BAZI INTERNATIONAL, INC.
Form 10-Q
November 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
For the transition period from N/A to N/A

Commission file No. 000-50875

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

Nevada	84-1575085
(State of incorporation)	(I.R.S. Employer Identification Number)

18552 MacArthur Blvd, Ste 325
Irvine, CA 92612
(Address of principal executive offices)

(949) 385-2294
(Issuer's telephone number)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non–accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b–2 of the Exchange Act. (Check one):

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non–Accelerated filer	[ ]	Small reporting company	[X]

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

As of November 14, 2012 the Company had 119,233,469 shares of its $.001 par value common stock issued and outstanding.

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PART I
FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BAZI INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2012 (Unaudited)	December 31, 2011*
ASSETS		
Current assets:		
Cash	$ 48,227	$ 26,050
Accounts receivable, net of allowance for doubtful accounts of $4,856 and $11,849, respectively	3,163	633
Inventory, net of allowance for obsolescence of $0 and $11,169, respectively	47,357	1,853
Prepaid expenses and other current assets	14,238	83,839
Deferred offering costs and loan costs	-	125,605
Total current assets	112,985	237,980
Intangible assets, net	15,892	19,341
Property and equipment, net	-	9,669
Total assets	$ 128,877	$ 266,990
LIABILITIES AND SHAREHOLDERS’ DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	$ 430,328	$ 1,723,075
Accrued interest	4,852	8,524
Related party debt	391,701	137,462
Total current liabilities	826,881	1,869,061
Long term liabilities:		
Senior notes payable	-	102,555
Total liabilities	826,881	1,971,616
Commitments and Contingencies		
SHAREHOLDERS’ DEFICIT		
Preferred stock, authorized 5,000,000 shares, $.001 par value, none issued or outstanding	-	-
Common stock, 200,000,000 shares authorized, $.001 par value, 119,233,469 and 50,546,507 shares issued and outstanding, respectively	119,233	50,546

Additional paid in capital		33,248,833		30,211,400
Accumulated deficit		(34,066,070)		(31,966,572)
Total shareholders’ deficit		(698,004)		(1,704,626)
Total liabilities and shareholders’ deficit	$	128,877	$	266,990

The accompanying notes are an integral part of these condensed consolidated financial statements.
* Derived from audited Financial Statements

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BAZI INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
Three and Nine Months Ended September 30, 2012 and 2011

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Net sales	$ 74,154	$ 314,567	$ 383,187	$ 1,105,328
Cost of goods sold	45,882	181,543	199,290	625,561
Gross profit	28,272	133,024	183,897	479,767
Operating expenses:				
Selling and marketing expenses	26,676	361,308	123,228	1,477,888
General and administrative expenses	317,375	376,210	2,123,158	1,422,916
Research and development expenses	-	86	-	289
Depreciation and amortization	382	4,623	5,311	16,682
Total operating expenses	344,433	742,227	2,251,697	2,917,775
Net loss from operations	(316,161)	(609,203)	(2,067,800)	(2,438,008)
Other income (expense)				
Interest income	3	25	11	176
Income from debt forgiveness	141,353	-	142,382	-
Loss on disposal of asset	-	-	(4,969)	-
Interest expense	(40,164)	(11,368)	(169,122)	(1,115,455)
Total other income (expense)	101,192	(11,343)	(31,698)	(1,115,279)
Net loss	$ (214,969)	$ (620,546)	$ (2,099,498)	$ (3,553,287)
Net loss per common share				
Basic and diluted net loss per share	$ (0.00)	$ (0.01)	$ (0.02)	$ (0.08)
Weighted average common shares outstanding, basic and diluted	84,453,852	42,180,154	104,157,529	47,014,941

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

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BAZI INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Cash flows from operating activities:		
Net loss	$ (2,099,498)	$ (3,553,287)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,311	16,682
Loss on disposal of asset	4,969	-
Stock and stock options issued for services	1,787,419	464,479
Gain on forgiveness of accounts payable and accrued liabilities	(569,521)	-
Loss on forgiveness of notes payable	254,728	-
Loss on forgiveness of senior notes	172,411	-
Amortization of note discount	96,427	1,091,668
Termination and deferred financing cost of deferred loan cost	92,119	-
Provision for doubtful accounts	(6,993)	6,158
Provision for inventory obsolescence	(11,169)	(17,550)
Provision for product returns	-	(477)
Changes in operating assets and liabilities:		
Accounts receivable	4,463	(27,111)
Inventory	(34,335)	20,193
Prepaid expenses and other current assets	69,601	(21,437)
Accounts payable and accrued expenses	(267,561)	850,085
Accrued interest	18,262	23,769
Net cash used by operating activities	(483,367)	(1,146,828)
Cash flows from investing activities:		
Proceeds from sale of equipment	2,838	-
Net cash provided by investing activities	2,838	-
Cash flow from financing activities:		
Issuance of common stock, net of fees	33,855	1,141,375
Net proceeds from related party debt	468,851	(25,000)
Net cash provided from financing activities	502,706	1,116,375
NET INCREASE IN CASH	22,177	(30,453)
CASH, BEGINNING OF THE PERIOD	26,050	41,067
CASH, END OF THE PERIOD	$ 48,227	$ 10,614
SUPPLEMENTAL DISCLOSURES		
NON CASH FINANCING AND INVESTING ACTIVITIES		
Accrued interest paid by issuance of senior notes	$ -	$ 5,940
Accrued interest paid by issuance of common stock	$ 21,934	$ 26,474
Senior notes paid by issuance of common stock	$ 110,108	$ 2,356,339

Deferred offering costs paid by issuance of common stock	$	-	$	92,119
Common stock issued in satisfaction of accounts payable and accrued liabilities	$	1,025,186	$	-
Common stock issued in satisfaction of notes payable	$	270,000	$	-

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

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BAZI INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2012

NOTE 1. ORGANIZATION, OPERATIONS AND BASIS OF PRESENTATION

Organization and Business

The condensed consolidated financial statements include those of Bazi International, Inc., formerly named XELR8 Holdings, Inc., and its wholly owned subsidiaries, Bazi Company, Inc., formerly VitaCube Systems, Inc., Bazi, Inc., formerly known as XELR8, Inc., XELR8 International, Inc. and XELR8 Canada, Corp. Bazi International, Inc. and its wholly owned subsidiaries are collectively referred to herein as the "the Company."

On June 7, 2012, the Company entered into an agreement and plan of merger with True Drinks, Inc. ("True Drinks"), previously named GT Beverage Company, Inc. The merger closed on October 15, 2012. Upon closing, True Drinks shareholders received preferred shares of the Company which, upon conversion to common stock, represent approximately 95.5% of the total common shares outstanding of the Company. In connection with the closing of the merger, the line of credit which True Drinks had issued to the Company for up to $600,000 has matured and is considered satisfied. Also, in connection with the merger, the Services Agreement between the Company and True Drinks pursuant to which, among other things, the Company provided certain management services to True Drinks, such as management of sales, marketing, and operations, and the direction of business planning and decisions and supplier relationships of True Drinks, in exchange for a monthly fee has been terminated.

Prior to the merger, the Company primarily developed, marketed, sold and distributed Bazi®, the Company's flagship liquid nutritional supplement drink. Until January 18, 2010, our principal channel of distribution was through a multilevel distributor network. The Company terminated its multilevel distributor network compensation plan in favor of a retail and direct-to-consumer and online sales model in January 2010. We currently distribute Bazi® through select retail channels, online, and through our existing database of customers.

Since the date of the merger, the Company's primary business is the development, marketing, sales and distribution of AquaBallTM, True Drinks' flagship vitamin-enhanced, naturally flavored water drink. True Drinks has licensing agreements with Disney Consumer Products, Inc. and Marvel Characters BV for the use of certain of each company's characters on its patented stacking spherical bottles. The Company distributes AquaBall nationally through select retail channels, such as grocery stores, mass merchandisers and drug stores.

Current Liquidity, Going Concern and Management's Plan

The Company currently has negative working capital of $713,896. The line of credit from True Drinks in connection with the agreement and plan of merger for up $600,000 funded the Company's working capital requirements through October 15, 2012 when the merger closed.

The Company's condensed consolidated financial statements are prepared in conformity with generally accepted accounting principles in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, as shown in the condensed consolidated financial statements, the Company has sustained substantial losses from operations since inception, and as of September 30, 2012, had an accumulated deficit of $34,066,070, a working capital deficit of $713,896 and only $48,227 in cash. In addition, the Company has used, rather than provided, cash in the Company's operations, using $483,367 in net cash to fund operating activities for the nine months ended September 30, 2012. These factors, among others, raise substantial doubt that the Company will be able to continue as a going concern for a reasonable amount of time. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue operations. The Company's continuation as a going concern is contingent upon its ability to obtain additional financing, and to generate revenue and cash flow to meet its obligations on a timely basis.

On October 15, 2012, the Company completed its merger with True Drinks. The Company’s ability to continue as a going concern is now dependant on True Drinks’ ability to obtain additional financing, and to generate revenue and cash flow to meet its obligations on a timely basis.

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Basis of Presentation

The condensed interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading. The condensed interim financial statements and notes thereto should be read in conjunction with the financial statements and the notes thereto, included in the Company's Annual Report to the Securities and Exchange Commission for the fiscal year ended December 31, 2011, filed on Form 10-K on April 6, 2012.

The accompanying condensed interim financial statements have been prepared, in all material respects, in conformity with the standards of accounting measurements set forth in Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 270 and reflect, in the opinion of management, all adjustments necessary to summarize fairly the financial position and results of operations for such periods in accordance with accounting principles generally accepted in the United States of America. All adjustments are of a normal recurring nature, with the exception of gains/losses on the extinguishment of debt. The results of operations for the most recent interim period are not necessarily indicative of the results to be expected for the full year.

The accompanying balance sheet assumes the continued operations of the Company. As of the close of the merger with True Drinks, Inc. on October 15, 2012, the Company's continued operations are now dependant on the business of True Drinks. True Drinks' ability to achieve positive cash flow resulting from its new business plan is uncertain.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company and its wholly owned subsidiaries Bazi Company, Inc., Bazi, Inc., XELR8 International, Inc. and XELR8 Canada, Corp. All inter-company accounts and transactions have been eliminated in the preparation of these consolidated statements.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management believes that the estimates utilized in the preparation of financial statements are prudent and reasonable. Actual results could differ from these estimates.

Revenue Recognition

In accordance with Staff Accounting Bulletin No. 104 "Revenue Recognition in Financial Statements", revenue is recognized at the point of shipment, at which time title is passed. Net sales include sales of products, slotting fees, discounts and freight and handling charges. With approved credit, we provide wholesale customers payment terms of up to net 30 days.

Allowances for Product Returns

Allowances for product returns are recorded at the time product is shipped. Our return policy includes a 20 day money back guarantee. Additionally, the Company is now shipping product to wholesale vendors who have a right to return the first orders based upon agreed terms. To date the Company has not shipped a significant quantity subject to these wholesalers and has not received any returns.

We will monitor our return estimate on an ongoing basis and may revise allowances to reflect our experience. Our ambassador sales subject to a reserve for product returns for customer sales at the end of the nine months ended September 30, 2012 was $46,509. To date, product expiration dates have not played any role in product returns, and we do not anticipate that they will be in the future because of the marketing focus on Bazi®, a product that has a one year shelf life and therefore it is unlikely for us to have expired product returned to us.

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Inventory

Inventory is stated at the lower of cost or market on a FIFO (first-in first-out) basis. Provision is made to reduce excess or obsolete inventory to the estimated net realizable value. The Company purchases for resale a liquid dietary supplement.

Inventory is comprised of the following:

	September 30, 2012	December 31, 2011
Raw materials	$ -	$ 1,379
Finished goods	47,357	11,643
Provision for obsolete inventory	-	(11,169)
	$ 47,357	$ 1,853

A summary of the reserve for obsolete and excess inventory is as follows:

	September 30, 2012	December 31, 2011
Balance as of beginning of period	$ 11,169	$ 28,022
Addition to provision	1,853	-
Deduction to provision	(12,894)	(1,198)
Recapture of previous provision	(128)	(9,498)
Write-off of obsolete inventory	-	(6,157)
Balance as of end of period	$ -	$ 11,169

Intangible Assets

Intangible assets, to date, have consisted of the direct costs incurred for application fees and legal expenses associated with trademarks on the Company's products. The Company's intangible assets, consisting of trademarks and patent costs, are being amortized over their estimated life of 15 years. The Company evaluates the useful lives of its intangible assets annually and adjusts the lives according to the expected useful life. An impairment was not deemed necessary in either 2012 or 2011.

Deferred Offering Costs and Loan Costs

Deferred offering costs, to date, have consisted of the direct costs incurred to issue shares classified as equity, such as underwriting, accounting and legal fees, printing costs, and taxes, and are treated as a reduction of the proceeds when the stock is issued as a charge directly to additional paid in capital. These direct costs incurred before equity shares are issued and classified as an asset until the stock is issued. However, if consummation of the equity offering is not probable, or the offering is aborted, such costs are expensed. On June 21, 2011, the Company signed a $10 million stock purchase agreement with Lincoln Park Capital Fund, LLC ("LPC"). At the time the Company files a registration related to this transaction with the SEC and the SEC has declared effective this registration statement, the Company will have the right over a 36-month period to sell shares of common stock to LPC, up to the aggregate commitment of $10 million. In consideration for entering into the $10 million agreement, the Company issued to LPC 837,447 shares of our common stock as a commitment fee, which the Company recorded as a deferred offering cost of $92,119, and shall issue up to 837,447 additional shares pro rata, when and if, LPC purchases at the Company's discretion the $10 million aggregate commitment. In March 2012 the Company cancelled the stock purchase agreement with LPC and expensed the deferred offering cost of $92,119.

Deferred finance costs, to date, have consisted of the direct costs incurred for commissions, application fees and legal expenses associated with the origination of the Company's senior secured convertible notes issued during 2010 ("Senior Notes"). In January 2011, Senior Notes with the principle amount of $2,207,911 plus accrued interest converted to common stock based on the conversion terms of the Notes. As a result of the conversion, the Company expensed the deferred finance costs associated with those Senior Notes in the amount of $433,677. The remaining deferred finance costs are being amortized over the 5 year term of the loan on an effective interest rate basis. Additional deferred finance costs were incurred by the Company from Note Purchase Agreements entered into between December 16, 2011 and February 1, 2012 in the principle amount of $190,000 due and payable on or before the earlier to occur of March 31, 2012 or the date the Company consummates a qualified financing resulting in gross proceeds to the Company of at least $1.5 million. In July and August 2012, Senior Notes with the principle amount of $110,108 plus accrued interest converted to common stock based on the terms of debt compromise agreements. As a result of the conversion, the Company expensed the deferred finance costs associated with those Senior Notes in the amount of $15,406. As of September 30, 2012, all deferred finance costs have been amortized or expensed.

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Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740. Under the asset and liability method of ASC Topic 740 deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The Company provides a full valuation allowance against deferred tax assets arising from the Company's tax net operating loss carryforwards.

Based on management's assessment of ASC Topic 740, the Company does not have an accrual for uncertain tax positions as of September 30, 2012. There have been no income tax related interest or penalties assessed or recorded and if interest and penalties were to be assessed, the Company would charge interest and penalties to income tax expense. It is not anticipated that unrecognized tax benefits would significantly increase or decrease within 12 months of the reporting date. The Company files income tax returns in the U.S. and various state jurisdictions, and there are open statutes of limitations for taxing authorities to audit the Company's tax returns from 2006 through the current period.

Stock-Based Compensation

Total share-based compensation expense, for all of the Company's share-based awards recognized for the nine months ended September 30, 2012, was $1,787,419 as compared to $464,479 for the nine months ended September 30, 2011.

The Company uses a Black-Scholes option-pricing model (Black-Scholes model) to estimate the fair value of stock option grants. The use of a valuation model requires the Company to make certain assumptions with respect to selected model inputs. Expected volatility was calculated based on the historical volatility of the Company's stock price over the contractual term of the option. The expected life will be based on the contractual term of the option and expected employee exercise and post-vesting employment termination behavior. Currently it is based on the simplified approach provided by SAB 110. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of the grant. The following were the factors used in the Black Sholes model in the quarters to calculate the compensation cost:

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Stock price volatility	-%	123 – 208%
Risk-free rate of return	-%	0.15 – 2.02%
Annual dividend yield	-%	-%
Expected life	-	.5 to 5 Years

No options were granted during the nine months ended September 30, 2012.

Net Loss Per Share

Earnings per share require presentation of both basic earnings per common share and diluted earnings per common share. Since the Company has a net loss for all periods presented since inception, common stock equivalents are not included in the weighted average calculation since their effect would be anti-dilutive.

Recent Accounting Pronouncements

We have reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on our financial condition or the results of our operations.

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NOTE 2. SHAREHOLDERS' EQUITY

The authorized capital stock of the Company consists of 200,000,000 shares of common stock, $.001 par value, and 5,000,000 shares of preferred stock, $.001 par value. The holders of the common stock are entitled to receive, when and as declared by the Board of Directors, dividends payable either in cash, in property or in shares of the common stock of the Company. Dividends have no cumulative rights and dividends will not accumulate if the Board of Directors does not declare such dividends. Through September 30, 2012, no dividends have been declared or paid by the Company.

On January 12, 2012 and February 1, 2012, the Company entered into Note Purchase Agreements with a limited number of accredited investors, pursuant to which the Company issued promissory notes in the principal amount of $95,000 together with 1,054,500 shares of the Company's Common Stock. The Note Purchase Agreements are due and payable on or before the earlier to occur of March 31, 2012 or the date the Company consummates a qualified financing resulting in gross proceeds to the Company of at least $1.5 million. In the third 2012, these notes were converted into shares of the Company's Common Stock (see Note 6). The Notes accrue interest at the rate of five percent (5%) per annum. Net proceeds to the Company after the deduction of selling commissions, but before expenses of the Note Offering, were approximately $72,150.

On January 12, 2012, the Company issued a total of 12,598,120 shares of common stock to certain of the Company's senior management team in consideration of the forgiveness of amounts due to management for accrued but unpaid payroll aggregating $329,469.

On January 25 and March 26, 2012, the Company issued a total of 2,333,333 and 9,500,000 shares of common stock, respectively, to certain individuals associated with the Company's for services provided valued at $ 93,333 and $570,000, respectively, based on the trading price of the Company's common stock.

On March 26, 2012, the Company issued five directors a total of 6,000,000 shares of common stock for services provided to the Company valued at $360,000, based on the trading price of the Company's common stock.

On March 28, 2012, the Company terminated the investment banking agreement with John Thomas Financial ("JTF") dated June 10, 2011, releasing the Company from any further obligation to JTF under the investment banking agreement. In consideration for the termination of the investment banking agreement, and any liability thereunder, the Company agreed to issue JTF 2,000,000 shares of the Company's common stock valued at $120,000, based on the trading price of the Company's common stock.

On July 23, 2012, the Company engaged Disclosure Law Group ("DLG") to represent the Company in the connection with the closing of the proposed merger between the Company and True Drinks. A Managing Partner of DLG is Daniel W. Rumsey, a director of the Company. Per the terms of the Engagement Letter, the Company issued Mr. Rumsey a total of 500,000 shares of common stock for services provided to the Company valued at $45,000, based on the trading price of the Company's common stock.

In August, 2012 in connection to the agreement and plan of merger entered into between the Company and True Drinks on June 7, 2012, the Company issued 9,628,088 shares of its common stock to certain of its creditors holding claims totaling $1,025,186 pursuant to the terms of debt compromise agreements. The common stock issued was valued at $455,665, based on the trading price of the Company's common stock on the date of the debt compromise agreements.

In July 2012 and August 2012, the Company issued 20,232,921 shares of its common stock in exchange for Senior Notes and Notes Payable in the aggregate principal amount, including accrued interest, of $402,042. The common stock issued was valued at $829,181, based on the trading price of the Company's common stock on the date of the debt compromise agreements.

On August 8, 2012, the Company issued a total of 3,840,000 shares of common stock to certain individuals associated with the Company for services provided valued at $115,200 based on the trading price of the Company's common stock.

On August 27, 2012, the Company issued two directors a total of 1,000,000 shares of common stock for services provided to the Company valued at $70,000, based on the trading price of the Company's common stock.

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NOTE 3. RELATED PARTY DEBT

On December 2, 2010, the Company issued a promissory note in favor of an accredited investor in the principal amount of $100,000 (the "Note"), together with 100,000 warrants exercisable for shares of the Company's common stock at $.0.30 per share ("Warrants"). The Warrants terminate, if not exercised, five years from the date of issuance. The Note is due and payable on or before the earlier to occur of December 1, 2011 or the date the Company consummates a private placement or public offering of equity securities resulting in gross proceeds to the Company of at least $150,000. The Note accrues interest at the rate of eight percent (8%) per annum, and ranks junior to the Company's currently issued and outstanding Senior Secured Convertible Notes, and senior to all other indebtedness of the Company. The Company recorded the value of the warrants as a deferred offering cost to be amortized over the term of the note and recorded the Note at a discount of $12,136. On July 8, 2011, the Company re-paid $25,000. On December 1, 2011 the Company defaulted on the Note and, therefore, per terms of the Note, accrues interest at the rate of twelve percent (12%) per annum from the date of default until paid. In August 2012, the Company exchanged the Note in the principal amount of $75,000 plus accrued interest of $11,301 for 3,452,055 shares of its common stock pursuant to terms negotiated in a debt compromise agreement.

Between December 16, 2011 and February 1, 2012, the Company entered into Note Purchase Agreements with a limited number of accredited investors, pursuant to which the Company issued Promissory Notes (the “Notes1”) in the principal amount of $190,000 together with 2,109,000 shares of the Company's Common Stock. The Notes1 are due and payable on or before the earlier to occur of March 31, 2012 or the date the Company consummates a qualified financing resulting in gross proceeds to the Company of at least $1.5 million. The Notes1 accrue interest at the rate of five percent (5%) per annum. The Company recorded the value of the shares as a deferred offering cost to be amortized over the term of the Notes1 and recorded the Notes1 at a discount of $70,488. In August 2012, the Company exchanged the Notes1 in the aggregate principal amount of $190,000 plus accrued interest of $4,183 for 7,767,315 shares of its common stock pursuant to terms negotiated in debt compromise agreements.

On February 23, 2012, the Company issued a promissory note in the principal amount of $99,500 (the “Bridge Note1”). The Bridge Note1 is due and payable on or before the earlier to occur of April 18, 2012 or termination of a pending agreement between the parties. The Bridge Note1 accrues interest at the rate of one percent (1%) per annum and is collateralized by certain assets of the Company. On April 18, 2012, the Company defaulted on Bridge Note1 and therefore per terms of the Bridge Note1 accrues interest at the rate of fifteen percent (15%) per annum from the date of default until paid. On May 14, 2012, the Company re-paid $50,000 of the principal amount of Bridge Note1. On June 7, 2012, the Company replaced Bridge Note1 in favor of a revolving line of credit incorporating the remaining principal balance of $49,500 and accrued interest of $1,701. The revolving line of credit accrued interest at the rate of one percent (1%) per annum and is due and payable on the earlier of the closing date or termination date of the Merger Agreement between True Drinks, Inc. and the Company.

On March 13, 2012 the Company issued a promissory note in the principal amount of $5,000 (the “Bridge Note2”) to a shareholder of the Company. The Bridge Note2 is due and payable on April 30, 2012. The Bridge Note2 accrues interest at the rate of one percent (1%) per annum. On April 30, 2012, the Company defaulted on Bridge Note2 and therefore per terms of the Bridge Note2 accrues interest at the rate of fifteen percent (15%) per annum from the date of default until paid. In August 2012, the Company exchanged the Bridge Note2 in the principal amount of $5,000 plus accrued interest of $85 for 203,387 shares of its common stock pursuant to terms negotiated in a debt compromise agreement.

On March 28, 2012, the Company issued a promissory note in the principal amount of $28,600 (the “Bridge Note3”). The Bridge Note3 is due and payable from the receipts on the sales of the Company’s flagship product Bazi® on or before the earlier to occur of April 30, 2012 or termination of a pending agreement between the parties. The Bridge Note3 accrues interest at the rate of one percent (1%) per annum and is collateralized by certain assets of the

Company. On April 30, 2012, the Company defaulted on Bridge Note3 and therefore per terms of the Bridge Note3 accrues interest at the rate of fifteen percent (15%) per annum from the date of default until paid. On June 7, 2012, the Company replaced Bridge Note3 in favor of a revolving line of credit incorporating the principal balance of $28,600 and accrued interest of $472. The revolving line of credit accrued interest at the rate of one percent (1%) per annum and is due and payable on the earlier of the closing date or termination date of the Merger Agreement between True Drinks, Inc. and the Company.

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On April 25, 2012, the Company issued two promissory notes in the aggregate principal amount of $102,085 (the "Bridge Note4"). The Bridge Note4 is due and payable from the receipts on the sales of the Company's flagship product Bazi® on or before the earlier to occur of April 30, 2012 or termination of a pending agreement between the parties. The Bridge Note4 accrues interest at the rate of one percent (1%) per annum and is collateralized by certain assets of the Company. On April 30, 2012, the Company defaulted on Bridge Note4 and therefore per terms of the Bridge Note4 accrues interest at the rate of fifteen percent (15%) per annum from the date of default until paid. On June 7, 2012, the Company replaced Bridge Note4 in favor of a revolving line of credit incorporating the principal balance of $102,085 and accrued interest of $1,608. The revolving line of credit accrued interest at the rate of one percent (1%) per annum and is due and payable on the earlier of the closing date or termination date of the Merger Agreement between True Drinks, Inc. and the Company.

On May 11, 2012, the Company issued a promissory note in the principal amount of $56,000 (the "Bridge Note5"). The Bridge Note5 is due and payable from the receipts on the sales of the Company's flagship product Bazi® on or before the earlier to occur of September 30, 2012 or termination of a pending agreement between the parties. The Bridge Note5 accrues interest at the rate of one percent (1%) per annum and is collateralized by certain assets of the Company. On June 7, 2012, the Company replaced Bridge Note5 in favor of a revolving line of credit incorporating the principal balance of $56,000 and accrued interest of $41. The revolving line of credit accrued interest at the rate of one percent (1%) per annum and is due and payable on the earlier of the closing date or termination date of the Merger Agreement between True Drinks, Inc. and the Company.

On May 30, 2012, the Company issued a promissory note in the principal amount of $18,000 (the "Bridge Note6"). The Bridge Note6 is due and payable from the receipts on the sales of the Company's flagship product Bazi® on or before the earlier to occur of September 30, 2012 or termination of a pending agreement between the parties. The Bridge Note6 accrues interest at the rate of one percent (1%) per annum and is collateralized by certain assets of the Company. On June 7, 2012, the Company replaced Bridge Note6 in favor of a revolving line of credit incorporating the principal balance of $18,000 and accrued interest of $4. The revolving line of credit accrued interest at the rate of one percent (1%) per annum and is due and payable on the earlier of the closing date or termination date of the Merger Agreement between True Drinks, Inc. and the Company.

On June 7, 2012, True Drinks, Inc. issued the Company a Revolving Line of Credit (the "Line") not to exceed $600,000. The Line is due and payable on the earlier of the closing date or termination date of the Merger Agreement between the parties. The Line accrues interest at the rate of one percent (1%) per annum. The Line replaced previous indebtedness between the parties and its affiliates issued as Bridge Note1, Bridge Note2, Bridge Note4, Bridge Note5 and Bridge Note in the aggregate principal amount of $254,185 with accrued interest of $3,827. At September 30, 2012, the principal balance of the line was $391,701 with available credit of $208,299 and accrued interest of $4,852.

Related Party Debt activity can be summarized as follows:

Related Party Debt balance outstanding, December 31, 2011	$137,462	
Notes payable and line of credit issued	652,142	
Settlement of notes payable by issuance of common stock	(270,000	)
Repayment of notes payable and line of credit	(160,441	)
Total notes payable and line of credit outstanding at September 30, 2012, at par	359,163	
Warrant and share allocation to deferred offering cost	(33,855	)
Net discounted notes payable and line of credit	325,308	
Amortization of note discount	66,393	
Related Party Debt net balance outstanding, September 30, 2012	$391,701	

NOTE 4. SENIOR SECURED CONVERTIBLE NOTES

In January 2011, the Company exchanged certain Senior Notes in the aggregate principal amount, including accrued interest, of $2,382,813 for 15,885,396 shares of its common stock (the "Note Conversion"). The Senior Notes were converted into common stock according to their terms, at a conversion price of $0.15 per share. As a result of the Note Conversion, only $119,129 aggregate principal amount of Senior Notes remain issued and outstanding. No commissions or other fees were paid in connection with the conversion of the Senior Notes. As a result of the conversion the Company expensed the deferred offering costs associated with these Notes in the amount of $433,677 to interest expense as well as the unamortized beneficial conversion feature associated with these converted Notes in the amount of $616,935.

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The Senior Notes issued at the first closing of the Senior Notes issued in March 2010 are due on March 5, 2015. The Senior Notes issued at the second closing of the Senior Notes issued in June 2010 are due on June 7, 2015. The Senior Notes issued at the third closing of the Senior Notes issued in July 2010 are due on July 2, 2015, and the Senior Notes issued at the final closing of the Senior Notes issued in October 2010 are due on October 1, 2015. As of June 30, 2012 only Notes from the first and third closing remained outstanding. All issuances accrue interest at the rate of 10% per annum payable semi-annually in arrears on June 15 and December 15 of each year, and interest is payable, at the option of holders of a majority of the aggregate principal amount of outstanding Senior Notes, in either cash or additional Senior Notes. As of June 30, 2010, the Company inadvertently failed to make the first interest payment. As a result, the Senior Notes related to the first and second closing accrued an additional three percent (3%) interest until they were paid in kind on August 12, 2010. At any given time (prior to the maturity date) the holders of the Senior Notes could have elected to convert the outstanding principal and accrued interest from either issuance into shares of the Company's common stock, at a fixed conversion price of $0.15 per share, subject to certain adjustments. The intangible assets of the Company secured all issuances of the Senior Notes.

On June 15, 2011, the Company paid the third interest installment on the Senior Notes by issuing additional Senior Notes to the holders totaling $5,940. The additional Senior Notes will mature on the same date as the underlying Senior Notes.

On December 15, 2011, the Company paid the fourth interest installment on the Senior Notes by issuing additional Senior Notes to the holders totaling $6,271. The additional Senior Notes will mature on the same date as the underlying Senior Notes.

In July 2012 and August 2012, the Company exchanged the remaining Senior Notes in the aggregate principal amount, including accrued interest, of $116,473 for 8,810,164 shares of its common stock. The Senior Notes were converted into common stock according to terms negotiated pursuant to debt compromise agreements. As of September 30, 2012, there was no outstanding principal or interest due on the Senior Notes.

NOTE 5. SUBSEQUENT EVENTS

Other than those disclosed below, management evaluated events subsequent to September 30, 2012 through the date that the accompanying condensed consolidated financial statements were filed with the Security and Exchange Commission for transactions and other events which may require adjustment of and/or disclosure in such financial statements.

In connection with the Merger with True Drinks, Inc., on October 15, 2012, Deborah K. Wildrick resigned as Chief Executive Officer of the Company and Kevin Sherman resigned as President of the Company and transitioned to Vice President of Marketing of the Company. Neither Ms. Wildrick nor Mr. Sherman was paid a severance in connection with such resignations.

Effective upon the consummation of the Merger on October 15, 2012, Daniel W. Rumsey resigned as a director and the chairman of the Board, and Deborah K. Wildrick, Kevin Sherman, Anthony DiGiandomenico, and Milton Makris each resigned from the Board. Prior to the resignation of Mr. Rumsey, Timothy Lane was appointed chairman of the Board and a director, and Carl Wistreich, Lou Imbrogno and Lance Leonard were appointed directors of the Company.

Effective October 15, 2012, the Company appointed Lance Leonard as its Chief Executive Officer and Daniel Kerker as its Chief Financial Officer.

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Item 2. MANAGEMENT’S DISCUSSION AND ANAYLSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

This report contains “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and is subject to the safe harbor created by those sections. We intend to identify forward-looking statements in this report by using words such as “believes,” “intends,” “expects,” “may,” “will,” “should,” “plan,” “projected,” “contemplates,” “anticipates,” “estimates,” “predicts,” “potential,” “continue,” or similar These statements are based on our beliefs as well as assumptions we made using information currently available to us. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Because these statements reflect our current views concerning future events, these statements involve risks, uncertainties, and assumptions. Actual future results may differ significantly from the results discussed in the forward-looking statements. These risks include changes in demand for our products, changes in the level of operating expenses, our ability to expand our network of distributors, changes in general economic conditions that impact consumer behavior and spending, product supply, the availability, amount, and cost of capital to us and our use of such capital, and other risks discussed in this report. Additional risks that may affect our performance are discussed under “Risk Factors Associated with Our Business” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Readers are cautioned not to place undue reliance on the forward-looking statements contained in this report.

Overview

On June 7, 2012, the Company entered into an agreement and plan of merger with True Drinks, Inc. (“True Drinks”), previously named GT Beverage Company, Inc. The merger closed on October 15, 2012. Upon closing, True Drinks shareholders received preferred shares of the Company which, upon conversion to common stock, represent approximately 95.5% of the total common shares outstanding of the Company. In connection with the closing of the merger, the line of credit which True Drinks had issued to the Company for up to $600,000 has matured and is considered satisfied. Also, in connection with the merger, the Services Agreement between the Company and True Drinks pursuant to which, among other things, the Company provided certain management services to True Drinks, such as management of sales, marketing, and operations, and the direction of business planning and decisions and supplier relationships of True Drinks, in exchange for a monthly fee has been terminated.

Prior to the merger, the Company primarily developed, marketed, sold and distributed Bazi®, the Company’s flagship liquid nutritional supplement drink. Until January 18, 2010, our principal channel of distribution was through a multilevel distributor network. The Company terminated its multilevel distributor network compensation plan in favor of a retail and direct-to-consumer and online sales model in January 2010. We currently distribute Bazi® through select retail channels, online, and through our existing database of customers.

Since the date of the merger, the Company’s primary business is the development, marketing, sales and distribution of AquaBallTM, True Drinks’ flagship vitamin-enhanced, naturally flavored water drink. True Drinks has licensing agreements with Disney Consumer Products, Inc. and Marvel Characters BV for the use of certain of each company’s characters on its patented stacking spherical bottles. The Company distributes AquaBall nationally through select retail channels, such as grocery stores, mass merchandisers and drug stores.

We recognize revenue when products are shipped to our customers. Revenue is reduced by product returns at the time we take the product either back into inventory or dispose of it. In addition, we estimate a reserve total for future returns. Cost of our sales consists of expenses directly related to the production and distribution of the products and certain sales materials. Included in the sales and marketing expenses are independent distributor commissions, bonus and incentives along with other general selling expenses. General and administrative expenses include salaries and benefits, rent and building expenses, legal, accounting, telephone and professional fees.

The description of our business describes the business being conducted by Bazi International, Inc. The Company is currently listed for quotation on the Over-the-Counter Bulletin Board ("OTCBB") under the symbol BAZI.OB. As of November 14, 2012, the Company had 8 full time employees.

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Critical Accounting Policies and Estimates

Discussion and analysis of our financial condition and results of operations are based upon financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates; including those related to collection of receivables, inventory obsolescence, sales returns and non-monetary transactions such as stock and stock options issued for services. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition In accordance with Staff Accounting Bulletin 104 “Revenue Recognition in Financial Statements”, revenue is recognized at the point of shipment, at which time title is passed. Net sales include sales of products, sales of marketing tools and freight and handling charges. With approved credit, we provide wholesale customers payment terms of up to net 30 days.

Allowances for Product Returns. Allowances for product returns are recorded at the time product is shipped. As a result of the termination of our multilevel marketing network model, our return policy changed on March 1, 2010, to a 20 day money back guarantee. Additionally, the Company is now shipping product to wholesale vendors who have a right to return the first orders based upon agreed terms. To date the Company has not shipped a significant quantity subject to these wholesalers and has not received any returns.

We will monitor our return estimate on an ongoing basis and may revise allowances to reflect our experience. Our ambassador sales subject to a reserve for product returns for customer sales at the end of the six months ended September 30, 2012 was $46,509. To date, product expiration dates have not played any role in product returns, and we do not anticipate that they will be in the future because of the marketing focus on Bazi®, a product that has a one year shelf life and therefore it is unlikely for us to have expired product returned to us.

Inventory Valuation. Inventories are stated at the lower of cost or market on a first-in first-out basis. A reserve for inventory obsolescence is maintained and is based upon assumptions about current and future product demand, inventory whose shelf life has expired and market conditions. A change in any of these variables may require additional reserves to be taken. All inventories as of September 30, 2012, were deemed saleable therefore we reserved $0 for obsolescence. As of December 31, 2011, we had $11,169 reserved.

Stock Based Compensation. Many equity instrument transactions are valued based on pricing models such as Black-Scholes, which require judgments by us. Values for such transactions can vary widely and are often material to the financial statements.

Effective January 1, 2006, we adopted ASC Topic 718, which requires compensation costs related to share-based transactions, including employee stock options, to be recognized in the financial statements based on fair value. In March 2005, the Securities and Exchange Commission (the “SEC”) issued Staff Accounting Bulletin No. 107 (“SAB 107”) regarding the SEC’s interpretation of ASC Topic 718 and the valuation of share-based payments for public companies. We have applied the provisions of SAB 107 in its adoption of ASC Topic 718. We adopted the provisions of ASC Topic 718 using the modified prospective transition method. In accordance with this transition method, the company’s consolidated financial statements for prior periods have not been restated to reflect the impact of ASC Topic 718. Under the modified prospective transition method, share-based compensation expense for the first quarter of 2006 includes compensation expense for all share-based compensation awards granted prior to, but for which the requisite service has not yet been performed as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of ASC Topic 718. Share-based compensation expense for all share-based compensation awards granted after January 1, 2006 is based on the grant date fair value estimated in accordance with the provisions of ASC Topic 718.

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Results of Operations

For the three months ended September 30, 2012 compared to the three months ended September 30, 2011.

The discussion below first presents the results of the quarter ended September 30, 2012 followed by the results of the quarter ended September 30, 2011.

Net Sales. Net sales were $74,154 compared to $314,567, a decrease of 76%. The decrease in net sales is attributable to the continued loss of sales from our Ambassador program, as well as the lack of traction achieved by our retail sales strategy along with no sales and marketing staff due to our lack of a capital.

Gross Profit. Gross profit decreased to $45,882 as compared to $181,543, a decrease of 75%. Gross profit as a percentage of revenue (gross margin) decreased to 38% from 42% due to fewer sales and higher shipping cost.

Sales and Marketing Expenses. Sales and marketing expenses were $26,676 as compared to $361,308, a decrease of 93%. Sales and marketing expenses principally include the commissions that we paid our sales representatives, salaries and costs associated with marketing activities. The decrease in sales and marketing expense is primarily due to the elimination of our sales and marketing staff, third party wholesale sales agent, endorsement agreements and participation in sales and marketing events due to insufficient capital.

General and Administrative Expense. General and administrative expenses were $317,375 as compared to $376,210, a decrease of 16%. The decrease is the result of the elimination of salary expenses, decrease in web related expenses and relocation of the Company’s corporate offices. The decrease was partially offset by the increase expense in stock based compensation from the issuance of stock for services.

Interest Expense. Interest expense increased $40,164 as compared to $11,368. The increase was the result from obtaining additional bridge financing and expensing deferred loan costs from the conversion of our senior notes.

Income from debt forgiveness. Income from debt forgiveness was $141,353 as compared to $0. We entered into an agreement and plan of merger with True Drinks, Inc. on June 7, 2012 and in connection with that agreement, we entered into debt compromise agreements with certain creditors. Those debt compromise agreements were executed in the quarter ended September 30, 2012.

Net Loss. Our net loss was $214,969 as compared to $620,546. Our net loss per share was ($0.00) per share as compared to ($0.01) per share. The decreased net loss is principally the result of lower sales and marketing expense. The loss per share decrease was a result of stock issued for debt compromise agreements resulting in a higher number of shares outstanding.

The discussion below first presents the results of the nine months ended September 30, 2012 followed by the results of the nine months ended September 30, 2011.

Net Sales. Net sales were $383,187 compared to $1,105,328, a decrease of 65%. The decrease in net sales is principally attributable to the continued loss of sales from our Ambassador program, as well as the lack of traction achieved by our retail sales strategy. Both of these were affected by the Company’s inability to raise capital to market our products and effectively build inventory. This resulted in a substantial and material decrease in revenue.

Gross Profit. Gross profit decreased to $183,897 as compared to $479,767, a decrease of 62% closing following the same decrease experienced by Net Sales. Gross profit as a percentage of revenue (gross margin) increased slightly to 48% from 43% this increase is to be anticipated due to the lack of traction with our retail sales strategy which carry lower margins.

Sales and Marketing Expenses. Sales and marketing expenses were $123,228 as compared to $1,477,888, a decrease of 92%. Sales and marketing expenses principally include the commissions that we paid our sales representatives, salaries and costs associated with marketing activities. Due to insufficient capital the Company has eliminated all sales and marketing staff and ceased all marketing efforts.

General and Administrative Expense. General and administrative expenses were $2,123,158 as compared to $1,422,916 an increase of 49%. The increase is the result of additional stock based compensation for awards to executives, Board members, consultants and the cancellation of the Company's investment banker along with expensing $92,119 of the deferred offering cost in connection with the cancellation of the Lincoln Park Capital purchase agreement.

Interest Expense. Interest expense decreased to $169,122 as compared to $1,115,455. The decrease was a result of the conversion of most of the Senior Secured Notes in January 2011.

Income from debt forgiveness. Income from debt forgiveness was $142,382 as compared to $0. We entered into an agreement and plan of merger with True Drinks, Inc. on June 7, 2012 and in connection with that agreement, we entered into debt compromise agreements with certain creditors. Those debt compromise agreements were executed in the quarter ended September 30, 2012.

Net Loss. Our net loss was $2,099,498 as compared to $3,553,287. Our net loss per share was ($0.02) per share as compared to ($0.08) per share. The decreased net loss is principally the result of lower interest expense. The loss per share decrease was a result of the conversion of the senior notes, private placement transactions and stock issued for compensation and services resulting in a higher number of shares outstanding.

Liquidity and Capital Resources

The Company currently has negative working capital of $713,896. The line of credit from True Drinks in connection with the agreement and plan of merger for up $600,000 funded the Company's working capital requirements through October 15, 2012 when the merger closed. Prior to the signing of the merger agreement and the establishment of the $600,000 line of credit with True Drinks, our operating funds had been provided primarily from sales of our common stock and from the recent sale of certain debt securities, as described below, and to a lesser degree, cash flow provided by sales of our products.

Between February 23, 2012 and April 25, 2012, the Company issued certain promissory notes in the aggregate principal amount of $180,185 (the "Bridge Notes"), the proceeds from which were used to pay certain obligations of the Company. The Bridge Notes are due and payable on the earlier to occur of April 30, 2012 or termination of a pending agreement between the parties. The Bridge Notes accrue interest at the rate of one percent (1%) per annum and are collateralized by certain assets of the Company. On April 30, 2012, the Company defaulted on the Bridge Notes and therefore per the terms of the Bridge Notes accrues interest at the rate of fifteen percent (15%) per annum from the date of default until paid. On June 7, 2012, the Company replaced the Bridge Notes in favor of a revolving line of credit with True Drinks, Inc.

On March 13, 2012, the Company issued a promissory note in the principal amount of $5,000 (the "Bridge Note1") to a shareholder of the Company. The proceeds from which were used to pay certain obligations of the Company. The Bridge Note1 is due and payable on the earlier to occur of April 30, 2012 and accrues interest at the rate of one percent (1%) per annum. On April 30, 2012, the Company defaulted on the Bridge Note1 and therefore per the terms of the Bridge Note1 accrues interest at the rate of fifteen percent (15%) per annum from the date of default until paid. In August 2012, the Company exchanged the Bridge Note1 in the principal amount of $5,000 plus accrued interest of $85 for 203,387 shares of its common stock pursuant to terms negotiated in a debt compromise agreement.

On May 11, 2012 and May 30, 2012, the Company issued certain promissory notes in the principal amount of $56,000 and $18,000, respectively (the "Bridge Notes2"), the proceeds from which were used to pay certain obligations of the Company. The Bridge Notes2 are due and payable on the earlier to occur of September 30, 2012 or termination of a pending agreement between the parties. The Bridge Notes2 accrues interest at the rate of one percent (1%) per annum and are collateralized by certain assets of the Company. On June 7, 2012, the Company replaced the Bridge Notes in favor of a revolving line of credit with True Drinks, Inc.

On June 7, 2012, True Drinks, Inc. issued the Company a Revolving Line of Credit (the "Line") not to exceed $600,000. The Line is due and payable on the earlier of the closing date or termination date of the Merger Agreement between the parties. The Line accrues interest at the rate of one percent (1%) per annum. The Line replaced previous indebtedness between the parties and its affiliates issued as the Bridge Notes and Bridge Notes2 in the aggregate principal amount of $254,185 with accrued interest of $3,827. At September 30, 2012, the principal balance of the line was $391,701 with available credit of $208,299 and accrued interest of $4,852.

We used $483,367 of cash for operations in the nine months ended September 30, 2012, as compared to $1,146,828 in the nine months ended September 30, 2011. The use of cash in our operations results from incurring and accruing expenses to suppliers necessary to generate business and service our customers at a time when revenues did not keep pace with expenses. As of September 30, 2012, we had $48,227 in cash and cash equivalents available to fund future operations. Net working capital deficit (excluding deferred loan costs) decreased to $713,896 at September 30, 2012, compared to $1,756,686 at December 31, 2011.

Customer Concentrations. We had no single customer that accounted for any substantial portion of our revenues.

Off-Balance Sheet Items. We have no off-balance sheet items as of September 30, 2012.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A smaller reporting company is not required to provide the information required by this item.

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act) that are designed to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that this information is accumulated and communicated to our management, including our principal executive and financial officers, to allow timely decisions regarding required disclosure.

Our management, with the participation and supervision of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective based on our material weakness in the form of lack of segregation of duties, which stems from our early stage status and limited capital resources to hire additional financial and administrative staff.

The Company's Chief Executive Officer and Chief Financial Officer have determined that there have been no changes in the Company's internal control over financial reporting during the period covered by this Report identified in connection with the evaluation described in the above paragraph that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II
OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None.

Item 1A. RISK FACTORS

Our results of operations and financial condition are subject to numerous risks and uncertainties described in our Annual Report on Form 10-K for our fiscal year ended December 31, 2011, filed on April 6, 2012, including, but not limited to, the Company's ability to continue as a going concern in the absence of securing additional capital to meet its short-term working capital requirements. You should carefully consider these risk factors in conjunction with the other information contained in this report. Should any of these risks materialize, our business, financial condition and future prospects could be negatively impacted. As of September 30, 2012, there have been no material changes to the disclosures made in the above-referenced Form 10-K, except as follows:

On October 15, 2012, we closed a merger with True Drinks, Inc. The Company's ability to continue as a going concern is dependent on the ability of True Drinks to successfully raise capital and to generate sales and cash flow in order to meet future obligations.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

None.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit No	Description
31.1	Certification of CEO as Required by Rule 13a-14(a)/15d-14
32.2	Certification of CFO as Required by Rule 13a-14(a)/Rule 15d-14
32.1	Certification of CEO as Required by Rule 13a-14(a) and Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code
32.2	Certification of CFO as Required by Rule 13a-14(a) and Rule 15d-14(b) (17 CFR 240.15d-14(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code

101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City and County of Orange, State of California, on November 14, 2012.

BAZI INTERNATIONAL, INC.

By: /s/ Lance Leonard
Lance Leonard
Chief Executive Officer

By: /s/ Dan Kerker
Dan Kerker
Chief Executive Officer and Principal Accounting Officer