

DNA BRANDS INC
Form 10-Q
May 20, 2013

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

Quarterly Report Under the Securities Exchange Act of 1934

For Quarter Ended: March 31, 2013

DNA BRANDS, INC.
(Exact name of small business issuer as specified in its charter)

Colorado	000-53086	26-0394476
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer ID No.)

544 NW 77th Street
Boca Raton, Florida, 33487
(Address of principal executive offices)

(954) 970-3826
(Issuer's Telephone Number)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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)

The number of shares of the registrant's only class of common stock issued and outstanding as of May 20, 2013 was 68,519,739 shares.

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



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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DNA BRANDS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (unaudited)	December 31, 2012
Current assets		
Cash	\$ 14,807	\$ —
Accounts receivable, net	13,248	19,347
Inventory, net	8,099	38,700
Prepaid expenses and other current assets	174,942	203,015
Total current assets	211,096	261,062
Property and equipment, net	18,142	20,339
Other assets	41,272	35,272
Total assets	\$ 270,510	\$ 316,673

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities		
Bank overdrafts	\$ —	\$ 11,042
Accounts payable	674,948	644,077
Accrued liabilities	1,742,360	1,767,536
Current portion of convertible debentures, net of discounts	788,424	222,095
Conversion options, derivative liabilities	136,698	243,623
Loans payable to officers	1,767,039	1,457,539
Total current liabilities	5,109,469	4,345,912
Convertible, subordinated debentures, net of discounts	250,288	698,741
Total liabilities	5,359,757	5,044,653
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, 72,702,635 and 65,476,313 issued and outstanding, respectively	72,703	65,476
Additional paid-in capital	21,360,841	21,082,749
Accumulated deficit	(26,522,791)	(25,876,205)
Total stockholders' deficit	(5,089,247)	(4,727,980)
Total liabilities and stockholders' deficit	\$ 270,510	\$ 316,673

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

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DNA BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2013 AND 2012

	2013	2012
Sales	\$ 37,948	\$ 82,209
Cost of goods sold	39,127	46,253
Gross (deficit) margin	(1,179)	35,956
Operating expenses		
Compensation and benefits	241,734	397,813
Depreciation expense	2,197	3,338
General and administrative expenses	122,088	203,503
Professional and outside services	193,099	209,276
Selling and marketing expenses	27,761	118,642
Total operating expenses	586,879	932,572
Loss from operations	(588,058)	(896,616)
Other income (expense)		
Gain on fair value adjustment for derivative liabilities	106,925	—
Interest expense	(165,453)	(604,483)
Total other expense	(58,528)	(604,483)
Loss before income taxes	(646,586)	(1,501,099)
Income taxes	—	—
Net loss	\$ (646,586)	\$ (1,501,099)
Loss per share:		
Basic and diluted	\$ (.01)	\$ (0.03)
Weighted average number of common shares outstanding:		
Basic and diluted	64,832,425	46,166,217

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

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DNA BRANDS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Net loss	\$ (646,586)	\$ (1,501,099)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	2,197	3,338
Gain on conversion options, derivative liabilities	(106,925)	—
Non-cash interest expense related to discount on convertible debentures	117,876	568,226
Provision for doubtful accounts	(4,998)	79,996
Provision for excess and obsolete inventory	(8,099)	—
Common stock and common stock warrants issued in exchange for services	88,829	268,499
Common stock issued as employee compensation	40,000	—
Share based compensation expense related to employee stock option grants	8,990	62,500
Changes in operating assets and liabilities:		
Accounts receivable	11,097	(2,091)
Inventory	22,502	47,602
Prepaid expenses and other current assets	28,073	(85,110)
Other assets	(6,000)	(500)
Bank overdraft	(11,042)	(19,157)
Accounts payable	30,871	(112,825)
Accrued expenses	(25,176)	56,586
Net cash used in operating activities	(442,193)	(634,035)
Cash flows from financing activities:		
Net proceeds from (repayments on) loans payable to officers	309,500	446,600
Net repayments on loans payable	—	(1,341)
Net proceeds from the issuance of convertible debentures	—	75,000
Net proceeds from the issuance of convertible, preferred stock	—	6,000
Net proceeds from the issuance of common stock	147,500	—
Net proceeds from the exercise of common stock warrants	—	152,920
Net cash provided by financing activities	457,000	679,179
Net change in cash and cash equivalents	14,807	45,144
Cash and cash equivalents at beginning of period	—	—
Cash and cash equivalents at end of period	\$ 14,807	\$ 45,144
Supplemental disclosures:		
Interest paid	\$ 13,596	\$ 52,314
Supplemental disclosures of non-cash investing and financing activities:		
Conversion of loans payable to officers into convertible debentures	\$ —	\$ 524,500
Discounts on convertible debentures	\$ —	\$ 63,620

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

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DNA Brands, Inc.

Notes to Condensed Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

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.

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles applicable to interim financial information and the requirements of Form 10-Q and Article 10 of Regulation S-X of the SEC. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. Interim results are not necessarily indicative of results for a full year. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position and the results of operations and cash flows for the interim periods have been included.

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.

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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.

See Note 1 in the Company's audited 2012 consolidated financial statements in Form 10-K for a summary of the Company's significant accounting policies.

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

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 as they become due.

During the three month period ended March 31, 2013, the Company recorded a net loss of \$646,856 and had negative cash flows of \$442,193 from its operating activities. At March 31, 2013, the Company had a working capital deficit of \$4,898,373 and a stockholders' deficit of \$5,089,247. The Company has relied, in large part, upon debt and equity financing to fund its operations. These matters collectively 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 financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result if the Company is unable to operate as a going concern.

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4. Inventory

The following table sets forth the composition of the Company's inventory at March 31, 2013 and December 31, 2012:

	March 31, 2013 (unaudited)	December 31, 2012
Finished goods-beverages	\$ 8,099	\$ 38,700
Total inventory	\$ 8,099	\$ 38,700

5. Accounts Receivable

The following table sets forth the composition of the Company's accounts receivable at March 31, 2013 and December 31, 2012:

	March 31, 2013 (unaudited)	December 31, 2012
Accounts receivable	\$ 17,976	\$ 29,074
Less: Allowance for doubtful accounts	(4,728)	(9,727)
Accounts receivable, net	\$ 13,248	\$ 19,347

Bad debt expense (recovery) related to the Company's trade accounts receivable for three month periods ended March 31, 2013 and 2012 was \$(4,998) and \$61,749 respectively.

6. Prepaid Expenses and Other Assets

The following table sets forth the composition of the Company's prepaid expenses and other assets at March 31, 2013 and December 31, 2012:

	March 31, 2013 (unaudited)	December 31, 2012
Short-term security deposit	\$ 10,000	\$ 22,000
Employee and other advances	103,130	88,420
Prepaid services	103,084	127,867
Total prepaid expenses and other assets	216,214	238,287
Less: Non-current portion of employee advances	(41,272)	(35,272)
Prepaid expenses and other current assets	\$ 174,942	\$ 203,015

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7. Property and Equipment, Net

The following table sets forth the composition of the Company's property and equipment at March 31, 2013 and December 31, 2012:

	March 31, 2013 (unaudited)	December 31, 2012
Equipment	\$ 18,690	\$ 18,690
Furniture and fixtures	9,156	9,156
Vehicles	75,907	75,907
Accumulated depreciation	(85,611)	(83,414)
Total property and equipment, net	\$ 18,142	\$ 20,339

Depreciation expense for the three month periods ended March 31, 2013 and 2012 was \$2,197 and \$3,338, respectively.

8. Accrued Expenses

The following table sets forth the composition of the Company's accrued expenses at March 31, 2013 and December 31, 2012:

	March 31, 2013 (unaudited)	December 31, 2012
Salaries and bonuses	\$ 1,141,138	\$ 1,045,888
Interest expense on convertible debentures	125,908	85,927
Professional services	34,074	34,074
Payroll taxes and penalties	441,240	601,647
Total accrued expenses	\$ 1,742,360	\$ 1,767,536

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. As of March 31, 2013, the Company's officers were owed \$882,500 as a result of their deferrals and its employees were owed \$258,638 for amounts earned and accrued in the normal course of business.

As of March 31, 2013 and December 31, 2012, accrued payroll taxes and penalties represented the unpaid portion of employer and employee payroll taxes totaling \$356,978 and \$466,437 respectively. The Company has estimated potential penalties associated with these unpaid amounts to be \$84,262 and \$135,210 for each of these periods, respectively. The Company has engaged the services of a professional experienced in payroll tax matters to assist in developing a plan for repayment and future compliance deemed acceptable to the Internal Revenue Service. During the three months ended March 31, 2013, the Company's principals made payments of \$125,000 against its payroll tax liabilities.

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9. Convertible debentures, net of discounts

A summary of the issuances of all convertible notes outstanding for the period ended March 31, 2013 is 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
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)
Total		\$ 1,337,668		

- (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.

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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.

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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 periods ended March 31, 2013 and December 31, 2012.

	March 31, 2013	December 31, 2012
Convertible notes-face value	\$ 1,337,668	\$ 1,337,668
Loan discount	(420,832)	(714,674)
Add: Amortization of loan discount	117,876	297,842
Less: Current portion	(784,424)	(222,095)
Net convertible notes	\$ 250,288	\$ 698,741

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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 periods ended March 31, 2013 and December 31, 2012.

	March 31, 2013	December 31, 2012
Expected dividend yield (1)	—	0.00%
Risk-free interest rate (2)	—	0.15 – 0.62 140.7 –
Expected volatility (3)	—	230.60%
Expected life (in years) (4)	—	0.75 – 3.60

-
- 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.

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10. 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 March 31, 2013 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	March 31, 2013
Expected dividend yield (1)	0%	0%
Risk-free interest rate (2)	0.16 – 0.71%	0.13 – 0.77%
Expected volatility (3)	153.3 – 280.1 %	132.2 – 332.6 %
Expected life (in years) (4)	1.00 – 4.00	0.75 – 3.75

(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 March 31, 2013 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 March 31, 2013:

Note inception date fair value allocated to debt discount	\$ 243,623
Change in fair value – (gain)	(106,925)
Embedded conversion option derivative liability fair value on March 31, 2013	\$ 136,698

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11. Loans payable to officers

The composition of the Company's loans payable to officers at March 31, 2013 and December 31, 2012:

	March 31, 2013 (unaudited)	December 31, 2012
Loans payable to officers	\$ 1,767,039	\$ 1,457,539

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

12. 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.

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. There were no related party payables or receivables to RSS as of December 31, 2012 and March 31, 2013, respectively.

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13. Equity

Preferred and Common Stock

The Company's authorized capital stock consists of 100,000,000 shares of common stock, \$0.001 par value per share, and 10,000,000 shares of preferred stock, \$0.001 par value per share. Series A and Series B preferred stock was 100% converted to common stock prior to July 6, 2010, when 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. There will be no further issuances by the Company of these preferred 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 March 31, 2013 and December 31, 2012, common stock issued and outstanding totaled 72,702,635 and 65,476,313 respectively. At March 31, 2013 and December 31, 2012, there was no preferred stock issued and outstanding.

The approximate number of shares of common stock issued and their respective values for the three month period ended March 31, 2013 as follows:

	Shares Issued	Value of Issuances
Common stock issued in exchange for services	1,309,657	\$ 88,829
Common stock issued as employee compensation	1,000,000	40,000
Common stock issued in connection with private offerings	4,916,665	147,500
Total	7,226,322	\$ 276,329

Since 2007, 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. As of March 31, 2013, the Company had not issued physically issued stock certificates to 20 accredited investors from which it received cash proceeds from the private placement of 6,577,079 shares of its common stock.

The following assumptions were utilized with the Black-Scholes option pricing model for the periods ended March 31, 2013 and 2012:

	2013	2012
Expected dividend yield (1)	0%	0%
Risk-free interest rate (2)	0.72%	0.83%
Expected volatility (3)	303.70%	250.70%
Expected life (in years) (4)	5.00	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 for the period ended March 31, 2012 is based upon the historical volatility of the Company's stock price, a period equal to eighteen months following the reverse capitalization transaction.

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

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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, 2012	226,076	\$ 1.49	1.75
Granted	100,000	0.25	4.75
Exercised	—	—	—
Outstanding and exercisable on March 31, 2013	326,076	\$ 1.11	3.04

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 March 31, 2013, 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 \$0.05 on March 31, 2013, which would have been received by the option holders had all option holders exercised their options as of that date.

For the period ended March 31, 2013 the Company recorded \$8,990 in stock compensation expense related to the issuance of stock options. All outstanding stock options are vested. Since the inception of the Company, no stock options have been exercised.

Stock Warrants

Common stock warrants immediately vest upon issuance and are exercisable for a period five years thereafter. The following table reflects the amount of common stock warrants outstanding and exercisable for the period ended March 31, 2013.

	Number of Warrants Outstanding	Weighted Average Exercise Price	Remaining Contractual Life (Years)
Balance, December 31, 2012	3,817,621	\$ 1.39	2.14
Warrants issued	—	—	—
Warrants exercised	—	—	—
Warrants expired	(384,269)	1.51	—
Balance, March 31, 2013	3,433,352	1.38	2.12 (1)

(1) The remaining contractual life of the warrants outstanding as of March 31, 2013 ranges from 0.02 years to 4.76 years.

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14. Income Taxes

As of March 31, 2013, the Company has available approximately \$9,400,000 of operating loss carry-forwards before applying the provision of Internal Revenue Code (“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 will begin to expire in the year 2022. As of March 31, 2013 and December 31, 2012, 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 carry-forwards and other temporary differences will be recognized in the financial statement in the years in which those changes occur.

Under the provisions of the IRC 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 IRC Section 382, a limitation on the annual utilization of net operating loss carry-forwards is imposed and therefore, a portion of the tax loss carry-forwards 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 IRC Section 382. The utilization of the \$123,052 net operating loss as of December 31, 2009 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.

15. Subsequent Events

On May 3, 2013 the Company issued 150,000 shares of its Series C Preferred Stock to Darren Marks, an officer and director of the Company, in settlement of \$100,000 owed by the Company to Mr. Marks; and issued 150,000 shares of its Series C Preferred Stock to Mel Leiner, an officer and director of the Company, in settlement of \$100,000 owed by the Company to Mr. Leiner. The holders of the Series C Preferred shares, in preference to the holders of the Company's common stock, are entitled to receive, when, as and if declared by the Company's directors, annual dividends commencing on December 31, 2013 at the rate of \$0.01 per share. Dividends which are not declared will not accrue. Dividends not declared will not cumulate. Accrued but unpaid dividends will not bear interest.

Upon any liquidation, dissolution or winding up of the Company, no distribution will be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series C Preferred shares unless the holders of the Series C Preferred shares have received \$0.67 per share, plus an amount equal to declared and unpaid dividends and distributions to the date of payment. Each Series C Preferred share entitles the holder to 300 votes on all matters submitted to a vote of the Company's shareholders.

The shares of the Series C Preferred Stock described above were not registered under the Securities Act of 1933 and are restricted securities. The Company relied upon the exemption provided by Section 4(2) of the Securities Act of 1933 in connection with the issuance of these shares.

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

Forward looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward looking statements made by, or on our behalf. We disclaim any obligation to update forward looking statements.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this report.

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 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. Until recently we also marketed and sold a line of beef jerky and meat sticks, but these products were discontinued in the fourth quarter of 2012. Provided we can raise the necessary capital, of which there is no assurance, we intend to re-launch our brand during the second half of 2013 with a completely new look, including new logo and can design and introduce three new flavors including Molecular Melon, Cryo Berry and Original. Our award-winning Citrus flavor will be re-named Cellular Citrus. We also intend to launch a line of energy coffee drinks containing omegas in late 2013.

Our 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. We began selling our energy drink in the State of Florida in 2007.

Presented below are our results of operations for the three month periods ended March 31, 2013 and 2012.

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Results Of Operations

Comparison of Results of Operations for the three month periods ended March 31, 2013 and 2012

Revenue

Sales for the three month period ended March 31, 2013 were \$37,948, compared to \$82,209 during the three month period ended March 31, 2012. This decrease in revenue is primarily attributable to our re-branding initiatives and decision not to produce existing product during the re-branding period. We continue to test our products through a variety of distribution channels. We are experiencing a shortage of working capital which has prevented us from making a timely transition and inventory purchases in sufficient quantities of the better selling SKU's. Also, the lack of capital has limited our marketing, advertising and promotions which are critical revenue drivers in the energy drink industry. As of March 31, 2013 we had only \$8,099 in inventory and will not re-order any inventory using the old brand identification. Therefore, our revenues for the period ended June 30, 2013 will be very minimal.

The cost of the first inventory production run with our new energy drink products and logo, along with the cost to properly market these new products is estimated to be approximately \$350,000. Currently we do not have the capital to complete these production runs; however we believe we will be able to raise sufficient capital to commence these production runs and market these new products. There are no assurances we will be able to raise this additional capital and our failure to do so will have a significant impact on our ability to continue to operate our business.

We expect that our new re-branding efforts will begin during the third quarter of 2013. Once we have raised the capital necessary to allow us to implement our revised business plan we intend to increase our marketing activity by using "can-in-hand" sampling at multiple locations which has been successful in the past, as well as using point of sale advertising materials. We believe this increased marketing, combined with our increasing brand recognition, the awards we have received for the quality of our products, and the indications of interest in carrying our product by major distributors and retail chains will begin the process of generating revenue. There are no assurances this will occur and our ability to achieve increased revenue is directly 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, manufacture new inventory 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 sales. Gross margin percentage is calculated by dividing the gross margin by sales. Gross margin for the three month period ended March 31, 2013 was \$(1,179), compared to \$35,596 during the three month period ended March 31, 2012. Gross margin percentage for the three month period ended March 31, 2013 was (3.0%) compared to 43.7% during the three month period ended March 31, 2012

Due to the relatively low amount revenue, a small number of transactions can impact our gross margin percentage either positively or negatively. We do not believe that the gross margin percentages for the three month periods ended March 31, 2013 and 2012 are necessarily indicative of future results if applied to larger sales volumes.

Compensation and benefits

Compensation and benefits for the three month period ended March 31, 2013 was \$241,734, compared to \$397,813 during the three month period ended March 31, 2012. The decrease in compensation and benefits of \$156,709, compared to the corresponding period in the prior year is attributable to a reduction in the number of our employees

and a reduction in sales commissions as a result of our lower sales revenue.

Our two executive officers have deferred cash payment of their salaries since 2008. For three month period ended March 31, 2013 and 2012, we recorded \$62,500 in compensation expense related to these deferrals. At March 31, 2013, the aggregate value of these salary deferrals totaled \$882,500 and was included in accrued liabilities on our consolidated balance sheet as of March 31, 2013.

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General and administrative

General and administrative expenses for the three month period ended March 31, 2013 were \$122,088, compared to \$203,503 during the three month period ended March 31, 2012. General and administrative expenses are primarily comprised of rent, utilities, insurance, travel and entertainment, and other expenses. This decrease compared to the corresponding period in the prior year is attributable to reduced spending for travel and other administrative activities in accord with our substantially lower revenue levels.

Professional and outside services

Professional and outside services for the three month period ended March 31, 2013 were \$193,099, compared to \$209,276 during the three month period ended March 31, 2012. Professional and outside services are comprised primarily of accounting fees, legal fees, investor and public relations expenses and other miscellaneous services. Professional and outside services remained relatively similar to the levels we experienced in the prior year period primarily due to public company expenditures that are required and not proportional to revenue levels.

Selling and marketing expenses

Selling and marketing expenses for the three month period ended March 31, 2013 were \$27,761, compared to \$118,642 during the three month period ended March 31, 2012. The decrease in selling and marketing expenses over the prior year period is directly attributable to the lack of working capital.

Interest expense

Interest expense for the three month period ended March 31, 2013 was \$165,463 compared to 604,483 during the three month period ended March 31, 2012. The decrease in interest expense over the prior year period is primarily attributable to the non-cash amortization of loan discounts related to convertible debentures.

During the three months ended March 31, 2013 we did not issue any convertible debentures. During the three months ended March 31, 2012, we issued an aggregate principal value of \$599,950 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 three months ended March 31, 2012, we recorded \$568,226 in non-cash interest expense relative the loan discounts on these notes.

Net loss

We incurred a net loss for the three month period ended March 31, 2013 of \$646,586 or (\$0.01) per basic and fully diluted share, compared to a net loss of \$1,501,099, or (\$0.03) per basic and fully diluted share during the three month period ended March 31, 2012. 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.

We calculate weighted average shares outstanding based upon the physical issuance records of our stock transfer agent. As of March 31, 2013, we had not issued physically issued stock certificates to 20 accredited investors from which we received cash proceeds from the private placement of 6,577,079 shares of our common stock. As a result, our weighted average shares outstanding calculations may vary slightly from the calculation that would result from the immediate issuance of shares. The weighted average number of basic and fully diluted shares outstanding for the three month periods ended March 31, 2013 and 2012 were 64,832,425 and 46,166,217 shares, 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.

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Liquidity and Capital Resources

At March 31, 2013, we had \$14,807 in cash and cash equivalents.

During the three month period ended March 31, 2013, we recorded a net loss of \$646,856 and had negative cash flows of \$442,193 from our operating activities. At March 31, 2013, we had a working capital deficit of \$4,898,373 and a stockholders' deficit of \$5,089,247. We have relied, in large part, upon debt and equity financing to fund our operations. These matters collectively raise a substantial doubt about our ability to continue as a going concern.

Net cash used in operations for the three month period ended March 31, 2013 was \$442,193, compared to \$634,035 during the three month period ended March 31, 2012. The improvement in net cash used in operating activities of \$191,842 is primarily due to the improvement in our consolidated results of operations excluding non-cash expenses over the prior year period. We recorded a net loss of \$646,856 as compared to \$1,501,099 in the corresponding period of the prior year.

No net cash was provided by or used in investing activities for the three month periods ended March 31, 2013 and March 31, 2012, respectively.

Net cash provided by financing activities for the three month period ended March 31, 2013 was \$457,000 compared to \$679,179 during the three month period ended March 31, 2012. During the three months ended March 31, 2013, we raised \$147,500 in new capital from debt and common equity sources compared to proceeds of \$521,600 during the prior year period.

In January 2012, we issued 6,000 shares of convertible, preferred stock for net proceeds of \$6,000. The preferred shares are convertible into common stock at a rate no lower than \$0.30, or 3.33 shares of common stock to 1.00 share of preferred stock. These shares were immediately converted into 20,000 shares of our common stock.

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 the proceeds therefrom were deposited with the Company. The debentures have no maturity date and bear no interest. The debentures are convertible at any time into 3,499,667 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 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.

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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 our 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.

On November 1, 2012, we issued a convertible debenture in the amount of \$80,000. The debenture bears interest at 12% per annum, which is payable with 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 average closing bid price of our common stock on the 30 previous trading days prior to the day of conversion. We have 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 our financial statements.

Our ability to implement our business plan for the future will depend on the future availability of financing. Such financing will be required to enable us to implement our new business plan, including establishing our rebranding of our products, and continue operations. We intend to raise funds through a private placement of debt as well as our Common Stock and if available, through short-term borrowing. We estimate that we will require approximately \$500,000 in debt and/or equity capital to fully implement our revised business plan and there are no assurances that we will be able to raise this capital. While we have engaged in discussions with various investment banking firms and venture capitalists to provide us these funds, as of the date of this report we have not reached any agreement with any party that has agreed to provide us with the capital necessary to effectuate our business plan. Our inability to obtain sufficient funds from external sources when needed will have a material adverse effect on our plan of operation, results of operations and financial condition. In this regard, during the quarter ended March 31, 2013 we sold 4,916,665 shares of our common stock and received \$147,500 in gross proceeds.

Until we are successful in obtaining additional equity capital we will likely continue to rely upon related-party debt, issuance of additional debentures to 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 \$2,649,539 at March 31, 2013. Additionally we are working on generating new sales from additional retail outlets and distribution centers 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 will have a material adverse impact on our ability to continue operations.

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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 three month period ended March 31, 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are a smaller reporting company and are not required to provide the information under this item pursuant to Regulation S-K.

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ITEM 4. CONTROLS AND PROCEDURES.

Changes in Internal Control over Financial Reporting - There were no changes in our internal control over financial reporting during the three months ended March 31, 2013, 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 March 31, 2013. 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 March 31, 2013.

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.

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PART II. OTHER INFORMATION

ITEM 1. 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 1A. RISK FACTORS

We are a smaller reporting company and are not required to provide the information under this item pursuant to Regulation S-K.

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

During the quarter ended March 31, 2013 we sold 4,916,665 shares of our common stock and received \$147,500 in gross proceeds. We utilized these proceeds for working capital to fund our operations.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURE

Not Applicable

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

Exhibit Description
No.

31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on May 20, 2013.

DNA BRANDS, INC.

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

By: /s/ Melvin Leiner
Melvin Leiner,
Principal Financial Officer and
Principal Accounting Officer