

DNA BRANDS INC  
Form 10-Q  
November 22, 2010

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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: September 30, 2010

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

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

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

(954) 978-8401  
(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  No

Indicate by check mark whether the registrant has 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 nonaccelerated 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 November 19, 2010 was 33,986,422 shares.

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

o No p

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DNA BRANDS, INC.  
CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$29,539	\$11,392
Accounts receivable, net	145,042	17,424
Inventory	153,973	132,158
Prepaid expenses and other current assets	42,127	137,886
Total current assets	370,681	298,860
Property and equipment, net	48,735	42,028
Advances to related party	47,587	-
Total assets	\$467,003	\$340,888
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities		
Accounts payable	\$909,427	\$325,853
Accrued expenses	976,448	623,748
Bank loans payable, current portion	14,144	24,552
Loans payable to officers	839,200	1,792,278
Total current liabilities	2,739,219	2,766,431
Bank loans payable, net of current portion	4,936	14,920
Convertible, subordinated debentures, net of discounts	-	439,283
Advances from related party	-	160,479
Total liabilities	2,744,155	3,381,113
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, 33,986,422 and 20,137,994 issued and outstanding, respectively	33,986	20,138
Additional paid-in capital	13,595,347	6,430,228
Accumulated deficit	(15,906,485)	(9,490,591)
Total stockholders' deficit	(2,277,152)	(3,040,225)
Total liabilities and stockholders' deficit	\$467,003	\$340,888

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

DNA BRANDS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Sales	\$ 165,151	\$ 159,831	\$ 939,945	\$ 549,733
Cost of goods sold	90,549	112,127	743,225	385,659
Gross margin	74,602	47,704	196,720	164,074
Operating expenses				
Compensation and benefits	578,523	361,209	2,981,668	1,623,111
Depreciation expense	6,797	5,481	19,398	16,266
General and administrative expenses	260,585	156,580	766,520	545,713
Professional and outside services	1,210,393	64,220	1,879,925	210,231
Selling and marketing expenses	188,576	38,937	639,518	235,167
Total operating expenses	2,244,874	626,427	6,287,029	2,630,488
Loss from operations	(2,170,272 )	(578,723 )	(6,090,309 )	(2,466,414 )
Other expense				
Interest expense	(567 )	(136,283 )	(115,191 )	(365,329 )
Total other expense	(567 )	(136,283 )	(115,191 )	(365,329 )
Loss before income taxes	(2,170,839 )	(715,006 )	(6,205,500 )	(2,831,743 )
Income taxes	-	-	-	-
Net loss	\$(2,170,839 )	\$(715,006 )	\$(6,205,500 )	\$(2,831,743 )
Loss per share:				
Basic and diluted	\$(0.07 )	\$(0.05 )	\$(0.26 )	\$(0.21 )
Weighted average number of common shares outstanding:				
Basic and diluted	32,715,054	13,977,340	24,224,113	13,610,889

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

DNA BRANDS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (UNAUDITED)

	2010	2009
Cash flows from operating activities:		
Net loss	\$(6,205,500)	\$(2,831,743)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	19,398	16,266
Non-cash interest expense related to convertible, subordinated debentures	89,717	270,147
Provision for doubtful accounts	49,578	7,848
Common stock issued in exchange for services	1,404,413	-
Common stock issued in exchange for financing costs - extension of debt maturity	-	4,500
Common stock issued as employee compensation	1,245,500	580,000
Common stock warrants issued with convertible, subordinated debentures	-	66,504
Share based compensation expense related to employee stock option grants	105,032	-
Changes in operating assets and liabilities:		
Accounts receivable	(177,196 )	(151,013 )
Inventory	(21,815 )	52,225
Prepaid expenses and other current assets	95,758	(72,189 )
Accounts payable	583,574	77,234
Accrued expenses	390,461	47,541
Net cash used in operating activities	(2,421,080)	(1,932,680)
Cash flows from investing activities:		
Purchase of property and equipment	(26,106 )	-
Advance to related party	(47,587 )	-
Net cash used in investing activities	(73,693 )	-
Cash flows from financing activities:		
Net proceeds from officer loans	681,750	1,015,721
Net proceeds from convertible, subordinated debentures	-	450,000
Net payment on loans payable to related party	(160,479 )	(27,891 )
Repayments on bank loans payable	(20,393 )	(13,688 )
Net proceeds from the issuance of common stock	1,179,521	528,469
Net proceeds from the exercise of common stock warrants	832,521	-
Net cash provided by financing activities	2,512,920	1,952,611
Net change in cash and cash equivalents	18,147	19,931
Cash and cash equivalents at beginning of period	11,392	31,128
Cash and cash equivalents at end of period	\$29,539	\$51,059
Supplemental disclosures:		
Interest paid	\$17,520	\$22,093
Income taxes paid	\$-	\$-
Supplemental disclosures of non-cash investing and financing activities:		
Common stock issued in connection with conversion of loans payable to officers	\$1,634,828	\$461,058

Common stock issued in connection with conversion of convertible, subordinated debentures	\$ 529,000	\$-
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The accompanying notes are an integral part of these financial statements.

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DNA Brands, Inc.  
Notes to Financial Statements

1. Organization and Summary of Significant Accounting Policies

Effective July 6, 2010, DNA Brands, Inc. (hereinafter referred to as the “Company” or “DNA”) executed agreements to acquire all of the remaining assets, liabilities and contract rights of DNA Beverage Corporation (“DNA Beverage”), and 100% of the common stock of its subsidiary Grass Roots Beverage Company, Inc. (“Grass Roots”), in exchange for the issuance of 31,250,000 shares of the Company’s common stock. As a result of this transaction the Company, f/k/a Famous Products, Inc. changed its name to DNA Brands, Inc. On November 9, 2010, the Company changed its fiscal year end from October 31, to December 31.

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

The Company produces, markets and sells a proprietary line of three carbonated blends of DNA Energy Drinks®, as well as a line of meat snacks made up of two beef jerky flavors, three flavors of beef sticks and other related products.

Reverse Capitalization

Effective July 6, 2010, the Company executed agreements to acquire all of the remaining assets, liabilities and contract rights of DNA Beverage, and 100% of the common stock of subsidiary Grass Roots, in exchange for the issuance of 31,250,000 shares of the Company’s common stock. DNA Beverage intends to distribute these shares to its shareholders of record as of September 8, 2010. Each share of DNA Beverage held on the aforesaid record date will receive 0.7787576 shares of the Company’s Common Stock upon the filing and effectiveness of a registration statement to be filed by the Company with the Securities and Exchange Commission. This share issuance represented approximately 94.6% of the Company’s outstanding stock. As a result of this transaction, the Company changed its name to “DNA Brands, Inc.”, and the Company f/k/a as Famous Products Inc. was deemed the legal acquirer.

The historical financial statements of the Company are those of DNA Beverage and of the consolidated entity. All DNA Beverage share amounts presented in this Report including weighted average shares outstanding and shares outstanding have been adjusted to reflect the conversion ratio of .7787576.

Basis of Presentation

The Company's unaudited consolidated financial statements include the accounts of its wholly-owned subsidiary. All intercompany balances and transactions are eliminated in consolidation. The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to interim financial information and the requirements of Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. 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.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### Revenue Recognition

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

#### Fair Value of Financial Instruments

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

#### Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents are stated at cost and consist of bank deposits and a money market fund that invests in short-term debt securities. The carrying amount of cash and cash equivalents approximates fair value.

#### Accounts Receivable and Allowance for Doubtful Accounts

The Company bills accounts receivable after its products are shipped. The Company bases its allowance for doubtful accounts on estimates of the creditworthiness of customers, analysis of delinquent accounts, payment histories of its customers and judgment with respect to the current economic conditions. The Company generally does not require collateral. The Company believes the allowances are sufficient to cover uncollectible accounts. The Company reviews its accounts receivable aging on a regular basis for past due accounts, and writes off any uncollectible amounts against the allowance.

#### Inventory

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

#### Property and Equipment

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

Equipment	5 Years
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### Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate the book value of the assets may not be recoverable. In accordance with Accounting Standards Codification (“ASC”) 360-10-35-15 Impairment or Disposal of Long-Lived Assets which replaced, Statement of Financial Accounting Standards No. 144, (“SFAS No. 144”), recoverability is measured by comparing the book value of the asset to the future net undiscounted cash flows expected to be generated by the asset.

No events or changes in circumstances have been identified which would impact the recoverability of the Company’s long-lived assets reported at September 30, 2010 or December 31, 2009.

### Derivative Instruments

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

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

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

### Stock-Based Compensation

The Company applies, codified ASC 718 Compensation – Stock Compensation, to stock-based compensation awards. ASC 718, which replaced Statement of Financial Accounting Standards No. 123R Share-based Payment, requires the measurement and recognition of non-cash compensation expense for all share-based payment awards made to employees and directors. The Company records common stock issued for services or for liability extinguishments at the closing market price for the date in which obligation for payment of services is incurred.

Stock compensation arrangements with non-employee service providers are accounted for in accordance with ASC 505-50 Equity-Based Payments to Non-Employees, using a fair value approach. The compensation costs of these arrangements are subject to re-measurement over the vesting terms as earned. ASC 505-50 replaces EITF No. 96-18, Accounting for Equity Instruments that are issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

### Stock Purchase Warrants

The Company has issued warrants to purchase shares of its common stock. Warrants have been accounted for as equity in accordance with ASC 480, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock, Distinguishing Liabilities from Equity. ASC 480 replaces EITF Issue No. 00-19.



## Income Taxes

Income taxes are accounted for under the asset and liability method as stipulated by Accounting Standards Codification (“ASC”) 740 formerly Statement of Financial Accounting Standards (“SFAS”) No. 109, “Accounting for Income Taxes”. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities or a change in tax rate is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced to estimated amounts to be realized by the use of a valuation allowance. A valuation allowance is applied when in management’s view it is more likely than not (50%) that such deferred tax will not be utilized

## Earnings (Loss) Per Share

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

## 2. Recently Issued Accounting Pronouncements

On July 1, 2009, the FASB officially launched the FASB ASC 105 “Generally Accepted Accounting Principles”, which established the FASB Accounting Standards Codification (“the Codification”), as the single official source of authoritative, nongovernmental, U.S. GAAP, in addition to guidance issued by the Securities and Exchange Commission. The Codification is designed to simplify U.S. GAAP into a single, topically ordered structure. All guidance contained in the Codification carries an equal level of authority. The Codification is effective for interim and annual periods ending after September 15, 2009. Accordingly, the Company refers to the Codification in respect of the appropriate accounting standards throughout this document as “FASB ASC”. Implementation of the Codification did not have any impact on the Company’s consolidated financial statements.

In August 2009, the FASB issued Accounting Standard Update “ASU” No. 2009-05 “Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value”. This ASU clarifies the fair market value measurement of liabilities. In circumstances where a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: a technique that uses quoted price of the identical or a similar liability or liabilities when traded as an asset or assets, or another valuation technique that is consistent with the principles of Topic 820 such as an income or market approach. ASU No. 2009-05 was effective upon issuance and it did not result in any significant financial impact on the Company upon adoption.

In September 2009, the FASB issued ASU No. 2009-12 “Fair Value Measurements and Disclosures (Topic 820) – Investments in Certain Entities That Calculate Net Asset Value per Share (or its equivalent)”. This ASU permits use of a practical expedient, with appropriate disclosures, when measuring the fair value of an alternative investment that does not have a readily determinable fair value. ASU No. 2009-12 is effective for interim and annual periods ending after December 15, 2009, with early application permitted. Since the Company does not currently have any such investments, it does not anticipate any impact on its financial statements upon adoption.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)”. SFAS No. 167 addresses the effect on FASB Interpretation 46(R), “Consolidation of Variable Interest Entities” of the elimination of the qualifying special-purpose entity concept of SFAS No. 166, “Accounting for Transfers of Financial Assets”. SFAS No. 167 also amends the accounting and disclosure requirements of FASB Interpretation 46(R) to enhance the timeliness

and usefulness of information about an enterprise's involvement in a variable interest entity. This Statement shall be effective as of the Company's first interim reporting period that begins after November 15, 2009. Earlier application is prohibited. The Company does not anticipate any significant financial impact from adoption of SFAS No. 167. As of December 31, 2009, SFAS No. 167 has not been added to the Codification.

In May 2009 and as updated February 2010, the FASB issued FASB ASC 855, "Subsequent Events". This Statement addresses accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. FASB ASC 855 requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, the date issued. The Company adopted this Statement in 2009. As a result the date through which the Company has evaluated subsequent events and the basis for that date have been disclosed in Note 14.

In April 2009, the FASB issued an update to FASB ASC 820, “Fair Value Measurements and Disclosures”, related to providing guidance on when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. The update clarifies the methodology to be used to determine fair value when there is no active market or where the price inputs being used represent distressed sales. The update also reaffirms the objective of fair value measurement, as stated in FASB ASC 820, which is to reflect how much an asset would be sold in an orderly transaction, and the need to use judgment to determine if a formerly active market has become inactive, as well as to determine fair values when markets have become inactive. The Company adopted this Statement in 2009 without significant financial impact.

In December 2007, the FASB issued an update to FASB ASC 810, “Consolidation”, which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non-controlling interest, changes in a parent’s ownership interest, and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of non-controlling owners. The Company adopted this update in 2009 without significant impact on the consolidated financial position, results of operations, and disclosures.

In June 2009, ASC 810.10, Amendments to FASB Interpretation No. 46(R), was issued. The objective of ASC 810.10 is to amend certain requirements of ASC 860 (revised December 2003), Consolidation of Variable Interest Entities, or ASC 860 to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. ASC 810 carries forward the scope of ASC 860, with the addition of entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated in ASC 860, Accounting for Transfers of Financial Assets. ASC 810.10 nullifies FASB Staff Position ASC 860, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities. The principal objectives of these new disclosures are to provide financial statement users with an understanding of:

- a. The significant judgments and assumptions made by an enterprise in determining whether it must consolidate a variable interest entity and/or disclose information about its involvement in a variable interest entity;
- b. The nature of restrictions on a consolidated variable interest entity’s assets and on the settlement of its liabilities reported by an enterprise in its statement of financial position, including the carrying amounts of such assets and liabilities;
- c. The nature of, and changes in, the risks associated with an enterprise’s involvement with the variable interest entity; and
- d. How an enterprise’s involvement with the variable interest entity affects the enterprise’s financial position, financial performance and cash flows.

ASC 810 is effective as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009. Earlier application is prohibited. The provisions of ASC 810 need not be applied to immaterial items.

### 3. Going Concern

As reflected in the accompanying financial statements, the Company has recorded net losses of \$6,205,500 and \$2,831,743 for the nine month periods ended September 30, 2010 and 2009, respectively. Net cash used in operations from the same periods were \$2,421,080 and, \$1,932,681 respectively. At September 30, 2010 the Company had a



working capital deficit of \$2,368,538 and a stockholders' deficit of \$2,277,152. These matters raise a substantial doubt about the Company's ability to continue as a going concern.

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

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

#### 4. Inventory

The following table sets forth the composition of the Company's inventory:

	Sept. 30, 2010 (unaudited)	Dec. 31, 2009
Raw materials	\$ 60,714	\$ 3,712
Finished goods – beverages and meat snacks	93,259	128,446
Total inventory	\$ 153,973	\$ 132,158

#### 5. Accounts Receivable

The following table sets forth the composition of the Company's accounts receivable:

	Sept. 30, 2010 (unaudited)	Dec. 31, 2009
Accounts Receivable	\$ 195,846	\$ 21,161
Less: Allowance for doubtful accounts	(50,804 )	(3,737 )
Accounts Receivable, net	\$ 145,042	\$ 17,424

Bad debt expense for the nine-month periods ended September 30, 2010 and 2009 was \$49,578 and \$7,848 respectively.

#### 6. Prepaid Expenses

Prepaid expenses consist of the following:

	Sept. 30, 2010 (unaudited)	Dec. 31, 2009
Security deposit	\$ 10,000	\$ 10,000
Employee and other advances	29,127	26,386
Sponsorship agreement	-	100,000
Miscellaneous, other	3,000	1,500
Total prepaid assets	\$ 42,127	\$ 137,886



## 7. Property and Equipment, Net

The following table sets forth the composition of the Company's property and equipment:

	Sept. 30, 2010 (unaudited)	Dec. 31, 2009
Equipment	\$ 134,840	\$ 108,735
Accumulated depreciation	(86,105 )	(66,707 )
Total property and equipment, net	\$ 48,735	\$ 42,028

Depreciation expense for the nine month periods ended September 30, 2010 and 2009 was \$19,398 and \$16,266 respectively.

## 8. Accrued Expenses

The following table sets forth the composition of the Company's accrued expenses as of September 30, 2010 and December 31, 2009:

	Sept. 30, 2010 (unaudited)	Dec. 31, 2009
Accrued salaries – officers	\$ 772,136	\$ 540,000
Accrued interest	-	22,565
Vendor agreement	71,103	-
Payroll taxes and penalties	133,209	61,183
Total accrued expenses	\$ 976,448	\$ 623,748

Due to the shortage of liquidity, the Company's two principal executive officers have deferred their salaries since 2008.

## 9. Bank Loans Payable

Bank loan payable were comprised primarily of bank financing for vehicles and equipment coolers for the Company's products. The range of interest rates on these loans was 9% to 26%. The following table sets forth the current and long term portions of bank loans:

	Sept. 30, 2010 (unaudited)	Dec. 31, 2009
Bank loans	\$ 19,080	\$ 39,472
Less: Current portion of bank loans	(14,144 )	(24,552 )
Total long term-bank loans	\$ 4,936	\$ 14,920

## 10. Convertible, subordinated debentures, net of discount

A summary of the issuances of all convertible notes in 2009 and 2008 are as follows:

Issue Dates	Interest Rate	Face Value	Original Due Date	Conversion Rate of Face Value to Common Shares
12/16/2008	10%	\$ 25,000	12/31/2009	.514
12/19/2008	12%	54,000	12/31/2009	.642
2/19/2009	10%	50,000	02/18/2010	.514
3/31/2009	12%	50,000	03/31/2010	.514
4/15/2009	8%	250,000	07/15/2009	.642
6/23/2009	12%	25,000	07/31/2010	.514
9/9/2009	12%	75,000	12/31/2010	.514
Total		\$ 529,000		

Convertible notes consist of the following:

	Sept. 30, 2010 (unaudited)	Dec. 31, 2009
Convertible notes-face value	\$ 529,000	\$ 529,000
Loan discount	(419,090 )	(419,090 )
Add: amortization of loan discount	419,090	329,373
Less: conversion of notes to common stock	(529,000 )	-
Net convertible notes	\$ -	\$ 439,283

As of September 30, 2010 and December 31, 2009, the Company had outstanding convertible notes to various non-related parties in the aggregate amount of \$-0- and \$439,283, respectively. These notes were issued at varying interest rates from 8% to 12% with varying conversion rates and formulas that enabled the noteholder to convert these notes to common stock. Due to its limited liquidity, the Company was unable to pay off any of the convertible notes on the original due date, and as result negotiated extensions on the loans by either lowering the conversion price, or granting warrants to purchase the Company's common stock.

In May and June of 2010, holders of previously issued convertible subordinated debentures agreed to convert \$529,000 plus \$37,671 in accrued interest, in return for the issuance of 972,443 shares of common stock. The approximate value per share was \$0.58.

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

	2009		2008	
Expected dividend yield (1)	0	%	0	%
Risk-free interest rate (2)	1.55	%	3.45	%
Expected volatility (3)	147.7	%	141.2	%
Expected life (in years)	.03-1.0		1.0	