DNA BRANDS INC
Form 10-Q
August 19, 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: June 30, 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)

Check 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 þ No o.

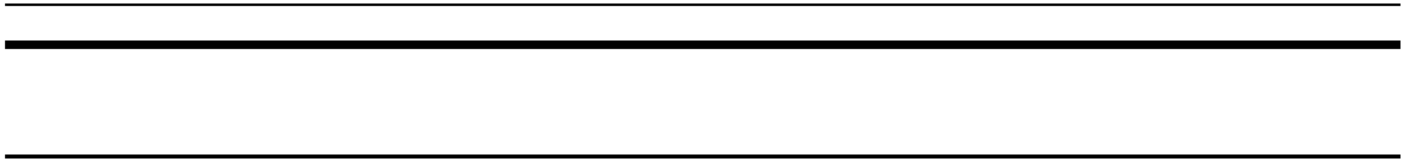
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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	o	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	þ

The number of shares of the registrant’s only class of common stock issued and outstanding as of August 19, 2013 was 80,418,838 shares.

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



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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DNA BRANDS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Current assets		
Cash	$ 11,375	$ —
Accounts receivable, net	2,134	19,347
Inventory, net	—	38,700
Prepaid expenses and other current assets	419,162	203,015
Total current assets	432,671	261,062
Property and equipment, net	15,947	20,339
Other assets	45,072	35,272
Total assets	$ 493,690	$ 316,673
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Bank overdrafts	$ —	$ 11,042
Accounts payable	635,500	644,077
Accrued liabilities	1,774,425	1,767,536
Current portion of loans payable, net of discounts	287,083	—
Current portion of convertible debentures, net of discounts	976,551	222,095
Conversion option derivative liability	44,920	243,623
Loans payable to officers	1,845,257	1,457,539
Total current liabilities	5,563,736	4,345,912
Convertible, subordinated debentures, net of discounts	174,909	698,741
Loans payable to related party	3,000	
Total liabilities	5,741,645	5,044,653
Commitments and contingencies	—	—
Stockholders' deficit		
Preferred stock, $0.001 par value, 10,000,000 authorized, 300,000 and zero issued and outstanding, respectively	300	—
Common stock, $0.001 par value, 100,000,000 authorized, 80,026,434 and 65,476,313 issued and outstanding, respectively	80,026	65,476
Additional paid-in capital	21,816,918	21,082,749
Accumulated deficit	(27,145,199)	(25,876,205)
Total stockholders' deficit	(5,247,955)	(4,727,980)
Total liabilities and stockholders' deficit	$ 493,690	$ 316,673

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

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DNA BRANDS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2013 AND 2012

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Sales	$ 4,869	$ 90,602	$ 42,816	$ 172,811
Cost of goods sold	8,900	53,776	48,027	100,029
Gross margin	(4,031)	36,826	(5,211)	72,782
Operating expenses				
Compensation and benefits	159,947	351,607	401,681	749,420
Depreciation expense	2,195	3,337	4,392	6,675
General and administrative expenses	97,760	189,223	219,848	392,726
Professional and outside services	151,286	247,136	344,385	456,413
Selling and marketing expenses	5,242	62,002	33,003	180,644
Total operating expenses	416,430	853,305	1,003,309	1,785,878
Loss from operations	(420,461)	(816,479)	(1,008,520)	(1,713,096)
Other income (expense)				
Gain on embedded conversion option liabilities	91,778	-	198,703	-
Interest expense	(293,724)	(80,636)	(459,177)	(685,119)
Total other expense	(201,946)	(80,636)	(260,474)	(685,119)
Loss before income taxes	(622,407)	(897,115)	(1,268,994)	(2,398,215)
Income taxes	-	-	-	-
Net loss	$ (622,407)	$ (897,115)	$ (1,268,994)	$ (2,398,215)
Loss per share:				
Basic and diluted	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.05)
Weighted average number of common shares outstanding:				
Basic and diluted	67,827,816	48,005,645	66,338,395	47,087,779

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

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DNA BRANDS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2013 AND 2012

		2013		2012
Cash flows from operating activities:				
Net loss	$	(1,268,994)	$	(2,398,215)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation expense		4,392		6,675
Gain on conversion options, derivative liabilities		(198,703)		-
Non-cash interest expense related to discount on convertible debentures		359,402		617,081
Provision for doubtful accounts		(3,465)		82,197
Provision for excess and obsolete inventory		8,099		
Common stock and common stock warrants issued in exchange for services		140,333		526,999
Common stock issued as employee compensation		40,000		136,250
Share based compensation expense related to employee stock option grants		8,990		-
Changes in operating assets and liabilities:				
Accounts receivable		20,678		(6,392)
Inventory		30,601		57,333
Prepaid expenses and other current assets		(216,147)		(219,034)
Other assets		(9,800)		(500)
Bank overdraft		(11,042)		(19,157)
Accounts payable		(8,577)		117,329
Accrued expenses		6,889		234,114
Net cash used in operating activities		(1,097,344)		(865,320)
Cash flows from financing activities:				
Net proceeds from loans payable to officers		587,719		569,652
Net proceeds from loans payable related party		3,000		-
Net proceeds from (repayments on) loans payable		-		(2,713)
Net proceeds from the issuance of convertible debentures		65,000		75,000
Net proceeds from loans payable		265,000		-
Net proceeds from the issuance of convertible, preferred stock		-		6,000
Net proceeds from the issuance of common stock		188,000		65,000
Net proceeds from the exercise of common stock warrants		-		152,920
Net cash provided by financing activities		1,108,719		865,859
Net change in cash and cash equivalents		11,375		539
Cash and cash equivalents at beginning of period		-		-
Cash and cash equivalents at end of period	$	11,375	$	539
Supplemental disclosures:				
Interest paid	$	14,107	$	78,095
Supplemental disclosures of non-cash investing and financing activities:				
Conversion of convertible debentures into common stock	$	108,000	$	-
Conversion of loans payable to officers into convertible debentures	$	-	$	524,950
Conversion of loans payable to officers into Series C preferred stock	$	200,000	$	-
Discounts on convertible debentures	$	-	$	63,620

The accompanying notes are an integral part of these condensed consolidated 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 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. The Company recently began its rebranding efforts and currently produces, markets and sells a proprietary line of five carbonated blends of DNA Energy Drink®, Cellular Citrus, Cellular Citrus - Zero Sugar, Cryo Berry, Molecular Melon and Original DNA.

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."

On May 29, 2013 Beverage Production and Inventory, LLC ("Beverage LLC") was formed to assist DNA in securing investors to fund inventory purchases of their new re-branded inventory.

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, its wholly-owned subsidiary Grass Roots and Beverage LLC, which is considered a variable interest entity ("VIE") since the Company is the primary beneficiary of Beverage LLC's operations and exerts significant control. 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 Financial Accounting Standards Board 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 six month period ended June 30, 2013, the Company recorded a net loss of $1,268,994 and had negative cash flows of $1,097,344 from its operating activities. At June 30, 2013, the Company had a working capital deficit of $5,131,065 and a stockholders' deficit of $5,247,955. 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 June 30, 2013 and December 31, 2012:

	June 30, 2013 (unaudited)	December 31, 2012
Finished goods-beverages	$ —	$ 38,700
Total inventory	$ —	$ 38,700

5. Accounts Receivable

The following table sets forth the composition of the Company’s accounts receivable at June 30, 2013 and December 31, 2012:

	June 30, 2013 (unaudited)	December 31, 2012
Accounts receivable	$ 8,396	$ 29,074
Less: Allowance for doubtful accounts	(6,262)	(9,727)
Accounts receivable, net	$ 2,134	$ 19,347

Bad debt expense (recovery) related to the Company’s trade accounts receivable for the six month periods ended June 30, 2013 and 2012 was $(3,465) and $82,197 respectively.

6. Prepaid Expenses and Other Assets

The following table sets forth the composition of the Company’s prepaid expenses and other assets at June 30, 2013 and December 31, 2012:

	June 30, 2013 (unaudited)	December 31, 2012
Short-term security deposit	$ 10,000	$ 22,000
Employee and other advances	109,310	88,420
Prepaid services	64,833	127,867
Prepaid deposit for production of new inventory	280,091	—
Total prepaid expenses and other assets	464,234	238,287
Less: Non-current portion	(45,072)	(35,272)
Prepaid expenses and other current assets	$ 419,162	$ 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 June 30, 2013 and December 31, 2012:

	June 30, 2013 (unaudited)	December 31, 2012
Equipment	$ 18,690	$ 18,690
Furniture and fixtures	9,156	9,156
Vehicles	75,907	75,907
Accumulated depreciation	(87,806)	(83,414)
Total property and equipment, net	$ 15,947	$ 20,339

Depreciation expense for the six month periods ended June 30, 2013 and 2012 was $4,392 and $6,675 respectively.

8. Accrued Liabilities

The following table sets forth the composition of the Company's accrued expenses at June 30, 2013 and December 31, 2012:

	June 30, 2013 (unaudited)	December 31, 2012
Salaries and bonuses	$ 1,203,638	$ 1,045,888
Interest expense on convertible debentures	125,908	85,927
Interest on notes payable	59,188	
Professional services	34,074	34,074
Payroll taxes and penalties	351,617	601,647
Total accrued expenses	$ 1,774,425	$ 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 June 30, 2013, the Company's officers were owed approximately $945,000 as a result of their deferrals and its employees were owed $258,369 for amounts earned and accrued in the normal course of business.

As of June 30, 2013 and December 31, 2012, accrued payroll taxes represented the unpaid portion of employer and employee payroll taxes totaling $267,355 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 and six months ended June 30, 2013, the Company's principals made payments of $45,556 and $170,556, respectively, 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 June 30, 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)
09/25/2012	6%		27,000	09/25/2013	20.41	(3)
11/01/2012	12%		80,000	11/01/2013	18.80	(4)
04/25/2012	12%		30,000	04/25/2013	3.33	
Total		$	1,294,668			

(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 June 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 had no maturity date and bear no interest. Therefore these debentures were payable on demand and were originally classified as a current liability. The debentures were 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. During the second quarter of 2013, the conversion terms of this note were modified and the note was converted into 1,500,000 shares of common stock.

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. During the second quarter of 2013, the lender converted $23,000 of principal into 919,403 shares of common stock in accordance with the conversion terms of the debenture.

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.

During the second quarter of, 2013, the Company recorded $65,000 in gross proceeds from the issuance of three convertible debentures. The debentures bear interest at 12% per annum, which is payable in cash at the time of maturity. The debentures are convertible at any time prior to maturity into 216,667 shares of the Company’s common stock. As further inducement, the Company issued the lenders 216,667 common stock warrants exercisable at $1.50 per share. If unexercised, the warrants will expire on February 28, 2017. Using the Black-Scholes model, the warrants were valued at $69,455 and recorded as a discount up to the principal amount of the debentures. 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. As of June 30, 2013, two of the debentures totaling $35,000 in principal value were converted into 316,667 shares of common stock. Some of the original conversion terms were modified prior to the notes’ conversions. The remaining $30,000 debenture is in default, as its maturity date was April 25, 2013.

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 six month period ended June 30, 2013 and for the year ended December 31, 2012.

	June 30, 2013 (unaudited)	December 31, 2012

Convertible debentures	$	1,294,668	$	1,337,668
Less: Loan discount		(416,832)		(714,674)
Add: Amortization of loan discount		273,624		297,842
Less: Current portion		(976,551)		(222,095)
Long term debentures, net	$	174,909	$	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 six month period ended June 30, 2013 and the year ended December 31, 2012.

	June 30, 2013 (unaudited)	December 31, 2012
Expected dividend yield (1)	0.00%	0.00%
Risk-free interest rate (2)	0.17%	0.15 – 0.62 %
Expected volatility (3)	121.17 – 123.11%	140.7 – 230.60%
Expected life (in years) (4)	1.0	0.75 – 3.60

(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 is based upon the average volatility rate of three similar publicly traded 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 June 30, 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	June 30, 2013 (Unaudited)
Expected dividend yield (1)	0%	0%
Risk-free interest rate (2)	0.16 – 0.71%	0.15 – 1.41%
Expected volatility (3)	153.3 – 280.1%	0.0 – 353.9%
Expected life (in years) (4)	1.00 – 4.00	0.00 – 3.10

(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 June 30, 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 June 30, 2013:

Note inception date fair value allocated to debt discount	$ 243,623
Change in fair value – (gain)	(198,703)
Embedded conversion option derivative liability fair value on June 30, 2013	$ 44,920

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11. Loans payable to officers

The composition of the Company's loans payable to officers at June 30, 2013 and December 31, 2012:

	June 30, 2013 (unaudited)	December 31, 2012
Loans payable to officers	$ 1,845,257	$ 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. On May 3, 2013 the Company issued 150,000 shares of its Series C Preferred Stock to each of its two officers in settlement of $100,000 owed by the Company to each officer, respectively, thereby reducing the Loans Payable to Officers by an aggregate of $200,000 during the three month period ended June 30, 2013. See Note 14. Equity

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 June 30, 2013, respectively.

As of June 30, 2013 and December 31, 2012 the Company had a related party payable of $3,000 and $-0- respectively to an affiliated company owned by the Company's directors.

On May 3, 2013, the Company issued 150,000 shares of its Series C Preferred Stock to each of its two officers in settlement of $100,000 owed by the Company to each officer, respectively, thereby reducing the Loans Payable to Officers by an aggregate of $200,000 during the three month period ended June 30, 2013. See Note 14. Equity.

13. Loans payable

The composition of loans payable at June 30, 2013 and December 31, 2012 was as follows:

	June 30, 2013 (unaudited)	December 31, 2012
Loans payable	$ 530,000	$ —
Discounts	(242,917)	—
Loans payable current, net of discounts	$ 287,083	$ —

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In June 2013, the Company entered into a loan agreement with Beverage LLC and received gross proceeds of $265,000. In accordance with ACS 810-10-55, the Company considered its relationship with, and the terms of its interest in, Beverage LLC and determined that it was a VIE that should be consolidated into its financial statements. The Company's involvement with Beverage LLC is that it serves as an entity to obtain inventory financing for DNA.

As of June 30, 2013 and December 2012 the amounts included in the consolidated liabilities, which are reported in loans payable total 287,083 and $0 respectively, relating to Beverage LLC. The loans payable bear interest at a rate of 6% per annum and are scheduled to be repaid in equal installments of 66.67% of the original principal on September 30, 2013, December 31, 2013 and March 31, 2014. The aggregate value of the repayment installments totals $530,000.

14. 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 which consists of Series A, Series B and Series C. Series A and Series B preferred stock were issued and later fully 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 this 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.

On May 3, 2013 the Company authorized the issuance of 300,000 shares of Series C Preferred Stock ("Series C") and issued 150,000 shares of Series C 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 to Mel Leiner, an officer and director of the Company, in settlement of $100,000 owed by the Company to Mr. Leiner. Each Series C share entitles the holder to 300 votes on all matters submitted to a vote of the Company's shareholders.

At June 30, 2013 and December 31, 2012, common stock issued and outstanding totaled 80,026,434 and 65,476,313 respectively. At June 30, 2013 and December 31, 2012, there were 300,000 and -0- shares, respectively, of preferred stock issued and outstanding.

The approximate number of shares of common stock issued and their respective values for the three month period ended June 30, 2013 as follows:

	Shares Issued	Value of Issuances
Common stock issued in exchange for services	2,597,387	$ 140,333
Common stock issued as employee compensation	1,000,000	40,000
Conversion of convertible debentures into common stock	2,736,070	108,000
Common stock issued in connection with private offerings	8,216,664	188,000
Total	14,550,121	$ 476,333

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 June 30, 2013, the Company had not physically

issued stock certificates to 25 accredited investors from which it received cash proceeds or services from the private placement of 11,049,997 shares of its common stock. As of August 14, 2013 all of these stock certificates had been issued.

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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 June 30, 2013, a total of 326,076 non-qualified stock options had been issued.

	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
Options Granted	100,000		0.25	4.75
Options Exercised	—		—	—
Outstanding and exercisable on June 30, 2013	326,076	$	1.11	2.79

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 June 30, 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 $0.0218 on June 30, 2013, which would have been received by the option holders had all option holders exercised their options as of that date.

For the six month period ended June 30, 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.

The following assumptions were utilized with the Black-Scholes option pricing model for the periods ended June 30, 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 June 30, 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.

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 June

30, 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	233,332		1.50	3.67
Warrants exercised	—		—	—
Warrants expired	(819,241)		1.51	—
Balance, June 30, 2013	3,231,712	$	1.37	2.26(1)

(1) The remaining contractual life of the warrants outstanding as of June 30, 2013 ranges from 0.02 years to 4.51 years.

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15. Income Taxes

As of June 30, 2013, the Company has available approximately $10,000,000 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 June 30, 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.

16. Subsequent Events

On August 16, 2013 pursuant to Section 14C of the Exchange Act of 1934, as amended, the Company filed a preliminary information statement with the US Securities and Exchange Commission advising that the holders of a majority of the Company's issued and outstanding shares of voting stock executed a written consent dated August 16, 2013 approving an amendment to the Company's Articles of Incorporation, as amended which authorizes 100,000,000 Common Shares, $0.001 par value, and 10,000,000 Preferred Shares, $0.001 par value, to state that the Company is authorized to issue 400,000,000 shares of Common Stock, par value $0.001 per share (the "Common Stock") and 10,000,000 shares of Preferred Stock (the "Preferred Stock").

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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

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. ("we"," "us," "our" the "Company" or "DNA") was incorporated in the State of Colorado on May 23, 2
under the name Famous Products, Inc. Prior to July 6, 2010 we were a holding company operating as a promotion and

advertising company. We recently began rebranding efforts and we currently produce, market and sell a proprietary line of five carbonated blends (three of which are new flavors) of DNA Energy Drink®, our award winning Cellular Citrus (formerly called Citrus flavor), Cellular Citrus - Zero Sugar (formerly called Sugar Free Citrus), Cryo Berry, Molecular Melon and Original DNA. Our Sugar Free Cranrazberry flavor has been discontinued. We also intend to launch a line of the new energy coffee drinks containing omegas in late 2013 if we are able to secure sufficient capital to launch these products, of which there is no assurance. 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.

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 and six month periods ended June 30, 2013 and 2012.

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Results Of Operations

Comparison of Results of Operations for the three and six month periods ended June 30, 2013 and 2012

Revenue

Sales for the three month period ended June 30, 2013 were $4,869 compared to $90,602 during the three month period ended June 30, 2012. Sales for the six month period ended June 30, 2012 were $42,816 compared to $172,811 during the six month period ended June 30, 2012. This decrease in revenue in both the three and six month periods is primarily attributable to our re-branding initiatives and decision not to produce existing product during the re-branding period.

During the past 18 months we have experienced 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 June 30, 2013 we had no inventory of our previous product line and will not re-order any inventory using the old brand identification.

In early July 2013 we began our rebranding efforts concurrent with the delivery of 50,000 cases, ten thousand of each of our new SKU's. We require approximately $500,000 in additional capital to enable us to fully implement our revised business plan in which we intend to introduce three new coffee based flavors and 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. In support of this contention on July 6, 2013 we began receiving our new products and have generated approximately $109,000 in sales therefrom as of the date of this report.

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 June 30, 2013 was $(4,031) compared $36,826 for the three month period ended June 30, 2012. Gross margin percentage for the three month period ended June 30, 2013 was (-82.8%) compared to 40.6% during the three month period ended June 30, 2012.

Gross margin for the six month period ended June 30, 2013 was $(5,211) compared $72,782 for the six month period ended June 30, 2012. Gross margin percentage for the three month period ended June 30, 2013 was (-12.2%) compared to 42.1% during the three month period ended June 30, 2012.

Due to the relatively low amount of 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 June 30, 2013 and 2012 are necessarily indicative of future results if applied to larger sales volumes. We anticipate that our gross margins on our new products will be in excess of 35% although there can be no assurances.

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Compensation and benefits

Compensation and benefits for the three month period ended June 30, 2013 was $159,947 compared to $351,607 during the three month period ended June 30, 2012.

Compensation and benefits for the six month period ended June 30, 2013 was $401,681 compared to $749,920 during the six month period ended June 30, 2012.

The significant decrease in compensation and benefits during the three and six month periods ended June 30, 2013 compared to the corresponding periods in the prior year is primarily attributable to a large reduction in the number of our employees due to decreased sales volume and cash constraints. Our two executive officers have deferred cash payment of their salaries since 2008. For three month period ended June 30, 2013 and 2012, we recorded $62,500 in compensation expense related to these deferrals. At June 30, 2013, the aggregate value of these salary deferrals totaled approximately $945,000 and was included in accrued liabilities on our consolidated balance sheet as of June 30, 2013.

General and administrative

General and administrative expenses for the three month period ended June 30, 2013 were $97,760 compared to $189,223 during the three month period ended June 30, 2012.

General and administrative expenses for the six month period ended June 30, 2013 were $219,848 compared to $392,726 during the six month period ended June 30, 2012.

General and administrative expenses are primarily comprised of rent, utilities, insurance, travel and entertainment, and other expenses. The decrease in general and administrative expenses for both the three and six month periods ended June 30, 2013 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 and number of employees.

Professional and outside services

Professional and outside services for the three month period ended June 30, 2013 were $151,286 compared to $247,136 during the three month period ended June 30, 2012.

Professional and outside services for the six month period ended June 30, 2013 were $344,385 compared to $456,413 during the six month period ended June 30, 2012.

Professional and outside services are comprised primarily of accounting fees, legal fees, investor and public relations expenses and other miscellaneous services. The decrease in professional and outside services for both the three and six month periods ended June 30, 2013 as compared to the same period in the prior year is due to reduced company activity due to revenue decreases and capital constraints. The company is attempting to further reduce these expenses; however, certain fixed expenses must be incurred to maintain our viability as a reporting company.

Selling and marketing expenses

Selling and marketing expenses for the three month period ended June 30, 2012 were $5,242 compared to $62,002 during the three month period ended June 30, 2012.

Selling and marketing expenses for the six month period ended June 30, 2012 were $33,003 compared to $180,644 during the six month period ended June 30, 2012.

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The decrease in selling and marketing expenses for both the three and six month periods ended June 30, 2013 compared to the same periods in the prior year period is directly attributable to the lack of working capital, reduced inventory levels of our old SKU's and our rebranding efforts that we couldn't initiate until we received our first production run of our new SKU's. With proper funding, we intend to continue to increase the number of our distribution chains; allowing us to utilize a greater number of vehicles to expand our sales territories. Furthermore, we continue to monitor our sponsorship opportunities with higher profile athletes in an effort to establish a larger national presence. There can be no assurances that these opportunities will materialize or that any such expenditures will enable us to increase revenue.

Interest expense

Interest expense for the three month period ended June 30, 2013 was $293,724 compared to $80,636 for the three month period ended June 30, 2012. Interest expense for the six month period ended June 30, 2013 was $459,177 compared to $684,119 for the six month period ended June 30, 2012.

Interest expense for the three months ended June 30, 2013 was significantly higher than 2012 due to the amortization on the loan discount related to our financing of inventory purchases for our rebranded product. Our interest expense for the six months ended June 30, 2012 was materially higher than 2012 as a result of our issuance during 2012 of an aggregate principal value of $599,950 in convertible debentures. These debentures and loans 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 is being amortized over their terms. During the six month months ended June 30, 2012, we recorded $568,226 in non-cash interest expense relative the loan discounts on these notes.

Net loss

We incurred a net loss of $622,407 for the three month period ended June 30, 2013 or $(0.01) per basic and fully diluted share compared to $897,115 or ($0.02) per basic and fully diluted share for the three month period ended June 30, 2012.

We incurred a net loss for the six month period ended June 30, 2013 of $1,268,994 or ($0.02) per basic and fully diluted share compared to a net loss of $2,398,215 or $(0.05) per basic and fully diluted share.

The reduction in our operating loss in 2013 is attributable a material reduction in expenses partially offset by a reduction in gross margin on sales. Since our inception, we have generated material operating losses.

We calculate weighted average shares outstanding based upon the physical issuance records of our stock transfer agent. As of June 30, 2013, we had not physically issued stock certificates to 25 accredited investors from which we received cash proceeds and services from the private placement of 11,049,997 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 and six month periods ended June 30, 2013 were 67,827,816 and 66,338,395 shares, respectively; compared to 48,005,645 and 47,087,779, respectively for the three and six month periods ended June 30, 2012. 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 June 30, 2013, we had $11,375 in cash and cash equivalents.

During the six month period ended June 30, 2013, we recorded a net loss of $1,268,994 and had negative cash flows of $1,097,344 from our operating activities. At June 30, 2013, we had a working capital deficit of $5,131,065 and a stockholders' deficit of $5,247,955. We have relied, in large part, upon debt and equity financing, and financing from our officers 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 six month period ended June 30, 2013 was $1,097,344 compared to $865,320 during the six month period ended June 30, 2012. The increase in net cash used in operating activities is primarily attributable to the changes in operating assets and liabilities expenses over the prior year period.

No net cash was provided by or used in investing activities for either of the six month periods ended June 30, 2013 and June 30, 2012, respectively.

Net cash provided by financing activities for the six month period ended June 30, 2013 was $1,108,719 compared to $865,859 during the six month period ended June 30, 2012. The activity in both periods was substantially the same with the majority of the financing being provided by officer loans supplemented by proceeds of sales of convertible notes, common stock and common stock warrants.

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.

During 2013 our officers have funded our operations by providing approximately $588,000 in loan proceeds. Additionally we have received approximately $188,000 from the issuance of in common stock, $65,000 from convertible debenture and approximately $265,000 in loan proceeds we received to fund the first production run of our rebranded inventory in early July 2013.

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.

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 $2,790,527 at June 30, 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.

Trends

Our emphasis over the next 12 months will continue with our rebranding and to 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 TX. 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 June 30, 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.

Management's Report on Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer to allow for timely decisions regarding required disclosure.

As of June 30, 2013, the end of the period covered by this Report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of this period covered by this Report.

Changes in Internal Control over Financial Reporting

There have been no changes in our controls over financial reporting that occurred during the three month period ended June 30, 2013 that have materially affected or are reasonably likely to materially affect, our controls over financial reporting.

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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 three months ended June 30, 2013, the Company sold 3,300,000 shares of its common stock pursuant to a private placement offering, and received $40,500 in gross proceeds. The offer and sale of the securities was exempt from registration under the Securities Act of 1933 pursuant to Rule 506 of Regulation D.

We have utilized the proceeds derived from the above described issuances for advertising, sales and marketing activities and working capital.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
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 August 19, 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