conversion feature was valued at \$50,000, the ceiling of its intrinsic value, and recorded as a discount to the principal amount of the debenture. The discount is amortized using the effective interest method over the term of the debenture and recorded as interest expense in our financial statements.

Until we are successful in obtaining additional equity capital we will likely continue to rely upon related-party debt, issuance of additional debentures from our shareholders or equity financing in order to ensure the continuing existence of our business. We were indebted to our management in the amounts of \$1,457,539 and \$1,303,388 at December 31, 2012 and December 31, 2011, respectively. Additionally we are working on generating new sales from additional retail outlets, distribution centers or through sponsorship agreements, and allocating sufficient resources to continue with advertising and marketing efforts. There can be no assurances that these efforts will be successful. If these efforts are not successful, it could have a material adverse impact.

## Trends

Our emphasis over the next 12 months will continue with our rebranding and increase revenues. As stated throughout this report, our efforts to accomplish these objectives are directly linked to our ability to raise additional capital. We have been actively involved in discussions with potential investors to provide us with this additional equity funding. Assuming receipt of funding we intend to complete the build out of Florida to achieve a minimum 60% market penetration. We also plan to expand operations into NY, ME, ND, SD, MN, NE, IA, IL, WI, IL, MO, KY, TN, GA, LA, AL, and Texas. Florida, New York and Texas represent three of the four top convenience store outlets in the USA.

Creating more brand awareness and trials will be addressed through a significant public relations and advertising program. Public relations, targeted advertising, tab and coupon redemption programs, endorsement of regionally known athletes, increased "cans in hand" sampling, events at new store openings, concerts, festivals and sporting

events will be included in this program. We also plan to place regional marketing representatives in territories where distribution volume warrants the expense.

#### Inflation

Although our operations are influenced by general economic conditions, we do not believe that inflation had a material effect on our results of operations during the year ended December 31, 2012.

Table of Contents

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources and would be considered material to investors.

Critical Accounting Policies and Estimates

Critical accounting estimates – The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based 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. The following represents a summary of our critical accounting policies, defined as those policies that we believe are the most important to the portrayal of our financial condition and results of operations and that require management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

Leases – We follow the guidance in SFAS No. 13 “Accounting for Leases,” as amended, which requires us to evaluate the lease agreements we enter into to determine whether they represent operating or capital leases at the inception of the lease.

Stock-based compensation – Effective January 1, 2006, we adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 123R, “Share Based Payment.” SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized on a straight-line basis over the employee service period (usually the vesting period). That cost is measured based on the fair value of the equity or liability instruments issued using the Black-Scholes option pricing model.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk generally represents the risk of loss that may be expected to result from the potential change in value of a financial instrument as a result of fluctuations in credit ratings of the issuer, equity prices, interest rates or foreign currency exchange rates. We do not use derivative financial instruments for any purpose.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Our consolidated financial statements appear beginning at page F-1.

Table of Contents

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures - Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Report.

These controls are designed to ensure that information required to be disclosed in the reports we file or submit pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2012. We believe that our consolidated financial statements presented in this Report fairly present, in all material respects, our financial position, results of operations, and cash flows for all periods presented herein.

Changes in Internal Control over Financial Reporting - There were no changes in our internal control over financial reporting during the year ended December 31, 2012, which were identified in conjunction with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Internal Control over Financial Reporting - Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act. Those rules define internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, our management used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2012.

**Inherent Limitations** - Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake. In particular, many of our current processes rely upon manual reviews and processes to ensure that neither human error nor system weakness has resulted in erroneous reporting of financial data.

#### ITEM 9B. OTHER INFORMATION

None.

Table of Contents

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE;

The following table sets forth information regarding our executive officers and directors:

Name	Age	Position
Darren M. Marks	45	Chief Executive Officer, President and Director
Melvin Leiner	73	Chief Financial Officer, Chief Operating Officer, Executive Vice President, Secretary, Treasurer and Director

The above listed officers and directors will serve until the next annual meeting of the shareholders or until their death, resignation, retirement, removal, or disqualification, or until their successors have been duly elected and qualified. Vacancies in the existing Board of Directors are filled by majority vote of the remaining Directors. Officers serve at the will of the Board of Directors.

## Resumes

Darren M. Marks has been the President, Chief Executive Officer and a Director of our Company since July 2010. Prior, he held similar positions with DNA Beverage, Inc. since August 2007. Prior, from May 2004 through July 2007, he was the President, CEO and a director of Grass Roots Beverage Company, Inc., Boca Raton, FL. From 2001 through April 2006, Mr. Marks served in an executive capacity for Royal Strategies and Solutions, Inc., a brokerage services company servicing primarily ethnic food companies seeking to expand distribution and is currently its Vice President and a director. He has been instrumental in the development, production and marketing of DNA's initial product offering and has been responsible for developing all DNA's relationships in the action sports community. From 1991 to 1997, Mr. Marks served as founder and Vice President of Sims Communications, Inc., a publicly-traded NASDAQ telecommunications company, and was responsible for the creation, design and funding of a national telecommunication program for clients such as Alamo Rent-a-Car and the American Automobile Association. He devotes approximately 80% of his time to our affairs.

Melvin Leiner has been Executive Vice President, Chief Financial Officer, Chief Operating Officer, Secretary, Treasurer and a Director of our Company since July 2010. Prior, he held similar positions with DNA Beverage, Inc. since August 2007. Prior, from May 2004 through July 2007, he held similar positions with Grass Roots Beverage Company, Inc., Boca Raton, FL. From 2001 through April 2006, Mr. Leiner served in an executive capacity for Royal Strategies and Solutions, Inc., a brokerage services company servicing primarily ethnic food companies seeking to expand distribution and is currently its President and a director. Mr. Leiner has over 35 years of entrepreneurial and management experience in developing, initiating, and operating companies in a broad range of industries including the beverage industry. He has served in an executive capacity and consultant for numerous privately held and public companies in the beverage and telecommunications industries. Mr. Leiner was also the founder, Chairman and CEO of Sims Communications, Inc., a NASDAQ-traded telecommunications company and former financial consultant with several firms specializing in new ventures. He devotes substantially all of his time to our affairs.

Table of Contents

We have elected Messrs. Leiner and Marks as directors as a result of their extensive experience in our industry, as discussed above. Additionally, each of our directors has had prior experience as officers and directors of public companies prior to assuming their positions with us. We believe that we are currently unable to attract additional experienced individuals to serve as directors because we have not obtained director and officer liability insurance. Until we obtain such insurance our ability to attract other experienced business people who agree to serve as officers and/or directors is expected to be limited due to the potential liabilities that accrue to public companies.

## Board Committees

As of the date of this Report we do not have any committees of our Board of Directors. We expect to appoint outside Directors to serve on our Board in the near future, but as of the date of this Report we have not identified such prospective Directors. Once appointed, we expect to form an Audit Committee, a Compensation Committee, a Corporate Governance Committee and a Nominating Committee.

## Family Relationships

There are no family relationships between any of our Directors or executive officers.

## Conflicts of Interest

Members of our management are also officers and directors of Royal Strategies and Solutions, a brokerage company that we utilize on a limited basis and Illuminations America, an LED lighting company. See “Certain Relationships and Related Transactions, and Director Independence” below. Consequently, there are potential inherent conflicts of interest in their acting as officers and directors that may arise as a result of this relationship. Because of our increased relationship with unaffiliated brokerage companies, the amount of activity devoted by our management to Royal’s affairs is limited and we do not believe that it has any impact on their ability to perform their responsibilities to our Company. Insofar as our officers and directors are engaged in other business activities, management anticipates it will devote a substantial majority of their business time to our affairs.

## ITEM 11. EXECUTIVE COMPENSATION

## Remuneration

Following is a table containing the aggregate compensation paid to our Chief Executive Officer and Chief Financial Officer, our only two officers who also serve as our only Directors during our fiscal years ended December 31, 2012 and 2011

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (1)	Stock Awards (1)	All Other Compensation (2)	Total Compensation
Darren Marks, CEO/President	2012	\$ 125,000	\$ 50,000	\$ 27,617	\$ 202,617
	2011	\$ 125,000	\$ 165,000	\$ 27,734	\$ 317,734
Melvin Leiner, E x e c u t i v e VP/COO/CFO/Treasurer/Secretary	2012	\$ 125,000	\$ 50,000	\$ 29,596	\$ 204,596
	2011	\$ 125,000	\$ 165,000	\$ 19,166	\$ 309,166



- (1) The salaries for Mr. Marks and Mr. Leiner have been accrued since 2008. In 2012 Mr. Marks and Mr. Leiner each received \$50,000 in stock compensation 500,000 shares of DNA common stock valued at \$0.10 per share to reduce the accrued liability the Company had to them. In 2011 Mr. Marks and Mr. Leiner each received \$165,000 in stock compensation (500,000 shares of DNA common stock valued at \$0.35 per share) to reduce the accrued liability the Company has to them.

Table of Contents

(2) Represents insurance premiums and car allowances paid by us.

Salaries are established by our Board of Directors. We currently do not have a Compensation Committee. Our two executive officers also currently constitute our Board of Directors and as such, determine their own respective salaries. However, we believe that the salaries of our executive officers are commensurate with salaries paid to executive officers of other companies in our industry that are at a similar stage of growth. None of our employees are employed pursuant to an employment agreement.

Our current executive officers (who are also our only directors) receive annual salaries of \$125,000 per person, all of which has been accrued. Our directors are not compensated for the performance of their duties as directors, other than reimbursement of out of pocket expenses incurred in the performance of their duties.

### Stock Plans

In June 2011 we adopted the "DNA Brands Inc. 2011 Stock Bonus Plan," as amended (the "Plan"), to encourage and enable selected officers, directors, consultants and key employees upon whose judgment, initiative and effort we depend for the successful conduct of our business, to acquire and retain shares of our Common Stock, to keep personnel of experience and ability in our employ and to compensate them for their contributions to the growth and profits of our Company and thereby induce them to continue to make such contributions in the future.

In April 2013 we authorized a Stock Plan and reserved an aggregate of 3,000,000 shares of our Common Stock for issuance thereunder. Relevant thereto, on December 26, 2012 we filed a registration statement on Form S-8 with the SEC registering the Plan and the shares reserved therein. As of the date of this report we have issued 2,928,128 of these shares, leaving 71,872 for issuance. We expect to register another 3,000,000 shares by the end of April 2013. The Plan is and will be administered by our Board of Directors and shares are issued pursuant to the Plan in their sole discretion.

We may adopt additional Plans in the future.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table contains certain information regarding beneficial ownership of our Common Stock as of the date of this Report by (i) each person who is known by us to own beneficially more than 5% of our Common Stock, (ii) each of our officers and Directors, and (iii) all Directors and executive officers as a group as of December 31, 2012.

Title of Class	Name and Address Of Beneficial Owner	Amount and Nature Of Beneficial Ownership	Percent Of Class(3)
Common	Darren Marks (1) (2) 544 NW 77th Street Boca Raton, Florida, 33487	2,644,201 (2)	4.0 %
Common	Melvin Leiner (1) (3) 544 NW 77th Street Boca Raton, Florida, 33487	2,587,713 (3)	4.0 %
Common		5,231,914 (2) (3)	8.0 %

All Officers and Directors As a Group (2  
persons)

- 
- (1) Officer and Director of our Company.
  - (2) Includes 2,644,201 held under the name Family Tys, LLC.
  - (3) Includes 2,474,401 held under the name 4 Life LLC.

Table of Contents

Section 16 Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock and other of our equity securities. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish us copies of all Section 16(a) forms they file. Based on available information, filings required under Section 16(a) were complied with for the period covered by this report. However these reports for Darren Marks and Melvin Leiner were filed late.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Since our inception our executive officers have loaned us significant amounts of operating capital on an interest free basis and without formal repayment terms. We did not issue any shares in 2012 to retire loans payable to officers. As of December 31, 2012 these loans totaled \$1,457,539.

We maintain a brokerage agreement with Royal Strategies and Solutions, Inc. (“RSS”), a related party. Under the terms of the agreement, RSS promotes our products in return for a commission on successful sales or sales agreements. We also share a common base of majority stockholders with RSS. Additionally, our principal executive officers also serve as corporate officers to RSS.

We have subleased office and warehouse space in Boca Raton, Florida from RSS for a number of years. We utilize this space for the warehousing and distribution of our products. Effective December 2012 we began paying rent to Royal at the rate of \$5,316 per month with minimal escalation clauses and are committed to these payments until June 2017 when Royal’s lease expires. Our rent expense for the years ended December 31, 2012 and 2011 was \$151,901 and \$152,593 respectively

In addition, RSS is financially responsible for other operating costs and personnel that are utilized by or dedicated to us. We, in turn, provides cash financing to RSS; either via allocated charge backs or non-interest bearing loans. Loans receivable from the related party RSS at December 31, 2011 was \$18,247 and is non-interest bearing. For the years ended December 31, 2012 and December 30, 2011, we recorded \$-0- and \$68,820 in expenses, respectively, from activity associated with RSS. These expenses were comprised primarily of brokerage fees, commissions and administrative services.

In the event we discontinued using RSS as a provider of these brokerage services, it would not have a material impact on our financial condition or operations. The maximum exposure to loss that exists as a result of our involvement with RSS cannot be quantified as such exposure would include responsibility for the remainder of the leased office space and warehouse, unknown personnel costs and undeterminable promotional costs that have been the responsibility of RSS.

During 2012 we sub-leased a portion of our office space from April 1, 2012 through November 30, 2012 to a related company, Illuminations America for \$1,500 per month.

For sponsorship purposes, during both 2012 and 2011 we issued 10,000 restricted shares valued at \$0.30 and \$0.25 per share respectively, to Luke Marks, the son of Darren Marks our CEO. Luke Marks is ranked as one of the Top 20 –under 16 (years of age) surfers in the world. We believe the shares issued are not material to our operations and represents compensation to Luke Marks for added publicity he is generating for DNA.

We believe that all related party transaction represent arms-length fair market value for the services provided.

There have been no other related party transactions, or any other transactions or relationships required to be disclosed pursuant to Item 404 of Regulation S-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Fees to Auditors Fiscal Year ended December 31, 2012 and December 31, 2011

Audit Fees: The aggregate fees, including expenses, billed by our independent accountants for professional services rendered for the audit of our consolidated financial statements during the fiscal years ending December 31, 2012 and 2011 and for the review of our financial information included in our quarterly reports on Form 10-Q during the fiscal years ending December 31, 2012 and 2011 or services that are normally provided in connection with statutory and regulatory filings or engagements during the fiscal years ending December 31, 2012 and 2011 were \$65,602 and \$76,730, respectively.

Table of Contents

Audit Related Fees: The aggregate fees, including expenses, billed by principal accountants for assurance and related services reasonably related to the performance of our audit or review of our financial statements during the years ended December 31, 2012 and 2011 were \$2,150 and \$12,870, respectively.

Tax Fees: The aggregate fees, including expenses, billed by principal accountants for tax compliance, tax advice and tax planning during years 2012 and 2011 were \$10,885 and \$57,525 respectively.

All Other Fees: The aggregate fees, including expenses, billed for all other services rendered to us by our independent accountants during years 2012 and 2011 were \$-0- and \$-0-, respectively.

We have no audit committee. Our board of directors has considered whether the provisions of the services covered above under the captions is compatible with maintaining the auditor's independence. All services were approved by the board of directors prior to the completion of the respective service.

Table of Contents

## PART IV

## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following exhibits are included herewith:

## Exhibit Description

No.

<u>31.1</u>	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<u>31.2</u>	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<u>32.1</u>	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

Following are a list of exhibits which we previously filed in other reports which we filed with the SEC, including the Exhibit No., description of the exhibit and the identity of the Report where the exhibit was filed.

No.	Description	Filed With	Date Filed
3.1	Articles of Incorporation	Form SB-2 Registration Statement	January 22, 2008
3.2	Bylaws	Form SB-2 Registration Statement	January 22, 2008
3.3	Articles of Amendment to Articles of Incorporation filed July 7, 2010	Form 8-K/A Dated July 6, 2010	October 18, 2010
3.4	Statement of Share and Equity Exchange filed July 8, 2010	Form S-1 Registration Statement	December 15, 2010
10.1	Share Exchange Agreement Between Famous Products, Inc. and DNA Beverage Corporation	Form 8-K Dated July 6, 2010	July 12, 2010
10.2	Purchase and Sale Agreement between Famous Products, Inc. and DNA Beverage Corporation	Form 8-K Dated July 6, 2010	July 12, 2010
10.3	Form of Distribution Agreement with Anheiser Busch Distributors	Form S-1/A1 Registration Statement	February 24, 2010
10.4	Vendor Participation Agreement with Walgreen Co and Professional Sports Teams	Form S-1/A1 Registration Statement	February 24, 2010
10.5	Form of Advertising and Promotion Agreement with Professional Sports Teams*	Form S-1/A1 Registration Statement	February 24, 2010





Table of Contents

10.6	Letter Agreement with Circle K Stores, Inc.	Form S-1/A1 Registration Statement	February 24, 2010
10.7	Business Development Agreement with Racetrac Petroleum*	Form S-1/A1 Registration Statement	February 24, 2010
10.8	Title Sponsorship Agreement with C&R Motorsports LLC	Form S-1/A1 Registration Statement	February 24, 2010
10.9	Sponsorship Agreement with Star Racing LLC	Form S-1/A1 Registration Statement	February 24, 2010
10.10	Memorandum of Understanding between DNA Brands & Star Racing LLC	Form S-1/A1 Registration Statement	February 24, 2010
10.11	Sales, Marketing and Manufacturing Agreement with Monogram Meat Snacks LLC	Form S-1/A1 Registration Statement	February 24, 2010
10.12	Brokerage Service Agreement with Reese Group, Inc.	Form S-1/A1 Registration Statement	February 24, 2010
10.13	AAFES Retail Agreement – Army & Air Force Exchange Service	Form S-1/A1 Registration Statement	February 24, 2010
10.14	Broker Agreement with Royal Strategies and Solutions, Inc.	Form S-1/A1 Registration Statement	February 24, 2010
10.15	Trust Agreement	Form S-1/A1 Registration Statement	February 24, 2010
10.16	Letter Agreement with Equinox Securities, Inc.	Form S-1/A1 Registration Statement	February 24, 2010
10.17	12% Secured Convertible Debenture	Form S-1/A1 Registration Statement	February 24, 2010
10.18	Letter Agreement with Circle K Stores, Inc.	Form 10-K	March 30, 2011
10.19	Business Development Agreement with Racetrac Petroleum, Inc.	Form 10-K	March 30, 2011
10.20	Letter Agreement with Walgreens	Form 10-K	March 30, 2011
10.21	Distributor Agreement with City Beverages Limited Partnership	Form 10-K	March 30, 2011

Edgar Filing: DNA BRANDS INC - Form 10-K

10.22	Distributorship Agreement with Sand Dollar Distributors LLC	Form 10-K	March 30, 2011
10.23	Vendor Participation Agreement with Walgreen Co and Orlando Magic	Form 10-K	March 30, 2011
10.24	Sponsorship Agreement with Jeff Ward Racing	Form 10-K	March 31, 2010
10.25	Investment Banking and Advisory Agreement with Charles Morgan Securities, Inc.	Form 10-K	April 13, 2012
16.1	Letter of Ronald R. Chadwick, P.C.	Form 8-K Dated September 10, 2010	September 13, 2010
16.2	Letter of Ronald R. Chadwick, P.C.	Form 8-K/A Dated September 10, 2010	September 16, 2010
21.1	List of Subsidiaries	Form S-1 Registration Statement	December 15, 2010

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunder duly authorized.

DNA BRANDS, INC.

Dated: April 15, 2013

By: /s/ Darren Marks  
Darren Marks, Chief Executive  
Officer

By: /s/ Melvin Leiner  
Melvin Leiner, Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

/s/ Darren Marks April 15, 2013  
Darren Marks, Director

/s/ Melvin Leiner April 15, 2013  
Melvin Leiner, Director

Table of Contents

DNA Brands, Inc.  
Index to Consolidated Financial Statements

<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Operations</u>	F-4
<u>Consolidated Statements of Changes in Stockholders' Deficit</u>	F-5
<u>Consolidated Statements of Cash Flows</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7

F-1

---

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of DNA Brands, Inc.

We have audited the accompanying consolidated balance sheets of DNA Brands, Inc. and Subsidiary as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DNA Brands, Inc. and Subsidiary as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company's dependence on outside financing, lack of sufficient working capital, and recurring losses raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Mallah Furman

Fort Lauderdale, FL  
April 11, 2013

Table of Contents

DNA BRANDS, INC.  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2012 AND 2011

	2012	2011
<b>ASSETS</b>		
Current assets		
Accounts receivable, net	\$ 19,347	86,410
Inventory	38,700	179,363
Loans receivable from related party	—	18,247
Prepaid expenses and other current assets	203,015	31,647
Total current assets	261,062	315,667
Property and equipment, net	20,339	31,624
Other assets	35,272	25,199
Total assets	\$ 316,673	\$ 372,490
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities		
Bank overdrafts	\$ 11,042	\$ 19,157
Accounts payable	644,077	702,301
Accrued liabilities	1,767,536	1,355,576
Loans payable, current portion	—	3,178
Current portion of convertible debentures, net of discounts	222,095	—
Conversion options, derivative liabilities	243,623	—
Loans payable to officers	1,457,539	1,303,388
Total current liabilities	4,345,912	3,383,600
Convertible, subordinated debentures, net of discounts	698,741	566,045
Total liabilities	5,044,653	3,949,645
Commitments and contingencies		
Stockholders' deficit		
Preferred stock, \$0.001 par value, 10,000,000 authorized, zero and zero issued and outstanding, respectively	—	—
Common stock, \$0.001 par value, 100,000,000 authorized, 65,476,313 and 45,425,135 issued and outstanding, respectively	65,476	45,425
Additional paid-in capital	21,082,749	17,809,281
Accumulated deficit	(25,876,205)	(21,431,861)
Total stockholders' deficit	(4,727,980)	(3,577,155)
Total liabilities and stockholders' deficit	\$ 316,673	\$ 372,490

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

Table of Contents

DNA BRANDS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Sales, net	\$ 249,416	\$ 1,191,688
Cost of goods sold	177,403	800,040
Gross margin	72,013	391,648
Operating expenses		
Compensation and benefits	1,485,301	1,747,714
Depreciation expense	11,285	18,541
General and administrative expenses	689,282	945,060
Professional and outside services	1,282,929	950,965
Selling and marketing expenses	274,493	1,043,129
Total operating expenses	3,743,290	4,705,409
Loss from operations	(3,671,277)	(4,313,761)
Other income (expense)		
Gain on conversion options, derivative liabilities	137,794	—
Other income	74,019	—
Interest expense	(984,880)	(159,087)
Total other income (expense)	(773,067)	(159,087)
Loss before income taxes	(4,444,344)	(4,472,848)
Income taxes	—	—
Net loss	\$ (4,444,344)	\$ (4,472,848)
Loss per share:		
Basic and diluted	\$ (0.09)	\$ (0.12)
Weighted average number of common shares outstanding:		
Basic and diluted	50,237,728	38,080,802

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

Table of Contents

DNA BRANDS, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Issued	Amount	Paid-In Capital	Deficit	
Balance, December 31, 2010	—	\$ —	35,828,980	\$ 35,829	\$ 14,461,846	\$ (16,959,013)	\$ (2,461,338)
Issuance of convertible, preferred stock in connection with private offerings	4,527,000	4,527	—	—	1,102,223	—	1,106,750
Conversion of convertible, preferred stock into common stock	(4,527,000)	(4,527)	4,527,000	4,527	—	—	—
Issuance of common stock in connection with private offerings	—	—	1,248,470	1,248	272,696	—	273,944
Issuance of common stock warrants in connection with private offering of common stock	—	—	—	—	253,206	—	253,206
Issuance of common stock in exchange for consulting, professional and other services	—	—	2,192,066	2,192	881,221	—	883,413
Issuance of common stock as compensation to employees and officers	—	—	1,230,000	1,230	390,270	—	391,500
Issuance of common stock in connection with convertible debenture offering	—	—	193,750	194	61,994	—	62,188
Issuance of common stock in	—	—	204,869	205	51,013	—	51,218



connection with common stock warrant exercises							
Fair market value of warrants issued in conjunction with convertible debentures	—	—	—	—	185,005	—	185,005
Recognition of beneficial conversion features embedded within convertible debentures	—	—	—	—	149,807	—	149,807
Net loss	—	—	—	—	—	(4,472,848)	(4,472,848)
Balance, December 31, 2011	—\$	—	45,425,135	\$ 45,425	\$ 17,809,281	\$ (21,431,861)	\$ (3,577,155)
Issuance of convertible, preferred stock in connection with private offerings	6,000	6	—	—	5,994	—	6,000
Conversion of convertible, preferred stock into common stock	(6,000)	(6)	20,000	20	(14)	—	—
Issuance of common stock in connection with private offerings	—	—	4,616,067	4,616	323,008	—	327,624
Issuance of common stock in exchange for consulting, professional and other services	—	—	6,608,764	6,609	1,089,996	—	1,096,605
Issuance of common stock as compensation to employees and officers	—	—	4,595,000	4,595	530,255	—	534,850
Issuance of common stock in connection with convertible debenture offering	—	—	100,000	100	11,900	—	12,000
Issuance of common stock in connection with	—	—	611,681	611	152,309	—	152,920

common stock warrant exercises							
Conversion of convertible debentures into common stock	—	—	3,499,666	3,500	521,450	—	524,950
Fair market value of warrants issued in conjunction with subordinated debentures	—	—	—	—	63,620	—	63,620
Recognition of beneficial conversion features embedded with convertible debentures	—	—	—	—	574,950	—	574,950
Net loss	—	—	—	—	—	(4,444,344)	(4,444,344)
Balance, December 31, 2012	—\$	—	65,476,313	\$ 65,476	\$ 21,082,749	\$ (25,876,205)	\$ (4,727,980)

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

Table of Contents

DNA BRANDS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Net loss	\$ (4,444,344)	\$ (4,472,848)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	11,285	18,541
Loss on disposal of fixed assets	—	1,721
Gain on conversion options, derivative liabilities	(137,794)	—
Non-cash interest expense related to discount on convertible debentures	822,792	63,045
Provision for doubtful accounts	43,118	54,296
Common stock issued in connection with convertible debt	1,096,605	883,413
Common stock warrants, classified as derivative liabilities, issued in exchange for services	114,315	—
Common stock issued in connection with convertible debt	12,000	—
Common stock issued as employee compensation	534,850	391,500
Changes in operating assets and liabilities:		
Accounts receivable	42,192	(887)
Inventory	140,663	(28,385)
Prepaid expenses and other current assets	(171,368)	(9,916)
Other Assets	(10,073)	—
Bank overdrafts	(8,115)	19,157
Accounts payable	(58,224)	229,652
Accrued liabilities	411,961	(34,957)
Net cash used in operating activities	(1,600,137)	(2,904,825)
Cash flows from investing activities:		
Proceeds from the sale of property and equipment	—	2,395
Loan receivable from related party	—	8,246
Net cash provided by (used in) investing activities	—	10,641
Cash flows from financing activities:		
Net proceeds from officer loans	679,101	226,288
Net proceeds from convertible debentures	437,668	900,000
Repayments of loans payable	(3,176)	(10,983)
Net proceeds from the issuance of convertible preferred stock	6,000	1,106,750
Net proceeds from the issuance of common stock	327,624	527,150
Net proceeds from the exercise of common stock warrants	152,920	51,218
Net cash provided by financing activities	1,600,137	2,819,580
Net change in cash and cash equivalents	—	(74,604)
Cash and cash equivalents at beginning of period	—	74,604
Cash and cash equivalents at end of period	\$ —	\$ —
Supplemental disclosures:		
Interest paid	\$ 109,343	\$ 55,360
Supplemental disclosures of non-cash investing and financing activities:		
	\$ 524,590	\$ —

Common stock issued in connection with conversion of convertible debentures			
Common stock issued to pay accrued interest expense on convertible debentures	\$	12,000	—
Discount on convertible debentures	\$	905,669	\$ 397,000

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

Table of Contents

DNA Brands, Inc.  
Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Company Overview and History

DNA Brands, Inc. (hereinafter referred to as the “Company” or “DNA”) was incorporated in the State of Colorado on May 23, 2007 under the name Famous Products, Inc. Prior to July 6, 2010 the Company was a holding company operating as a promotion and advertising company. The Company currently produces markets and sells a proprietary line of three carbonated blends of DNA Energy Drink®, Citrus, Sugar Free Citrus and Sugar Free Cranrazberry. Until recently the Company also marketed and sold a line of beef jerky and meat sticks.

The Company was incorporated in the State of Colorado on May 23, 2007 under the name Famous Products, Inc. Prior to July 6, 2010, the Company was a holding company operating as a promotion and advertising company.

The Company’s current business commenced in May 2006 in the State of Florida under the name Grass Roots Beverage Company, Inc. Initial operations of Grass Roots included the development of energy drinks, sampling and other marketing efforts and initial distribution of its energy drinks in the State of Florida. The Company began selling its energy drink in the State of Florida in 2007.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Grass Roots. All significant intercompany balances and transactions have been eliminated in consolidation.

Table of Contents

DNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

1. Organization and Summary of Significant Accounting Policies (continued)

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

The Company derives revenues from the sale of carbonated energy drinks, meat snacks and other related products. Revenue is recognized when all of the following elements are satisfied: (i) there are no uncertainties regarding customer acceptance; (ii) there is persuasive evidence that an agreement exists; (iii) delivery has occurred; (iv) legal title to the products has transferred to the customer; (v) the sales price is fixed or determinable; and (vi) collectability is reasonably assured.

Shipping and Handling Costs

Shipping and handling costs related to the movement of finished goods from manufacturing locations to sales distribution centers are included in cost of goods sold on the Company's consolidated statements of operations. Shipping and handling costs incurred to move finished goods from the Company's sales distribution centers to its customer locations are also included in cost of goods sold on its consolidated statements of operations. The Company's customers do not pay separately for shipping and handling costs.

Advertising expenses

Advertising costs are expensed as incurred. Advertising expenses amounted to \$13,289 and \$116,044 for the periods ended December 31, 2012 and December 31, 2011, respectively.

Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash and cash equivalents, accounts receivable, advances to related party, accounts payable, accrued expenses, derivative liabilities, and loans payable. The carrying values of the financial instruments approximate their fair value due to the short-term nature of these instruments. The fair values of the loans payable have interest rates that approximate market rates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents are stated at cost and consist of bank deposits. The carrying amount of cash and cash equivalents approximates fair value.

Accounts Receivable and Allowance for Doubtful Accounts

The Company bills its customers after its products are shipped. The Company bases its allowance for doubtful accounts on estimates of the creditworthiness of customers, analysis of delinquent accounts, payment histories of its

customers and judgment with respect to the current economic conditions. The Company generally does not require collateral. The Company believes the allowances are sufficient to cover uncollectible accounts. The Company reviews its accounts receivable aging on a regular basis for past due accounts, and writes off any uncollectible amounts against the allowance.

#### Inventory

Inventory is stated at the lower of cost or market. Cost is principally determined by using the average cost method that approximates the First-In, First-Out (FIFO) method of accounting for inventory. Inventory consists of raw materials as well as finished goods held for sale. The Company's management monitors the inventory for excess and obsolete items and makes necessary valuation adjustments when required.

F-8

---

Table of Contents

DNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation. Replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Equipment	5 Years
Furniture and fixtures	5 Years
Vehicles	5 Years

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate the book value of the assets may not be recoverable. In accordance with Accounting Standards Codification (“ASC”) 360-10-35-15 Impairment or Disposal of Long-Lived Assets, recoverability is measured by comparing the book value of the asset to the future net undiscounted cash flows expected to be generated by the asset.

No events or changes in circumstances have been identified which would impact the recoverability of the Company’s long-lived assets reported at December 31, 2012 and 2011.

Derivative Instruments

The Company does not enter into derivative contracts for purposes of risk management or speculation. However, from time to time, the Company enters into contracts, namely convertible notes payable, that are not considered derivative financial instruments in their entirety, but that include embedded derivative features.

In accordance with Financial Accounting Standards Board (“FASB”) ASC Topic 815-15, Embedded Derivatives, and guidance provided by the SEC Staff, the Company accounts for these embedded features as a derivative liability or equity at fair value.

The recognition of the fair value of the derivative instrument at the date of issuance is applied first to the debt proceeds. The excess fair value, if any, over the proceeds from a debt instrument, is recognized immediately in the statement of operations as interest expense. The value of derivatives associated with a debt instrument is recognized at inception as a discount to the debt instrument and amortized to interest expense over the life of the debt instrument. A determination is made upon settlement, exchange, or modification of the debt instruments to determine if a gain or loss on the extinguishment has been incurred based on the terms of the settlement, exchange, or modification and on the value allocated to the debt instrument at such date.

Stock-Based Compensation

The Company applies ASC 718 Compensation – Stock Compensation to stock-based compensation awards. ASC 718 requires the measurement and recognition of non-cash compensation expense for all share-based payment awards made to employees and directors. The Company records common stock issued for services or for liability extinguishments at the closing market price for the date in which obligation for payment of services is incurred.



F-9

---

Table of Contents

DNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Stock compensation arrangements with non-employee service providers are accounted for in accordance with ASC 505-50 Equity-Based Payments to Non-Employees, using a fair value approach. The compensation costs of these arrangements are subject to re-measurement over the vesting terms as earned.

Stock Purchase Warrants

The Company has issued warrants to purchase shares of its common stock. Warrants have been accounted for as equity in accordance with ASC 480, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock, Distinguishing Liabilities from Equity.

Income Taxes

Income taxes are accounted for under the asset and liability method as stipulated by ASC 740. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities or a change in tax rate is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced to estimated amounts to be realized by the use of a valuation allowance. A valuation allowance is applied when in management's view it is more likely than not (50%) that such deferred tax will not be utilized

The Company follows the provisions of the FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ("FIN 48"). FASB Statement No. 109 has been codified in ASC Topic 740. ASC Topic 740 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with ASC Topic 740. This first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. ASC Topic 740 did not result in any adjustment to the Company's provision for income taxes.

Earnings (Loss) Per Share

The Company computes basic earnings (loss) per share using the weighted average number of shares of common stock outstanding during the period.

Table of Contents

DNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

## 2. Recently Issued Accounting Pronouncements

Accounting Standards that have been issued or proposed by the FASB or other standard-setting bodies, that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

## 3. Going Concern

As reflected in the accompanying financial statements, the Company has recorded net losses of \$4,444,344 and \$4,472,848 for the years ended December 31, 2012 and 2011, respectively. Net cash used in operations from the same periods were \$1,600,137 and \$2,904,825 respectively. At December 31, 2012, the Company had a working capital deficit of \$4,077,865 and a stockholders' deficit of \$4,727,981. These matters raise a substantial doubt about the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent on management's plans, which includes implementation of its business plan and continuing to raise funds through debt or equity raises. The Company will likely continue to rely upon related-party debt or equity financing in order to ensure the continuing existence of the business. Additionally the Company is working on generating new sales from additional retail outlets, distribution centers or through sponsorship agreements; and allocating sufficient resources to continue with advertising and marketing efforts.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These financial statements do not include any adjustments relating to the recovery of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

## 4. Inventory

The following table sets forth the composition of the Company's inventory at December 31, 2012 and 2011:

	2012	2011
Raw materials	\$ —	\$ 37,228
Finished goods – beverages	38,700	131,872
Finished goods –meat snacks	—	10,263
Total inventory	\$ 38,700	\$ 179,363

## 5. Accounts Receivable and Customer Credit Concentration

The following table sets forth the composition of the Company's accounts receivable at December 31, 2012 and 2011:

	2012	2011
Accounts Receivable	\$ 29,074	\$ 135,246
Less: Allowance for doubtful accounts	(9,727)	(48,836)
Accounts Receivable, net	\$ 19,347	\$ 86,410

Bad debt expense for the years ended December 31, 2012 and 2011 was \$43,118 and \$54,296, respectively.

Due to the low balances of accounts receivables as of December 31, 2012, concentration of customer balances is not considered material.

During 2012 three customers accounted for approximately 24.1%, 14.8% and 10.3% of the Company's sales, respectively. During 2011, three customers accounted for approximately 17.8%, 14.1% and 10.1% of the Company's sales, respectively.

F-11

---

Table of Contents

DNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

## 6. Prepaid Expenses and Other Assets

The following table sets forth the composition of the Company's prepaid expenses and other assets at December 31, 2012 and 2011:

	2012	2011
Short-term security deposit	\$ 22,000	\$ 10,000
Employee and other advances	88,420	46,846
Prepaid services	127,867	—
Total prepaid expenses and other assets	238,287	56,846
Less: Non-current portion of employee advances	35,272	25,199
Prepaid expenses and other current assets	\$ 203,015	\$ 31,647

## 7. Property and Equipment, Net

The following table sets forth the composition of the Company's property and equipment at December 31, 2012 and 2011:

	2012	2011
Equipment	\$ 18,690	\$ 18,690
Furniture and fixtures	9,156	9,156
Vehicles	75,907	75,907
Accumulated depreciation	(83,414)	(72,129)
Total property and equipment, net	\$ 20,339	\$ 31,624

Depreciation expense for the years ended December 31, 2012 and 2011 was \$11,285 and \$18,541, respectively. In March 2011, the Company disposed of one of its vehicles. As a result of the transaction, the Company received cash proceeds of \$250 and recorded a loss on disposal of \$3,014. In November 2011, a flood damaged another of the Company's vehicles which the insurance company determined to be a total loss. As a result, the Company received insurance proceeds of \$2,145 and recorded a gain on disposal of \$1,293.

Table of ContentsDNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

## 8. Accrued Expenses

The following table sets forth the composition of the Company's accrued expenses as of December 31, 2012 and 2011:

	2012	2011
Salaries and bonuses	\$ 1,045,888	\$ 767,798
Interest expense on convertible debentures	85,927	7,932
Professional services	34,074	20,426
Payroll taxes and penalties	601,647	559,420
Total accrued expenses	\$ 1,767,536	\$ 1,355,576

Salaries and bonuses represent amounts due to officers and employees. Due to the Company's shortage of liquidity, its two principal executive officers have deferred cash payment of their salaries since 2008. During 2012, an aggregate of 1,000,000 shares of the Company's common stock valued at \$100,000 were paid to the officers in lieu of cash. During 2011, an aggregate of 1,000,000 shares of the Company's common stock valued at \$330,000 were paid to the officers in lieu of cash. As of December 31, 2012, the Company's officers were still owed \$820,000 as a result of their deferrals and its employees were owed \$225,888 for amounts earned and accrued in the normal course of business.

As of December 31, 2012 and 2011, accrued payroll taxes and penalties represented the unpaid portion of employer and employee payroll taxes totaling approximately \$466,437 and \$446,460 respectively. The Company has estimated potential penalties associated with these unpaid amounts to be \$135,210 and \$112,960 as of December 31, 2012 and 2011. The Company has engaged the services of a professional experienced in payroll tax matters to work with the Company and the Internal Revenue Service (IRS) to achieve a re-payment plan acceptable to the IRS. During 2012 the Company made payments of \$59,144 against this liability.

## 9. Loans Payable

Loans payable were comprised primarily of financing agreements for vehicles and beverage coolers utilized in the distribution and storage of the Company's products. The range of interest rates on these loans was between 9% and 26%. The following table sets forth the current and long term portions of bank loans as of December 31, 2012 and 2011:

	2012	2011
Loans payable	\$ —	\$ 3,178
Less: Current portion of loans payable	—	(3,178)
Total long term loans payable	\$ —	—

Table of ContentsDNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

## 10. Convertible Debentures, Net of Discounts

A summary of the issuances of all convertible notes during the years ended December 31, 2012 and 2011 are as follows:

Issue Date	Interest Rate	Face Value	Original Due Date	Conversion Rate of Face Value to Common Shares
02/18/2011	12%	\$ 500,000	02/18/2014	1.33
06/15/2011	12%	125,000	06/30/2014	1.20
07/18/2011	12%	25,000	07/31/2015	16.45 (1)
07/28/2011	12%	100,000	07/31/2015	16.45 (1)
08/03/2011	12%	100,000	07/31/2015	16.45 (1)
08/26/2011	12%	50,000	07/31/2015	16.45 (1)
02/01/2012	12%	75,000	01/31/2013	3.73
02/29/2012	—	52,500	—	6.67
03/01/2012	—	101,250	—	6.67
03/02/2012	—	66,450	—	6.67
03/02/2012	—	25,000	—	6.67
03/06/2012	—	90,000	—	6.67
03/07/2012	—	9,750	—	6.67
03/08/2012	—	15,000	—	6.67
03/09/2012	—	30,000	—	6.67
03/21/2012	—	15,000	—	6.67
03/22/2012	—	90,000	—	6.67
03/28/2012	—	15,000	—	6.67
03/29/2012	—	15,000	—	6.67
07/02/2012	12%	50,000	07/01/2013	16.67 (2)
07/02/2012	12%	19,468	07/01/2013	16.67 (2)
07/02/2012	12%	29,000	07/01/2013	16.67 (2)
07/02/2012	12%	17,000	07/01/2013	16.67 (2)
07/02/2012	12%	17,200	07/01/2013	16.67 (2)
07/20/2012	12%	50,000	07/19/2013	16.67 (2)
08/07/2012	—	50,000	09/07/2012	10.00
09/25/2012	6%	50,000	09/25/2013	20.41 (3)
11/01/2012	12%	80,000	11/01/2013	18.80 (4)
<b>Total</b>		<b>\$ 1,337,668</b>		

- (1) The Company has determined the conversion ratio as of December 31, 2012. These debentures are convertible at a conversion price equal to 80% of the average share price of the Company's common stock for the ten (10) previous trading days prior to conversion. As a result, the conversion ratio may fluctuate from period to period.
- (2) The Company has determined the conversion ratio as of December 31, 2012. These debentures are convertible at a conversion price equal to the lesser of 75% of the average share price of the Company's common stock for the five (5) previous trading

- days prior to conversion or a base conversion price equivalent to the lowest issued price per share. As a result, the conversion ratio may fluctuate from period to period.
- (3) The Company has determined the conversion ratio as of December 31, 2012. These debentures are convertible at a conversion price equal to 70% of the lowest closing bid price of the Company's common stock on the four previous trading days prior to and day of conversion, but not less than \$0.0001. As a result, the conversion ratio may fluctuate from period to period.
  - (4) The Company has determined the conversion ratio as of December 31, 2012. These debentures are convertible at a conversion price equal to 70% of the average closing bid price of the Company's common stock on the 30 previous trading days prior to the day of conversion. As a result, the conversion ratio may fluctuate from period to period.

In February 2011, the Company issued a convertible debenture to an existing shareholder in the amount of \$500,000. The debenture bears interest at 12% per annum and carries an annual transaction fee of \$30,000, of which both are payable in quarterly installments commencing in May 2011. These costs are recorded as interest expense in the Company's financial statements. In addition, as further inducement for loaning the Company funds, the Company issued 125,000 restricted shares of its common stock to the holder upon execution. The common shares were valued at \$31,250, their fair market value, and recorded as discount to the debenture. These costs will be amortized using the effective interest method over the term of the debenture and recorded as interest expense in the Company's financial statements.

In June 2011, the Company issued a convertible debenture to an existing shareholder in the amount of \$125,000. The debenture bears interest at 12% per annum, which is payable in the Company's common stock at the time of maturity. The debenture is convertible at any time prior to maturity into 150,000 shares of the Company's common stock. This beneficial conversion feature was valued at \$90,750, using Black-Scholes methodology, and recorded as a discount to the debenture. These costs will be amortized using the effective interest method over the term of the debenture and recorded as interest expense in the Company's financial statements.

In July and August 2011, the Company issued a series of secured convertible debentures to accredited investors aggregating \$275,000 in gross proceeds. All proceeds from these debentures are to be utilized solely for the purpose of funding raw materials and inventory purchases through the use of an escrow agent. The debentures bear interest at 12% per annum, payable in monthly installments. The debentures are convertible at any time prior to maturity at a conversion price equal to 80% of the average share price of the Company's common stock for the 10 previous trading days prior to conversion, but not less than \$0.70. In addition, as further inducement for loaning the Company funds, the Company issued the lenders 68,750 restricted shares of its common stock and 137,500 common stock warrants exercisable at \$1.25 per share. As a result, the Company had to allocate fair market value to each the beneficial conversion feature, restricted shares and warrants. The common shares were valued at \$30,938, their fair market value. The Company determined the fair market value of the warrants as \$94,255 using the Black-Scholes valuation model. Since the combined fair market value allocated to the warrants and beneficial conversion feature cannot exceed the convertible debenture amount, the beneficial conversion feature was valued at \$149,807, the ceiling of its intrinsic value. These costs will be amortized using the effective interest method over the term of the debenture and recorded as interest expense in the Company's financial statements.

In February 2012, the Company issued a convertible debenture to an existing shareholder in the amount of \$75,000. The debenture bears interest at 12% per annum, which is payable in the Company's common stock at the time of maturity. The debenture is convertible at any time prior to maturity into 280,000 shares of the Company's common stock. As further inducement, the Company issued the lender 280,000 common stock warrants exercisable at \$1.50 per share. If unexercised, the warrants will expire on January 31, 2017. Using the Black-Scholes model, the warrants were valued at \$63,620 and recorded as a discount to the principal amount of the debenture. This discount is amortized using the effective interest method over the term of the debenture and recorded as interest expense in the Company's



financial statements.

In February and March 2012, the Company converted \$524,950 of its loans payable to officers into convertible debentures. These debentures were offered by the Company's officers to certain accredited investors and a majority portion of the proceeds therefrom were deposited with the Company. The debentures have no maturity date and bear no interest. Therefore these debentures are payable on demand and have been classified as a current liability on the accompanying consolidated balance sheet. The debentures are convertible at any time into 3,499,667 shares, or \$0.15 per share of common stock. The Company determined that these terms created a beneficial conversion feature. Using the Black-Scholes model, the beneficial conversion feature was valued at \$524,950, the ceiling of its intrinsic value. Due to the nature of the debentures, the full value of the beneficial conversion feature was immediately recorded as interest expense in the Company's financial statements. In August 2012, these convertible debentures were converted into 3,499,666 shares of the Company's common stock.

On April 9, 2012, the Company executed an Investment Banking and Advisory Agreement with Charles Morgan Securities, Inc., New York, NY ("CMI"), wherein CMI agreed to provide consulting, strategic business planning, financing on a "best efforts" basis and investor and public relations services, as well as to assist the Company in its efforts to raise capital through the issuance of debt or equity. The agreement provided for CMI to engage in two separate private offerings with the initial private placement offering up to \$3.0 million and the second private placement offering up to an additional \$3.0 million; each on a "best efforts" basis. In connection with this agreement the Company issued 750,000 shares valued at \$0.25 per share or a total value of \$187,500. This amount was fully amortized in the Company's financial statements as of December 31, 2012.

In July 2012, the Company received proceeds from convertible debentures totaling \$182,668 in connection with the CMI agreement. The debentures bear interest at 12% per annum, which is payable in cash or the Company's common stock at the time of conversion or maturity. The debentures are convertible at any time prior to maturity at a conversion price equal to the lesser of 75% of the average share price of the Company's common stock for the five previous trading days prior to conversion or \$0.35, but not less than \$0.15. In the event that the Company offers or issues shares of its common stock at a share price less than \$0.15, the floor conversion price will adjust to the new lower price. The Company determined that the terms of the debentures created a beneficial conversion feature. Using the Black-Scholes model, the beneficial conversion feature was valued at \$160,813 and recorded as a discount to the principal amount of the debentures. The discount is amortized using the effective interest method over the term of the debenture and recorded as interest expense in the Company's financial statements.

On August 7, 2012, the Company issued a convertible debenture in the amount of \$50,000. The debenture does not bear interest. As an inducement, the Company agreed to issue the lender 20,000 shares of its common stock. The common shares were valued at their trading price on the date of the agreement and recorded as interest expense in the Company's results of operations. The Company determined that the terms of the debenture created a beneficial conversion feature. Using the Black-Scholes model, the beneficial conversion feature was valued at \$50,000, the ceiling of its intrinsic value, and recorded as a discount to the principal amount of the debenture. The discount is amortized using the effective interest method over the term of the debenture and recorded as interest expense in the Company's financial statements.

On September 25, 2012, the Company issued a convertible debenture in the amount of \$50,000. The debenture bears interest at 6% per annum, which is payable in the Company's common stock at the time of conversion or maturity. The debenture is convertible at any time prior to maturity at a conversion price equal to 70% of the lowest closing bid price of the Company's common stock on the four previous trading days prior to and day of conversion, but not less than \$0.0001. The Company determined that the terms of the debenture created a beneficial conversion feature. Using the Black-Scholes model, the beneficial conversion feature was valued at \$50,000, the ceiling of its intrinsic value, and recorded as a discount to the principal amount of the debenture. The discount is amortized using the effective interest method over the term of the debenture and recorded as interest expense in the Company's financial statements.

On November 1, 2012, the Company issued a convertible debenture in the amount of \$80,000. The debenture bears interest at 12% per annum, which is payable in the Company's common stock at the time of conversion or maturity. The debenture is convertible at any time prior to maturity at a conversion price equal to 70% of the average closing bid price of the Company's common stock on the 30 previous trading days prior to the day of conversion. The Company determined that the terms of the debenture created a beneficial conversion feature. Using the Black-Scholes model, the beneficial conversion feature was valued at \$56,286, the ceiling of its intrinsic value, and recorded as a discount to the principal amount of the debenture. The discount is amortized using the effective interest method over the term of the debenture and recorded as interest expense in the Company's financial statements.

The calculated value of the conversion feature that resulted in the discount in the table above was estimated using the Black-Scholes option pricing model with the following weighted average assumptions for the years ended December 31, 2012 and 2011.

	2012	2011
Convertible notes-face value	\$ 1,337,668	\$ 900,000
Loan discount	(714,674)	(397,000)
Add: Amortization of loan discount	297,842	63,045
Less: Current portion	(222,095)	—
Net convertible notes	\$ 698,741	\$ 566,045

In February 2011, the Company issued a convertible debenture to an existing shareholder in the amount of \$500,000. The debenture bears interest at 12% per annum and carries an annual transaction fee of \$30,000, of which both are payable in quarterly installments commencing in May 2011. These costs are recorded as interest expense in the Company's financial statements. In addition, as further inducement for loaning the Company funds, the Company issued 125,000 restricted shares of its common stock to the holder upon execution. The common shares were valued at \$31,250, their fair market value, and recorded as discount to the debenture. These costs will be amortized using the effective interest method over the term of the debenture and recorded as interest expense in the Company's financial statements.

In June 2011, the Company issued a convertible debenture to an existing shareholder in the amount of \$125,000. The debenture bears interest at 12% per annum, which is payable in the Company's common stock at the time of maturity. The debenture is convertible at any time prior to maturity into 150,000 shares of the Company's common stock. This beneficial conversion feature was valued at \$90,750, using Black-Scholes methodology, and recorded as a discount to the debenture. These costs will be amortized using the effective interest method over the term of the debenture and recorded as interest expense in the Company's financial statements.

Table of ContentsDNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

## 10. Convertible Debentures, Net of Discounts (continued)

In July and August 2011, the Company issued a series of secured convertible debentures to accredited investors aggregating \$275,000 in gross proceeds. All proceeds from these debentures are to be utilized solely for the purpose of funding raw materials and inventory purchases through the use of an escrow agent. The debentures bear interest at 12% per annum, payable in monthly installments. The debentures are convertible at any time prior to maturity at a conversion price equal to 80% of the average share price of the Company's common stock for the 10 previous trading days prior to conversion, but not less than \$0.70. In addition, as further inducement for loaning the Company funds, the Company issued the lenders 68,750 restricted shares of its common stock and 137,500 common stock warrants exercisable at \$1.25 per share. As a result, the Company had to allocate fair market value to each the beneficial conversion feature, restricted shares and warrants. The common shares were valued at \$30,938, their fair market value. The Company determined the fair market value of the warrants as \$94,255 using the Black-Scholes valuation model. Since the combined fair market value allocated to the warrants and beneficial conversion feature cannot exceed the convertible debenture amount, the beneficial conversion feature was valued at \$149,807, the ceiling of its intrinsic value. These costs will be amortized using the effective interest method over the term of the debenture and recorded as interest expense in the Company's financial statements.

The calculated value of the conversion feature that resulted in the discount in the table above was estimated using the Black-Scholes option pricing model with the following weighted average assumptions for the years ended December 31, 2012 and 2011.

	2012		2011	
Expected dividend yield (1)	0.00	%	0.00	%
			1.67%	-
Risk-free interest rate (2)	0.15 – 0.62		2.01	%
	140.7 –		91.69%	-
Expected volatility (3)	2305.60	%	121.98	%
Expected life (in years) (4)	0.75 – 3.60		3.0 - 4.0	

The Company has no history or expectation of paying cash dividends on its common (1) stock.

The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with (2) the expected life of the awards in effect at the time of grant.

The volatility is based upon the average volatility rate of three similar publicly traded (3) companies.

(4) The expected life represents the due date of the note.

Table of ContentsDNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

## 11. Embedded Conversion on Option Liabilities

Due to the conversion terms of certain promissory notes, the embedded conversion options met the criteria to be bifurcated and presented as derivative liabilities. The Company calculated the estimated fair values of the liabilities for embedded conversion option derivative instruments at the original note inception date and as of December 31, 2012 using the Black-Scholes option pricing model using the share prices of the Company's stock on the dates of valuation and using the following ranges for volatility, expected term and the risk free interest rate at each respective valuation date, no dividend has been assumed for any of the periods:

	Note Inception Date	December 31, 2012
Expected dividend yield (1)	—%	—%
Risk-free interest rate (2)	0.16 – 0.71%	0.17 – 0.62%
Expected volatility (3)	153.3 – 280.1%	165.8 – 288.0%
Expected life (in years) (4)	1.00 – 4.00	0.75 – 3.85

(1)The Company has no history or expectation of paying cash dividends on its common stock.

(2)The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of the awards in effect at the time of grant.

(3)The volatility for the period ended December 31, 2012 is based upon the historical volatility of the Company's stock price, a period equal to the expected life of the note or twenty four months following the reverse capitalization transaction.

(4)The expected life represents the due date of the note.

The following reflects the initial fair value on the note inception date and changes in fair value through December 31, 2012:

Note inception date fair value allocated to debt discount	\$ 267,099
Change in fair value – (gain)	(58,717)
Embedded conversion option derivative liability fair value on December 31, 2012	\$ 208,682

## 12. Loans Payable to Officers

The following table summarizes the Company's loans payable to officers as of December 31, 2012 and 2011:

	2012	2011
Loans payable to officers	\$ 1,457,539	\$ 1,303,388

Since the Company's inception, its principal executive officers have loaned the Company significant amounts of operating capital on an interest free basis and without formal repayment terms.



Table of Contents

## DNA Brands, Inc.

## Notes to Consolidated Financial Statements (Continued)

## 13. Related Party Transactions and Balances

The Company, through its wholly-owned subsidiary Grass Roots, maintains a brokerage agreement with Royal Strategies and Solutions, Inc. (“RSS”), a related party. Under the terms of the agreement, RSS promotes the Company’s products in return for a commission on successful sales or sales agreements. The Company shares a common base of majority stockholders with RSS. Additionally, the Company’s two principal executive officers also serve as corporate officers to RSS.

RSS leases office space and a warehouse which is subleased to the Company. The Company utilizes this space for the warehousing and distribution of its products. In addition, RSS is financially responsible for other operating costs and personnel that are utilized by or dedicated to the Company. The Company, in turn, provides cash financing to RSS; either via allocated expenses or non-interest bearing loans.

Under the guidelines of ASC 810.10, Amendments to FASB Interpretation No. 46(R), “if a reporting entity is not the primary beneficiary but has a variable interest in the variable interest entity, the reporting entity is required to disclose related information in its financial statements.” Based upon tests performed, the Company has determined that it has a variable interest in RSS but is not the primary beneficiary; and, therefore has not consolidated the financial statements of RSS with the Company.

The following table summarizes the Company’s loans receivable from related party as of December 31, 2012 and 2011:

	2012	2011
Loans receivable from related party	\$ —	\$ 18,247

For the years ended December 31, 2012 and 2011, the Company recorded \$-0- and \$68,820 in expenses, respectively, from activity associated with RSS. These expenses were comprised primarily of brokerage fees, commissions and administrative services.

In the event the Company discontinued using RSS as a provider of these brokerage services, it would not have a material impact on the Company’s financial condition or operations. The maximum exposure to loss that exists as a result of the Company’s involvement with RSS cannot be quantified as such exposure would include responsibility for the remainder of the leased office space and warehouse, unknown personnel costs and undeterminable promotional costs that have been the responsibility of RSS.

During 2012 we sub-leased a portion of our office space from April 1, 2012 through November 30, 2012 to a related company, Illuminations America, for \$1,500 per month.

Table of Contents

DNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

## 14. Equity

## Preferred and Common Stock

At December 31, 2012 the Company was authorized to issue 10,000,000 shares of \$0.001 Preferred Stock and 100,000,000 shares of \$0.001 par value Common Stock. The holders of common stock are entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors. Each share of common stock is entitled to one vote.

At December 31, 2012 and 2011, no preferred stock was issued or outstanding. At December 31, 2012 and 2011, common stock issued and outstanding totaled 65,476,313 and 45,425,135 shares, respectively.

Historically, the Company has issued and sold preferred stock, common stock and common stock warrants in order to fund a significant portion its operations. Additionally, the Company has issued shares of its common stock to compensate its employees, pay service providers and retire debt.

## Stock Options

In April 2011, the Company adopted an Incentive Stock Option Plan and a Non-Qualified Stock Options Plan. Under these plans, the Company may grant up to 500,000 and 1,000,000 stock options, respectively. As of December 31, 2012, the Company had not granted any options pursuant to either the Incentive Stock Option Plan or the Non-Qualified Stock Option Plan.

	Number of Options	Weighted-Average Exercise Price	Average Remaining Contractual Life (Years)
Outstanding and exercisable on December 31, 2011	226,076	\$ 1.49	2.00
Granted	—	—	—
Exercised	—	—	—
Forfeited and expired	—	—	—
Outstanding and exercisable on December 31, 2012	226,076	\$ 1.49	2.00

Intrinsic value is measured using the fair market value price of the Company's common stock less the applicable exercise price. The aggregate intrinsic value of stock options outstanding and exercisable as of December 31, 2012, was \$-0-.

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value based on the closing price of the Company's common stock of \$0.074 on December 31, 2012, which would have been received by the option holders had all option holders exercised their options as of that date.

As of December 31, 2012 and 2011, there was \$-0- in unrecognized compensation related to stock options outstanding. All outstanding stock options are vested. Since the inception of the Company, no stock options have been exercised.





Table of ContentsDNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

## Stock Warrants

The following table reflects all outstanding and exercisable warrants for the periods ended December 31, 2012 and 2011. All stock warrants are immediately vested upon issuance and are exercisable for a period five years from the date of issuance.

	Number of Warrants Outstanding	Weighted Average Exercise Price	Remaining Contractual Life (Years)
Balance, December 31, 2010	3,194,930	\$ 1.62	3.04
Warrants issued	659,442	\$ 1.25	4.28
Warrants exercised	(204,869)	\$ 0.25	—
Balance, December 31, 2011	3,649,503	\$ 1.56	2.57
Warrants issued	780,000	\$ 0.73	4.68
Warrants exercised	(611,882)	\$ 0.25	
Balance, December 31, 2012	3,817,621	\$ 1.39	2.14(1)

- (1) The remaining contractual life of the warrants outstanding as of December 31, 2012 ranges from .08 to 5.00 years.

The value of the common stock options and warrants has been determined using the following Black Scholes methodology:

	2012	2011
Expected dividend yield (1)	0.00 %	0.00 %
	0.16% –	1.67% -
Risk-free interest rate (2)	0.71 %	1.75 %
	153.3% –	91.69% -
Expected volatility (3)	297.4 %	109.31 %
Expected life (in years)	1.00 – 7.00	5.00

- (1) The Company has no history or expectation of paying cash dividends on its common stock.  
(2) The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of the awards in effect at the time of grant.  
(3) The volatility of the Company stock is based on three similar publicly traded companies.

## Warrant Issued in Exchange for Services

On February 1, 2012, the Company issued warrants to purchase 500,000 shares of the Company's common stock to an investor relations professional engaged by the Company. The warrants can be exercised at a price equal to 70% of the

average share price of the Company's common stock for the 5 previous trading days prior to conversion. They expire on January 31, 2017.

Due to the exercise terms of common stock warrants, the option met the criteria to be bifurcated and presented as derivative liabilities. The Company calculated the estimated fair values of the liabilities for option derivative instrument at the original grant date and as of December 31, 2012 using the Black-Scholes option pricing model using the share prices of the Company's stock on the dates of valuation and using the following ranges for volatility, expected term and the risk free interest rate at each respective valuation date, no dividend has been assumed for any of the periods:

	Grant Date		December 31, 2012	
Expected dividend yield (1)	—	%	—	%
Risk-free interest rate (2)	0.72	%	0.72	%
Expected volatility (3)	241.9	%	305.6	%
Expected life (in years) (4)	5.00		4.09	

- (1) The Company has no history or expectation of paying cash dividends on its common stock.
- (2) The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of the awards in effect at the time of grant.
- (3) The volatility for the period ended December 31, 2012 is based upon the historical volatility of the Company's stock price, a period equal to the expected life of the note or twenty four months following the reverse capitalization transaction.
- (4) The expected life represents the due date of the note.

The following reflects the initial fair value on the date of grant and changes in fair value through December 31, 2012:

Grant date fair value allocated to derivative liability	\$ 114,315
Change in fair value – (gain)	(79,374)
Option derivative liability fair value on December 31, 2012	\$ 34,941

Table of Contents

DNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

## 15. Earnings Per Share

In accordance with ASC 260, which replaced SFAS No. 128, Earnings per Share (“SFAS No. 128”), basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding. Diluted net loss per common share is computed similarly to basic net loss per share, except that the denominator is increased to include all potential dilutive common shares, including outstanding options and warrants. Potentially dilutive common shares have been excluded from the diluted loss per common share computation for each of the two years ended December 31, 2012 and 2011 because such securities have an anti-dilutive effect on loss per share due to the Company’s net loss.

The following table sets forth as of December 31, 2012 and 2011 the number of potential shares of common stock issuable that have been excluded from diluted earnings per share because their effect was anti-dilutive:

	2012	2011
Stock options	226,076	226,076
Outstanding unexercised warrants	3,817,622	3,649,503
Total	4,373,698	3,875,579

## 16. Income Taxes

The actual income tax expense for 2012 and 2011 differs from the statutory tax expense for the year (computed by applying the U.S. federal corporate tax rate of 34.4% to income before provision for income taxes) as follows:

	2012	Effective Tax Rate		2011	Effective tax rate
Federal taxes at statutory rate	\$ (1,528,854)	34.40 %		\$ (1,538,660)	34.4 %
St State income taxes, net of federal tax benefit	(160,352 )	3.61 %		(161,380 )	3.61 %
C Change in valuation allowance	1,689,206	(38.01 ) %		1,700,040	(38.01 %)
T Total	\$ —	0.00 %		\$ —	0.00 %

The following table represents the tax effects of significant items that give rise to deferred taxes as of December 31, 2012 and 2011:

	2012	2011
Deferred tax asset:		
Net operating loss carryforward	\$ 3,182,470	\$ 2,170,359
Temporary differences	1,558,650	881,555
	4,741,120	3,051,914
Less: Valuation allowance	(4,741,120)	(3,051,914)
Net deferred tax asset	\$ —	\$ —

Table of ContentsDNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

## 16. Income Taxes (continued)

As of December 31, 2012, the Company has available approximately \$8,373,158 of operating loss carryforwards before applying the provision of IRC Section 382, which may be used in the future filings of the Company's tax returns to offset future taxable income for United States income tax purposes. Net operating losses expire beginning in the year 2022. As of December 31, 2012 and 2011, the Company has determined that due to the uncertainty regarding profitability in the near future, a 100% valuation allowance is needed with regards to the deferred tax assets. Changes in the estimated tax benefit that will be realized from the tax loss carryforwards and other temporary differences will be recognized in the financial statement in the years in which those changes occur.

Under the provisions of the Internal Revenue Code Section 382, an ownership change is deemed to have occurred if the percentage of the stock owned by one or more 5% shareholders has increased, in the aggregate, by more than 50 percentage points over the lowest percentage of stock owned by said shareholders at any time during a three year testing period. Once an ownership change is deemed to have occurred under Section 382, a limitation on the annual utilization of net operating loss (NOL) carryforwards is imposed and therefore, a portion of the tax loss carryforwards would be subject to the limitation under Section 382.

The acquisition of Grass Roots Beverage Company, Inc. on July 6, 2010 (see Note 1) and various other equity transactions resulted in an ownership change pursuant to Section 382. The utilization of the \$123,052 net operating loss as of December 31, 2012 is limited under IRC Section 382.

The tax years 2008 through 2012 remain open to examination by federal authorities and state jurisdictions where the Company operates.

## 17. Commitments

As of December 31, 2012, the Company is committed to future minimum payments under non-cancelable operating leases for vehicles, office rent and equipment as follows:

2013	\$ 148,865
2014	151,164
2015	147,550
2016	92,064
2017	36,673
Total	\$ 576,316

Table of Contents

DNA Brands, Inc.  
Notes to Consolidated Financial Statements (Continued)

Leases

The Company subleases office and warehouse space in Boca Raton, Florida from RSS at the rate of approximately \$5,316 per month. Effective December 2012 we began paying rent to Royal at the rate of \$5,316 per month with minimal escalation clauses and are committed to these payments until June 2017 when Royal's lease expires. Our rent expense for the years ended December 31, 2012 and 2011 was \$151,901 and \$152,593 respectively.

Additionally, the Company has commitments with a truck leasing company for \$83,939 in 2013, and \$168,840 in total through 2016. The Company also has commitments for leased telephone at the rate of \$2,000 per month for 33 months through 2015.

F-22

---