

CELSIUS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

CELSIUS HOLDINGS, INC. AND SUBSIDIARIES

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D'Arelli Pruzansky, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Celsius Holdings, Inc. & Subsidiaries

We have audited the accompanying consolidated balance sheets of Celsius Holdings, Inc. & Subsidiaries as of December 31, 2014 and 2013 and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for each of the two years ended in the periods December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Celsius Holdings, Inc. & Subsidiaries as of December 31, 2014 and 2013 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

Boca Raton, Florida
October 9, 2015

Celsius Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 349,072	\$ 221,906
Accounts receivable, net	2,612,191	1,491,550
Inventories, net	1,686,935	821,271
Prepaid expenses and other current assets	259,056	426,270
Total current assets	<u>4,907,254</u>	<u>2,960,997</u>
Property, fixtures and equipment, net	43,950	68,713
Total Assets	<u>\$ 4,951,204</u>	<u>\$ 3,029,710</u>
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	\$ 828,049	\$ 840,057
Accrued preferred dividend	180,403	46,567
Deferred revenue and other current liabilities	356,602	448,991
Total current liabilities	<u>1,365,054</u>	<u>1,335,615</u>
Long-term liabilities		
Convertible note payable-related party	1,500,000	1,500,000
Line of credit note payable-related party	9,250,000	6,100,000
Total Liabilities	<u>12,115,054</u>	<u>8,935,615</u>
Stockholders' (Deficit):		
Preferred Stock, \$0.001 par value; 2,500,000 shares authorized, 2,200 shares issued and outstanding at December 31, 2014 and December 31, 2013, respectively.	2	2
Common stock, \$0.001 par value; 50,000,000 shares authorized, 20,459,032 and 20,179,032 shares issued and outstanding at December 31, 2014 and December 31, 2013, respectively	20,459	20,179
Additional paid-in capital	40,165,955	39,263,208
Accumulated deficit	(47,350,266)	(45,189,294)
Total Stockholders' (Deficit)	<u>(7,163,850)</u>	<u>(5,905,905)</u>
Total Liabilities and Stockholders' (Deficit)	<u>\$ 4,951,204</u>	<u>\$ 3,029,710</u>

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

Celsius Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations

	For the year ended December 31,	
	2014	2013
Revenue	\$ 14,610,090	\$ 10,612,900
Cost of revenue	9,011,923	6,539,794
Gross profit	<u>5,598,167</u>	<u>4,073,106</u>
Selling and marketing expenses	4,823,014	3,947,618
General and administrative expenses	2,305,086	1,547,747
Total operating expense	<u>7,128,100</u>	<u>5,495,365</u>
Loss from operations	(1,529,933)	(1,422,259)
Other Income (Expense):		
Interest expense	(497,203)	(431,510)
(Loss) on change in fair value of derivative liability	-	(6,000)
Gain from termination of option agreement	-	80,400
Total Other Income (Expense)	<u>(497,203)</u>	<u>(357,110)</u>
Net Income (Loss)	\$ <u>(2,027,136)</u>	\$ <u>(1,779,369)</u>
Preferred stock dividend	<u>(133,836)</u>	<u>(46,567)</u>
Net Income (Loss) available to common stockholders	\$ <u><u>(2,160,972)</u></u>	\$ <u><u>(1,825,936)</u></u>
Weighted average shares outstanding	<u>20,392,594</u>	<u>20,179,437</u>
Income (Loss) per share, basic and diluted common shareholders	\$ <u>(0.10)</u>	\$ <u>(0.09)</u>

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

Consolidated Statements of Changes in Stockholders' Deficit
For the Years Ended December 31, 2014 and 2013

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Deficit	
Balance at December 31, 2012		\$	20,179,032	\$ 20,179	\$ 36,909,001	(43,363,358)	\$ (6,434,178)
Issuance of preferred stock in exchange of note	2,200	2			2,199,998		2,200,000
Stock option expense					154,209		154,209
Preferred stock dividend payable						(46,567)	(46,567)
Net loss						(1,779,369)	(1,779,369)
Balance at December 31, 2013	2,200	2	20,179,032	20,179	39,263,208	(45,189,294)	(5,905,905)
Issuance of common stock in exchange of service			280,000	280	215,820		216,100
Stock option expense					686,927		686,927
Preferred stock dividend payable						(133,836)	(133,836)
Net loss						(2,027,136)	(2,027,136)
Balance at December 31, 2014	2,200	\$ 2	20,459,032	\$ 20,459	\$ 40,165,955	(47,350,266)	\$ (7,163,850)

Celsius Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	For the Year ended	
	December 31, 2014	December 31, 2013
Cash flows from operating activities:		
Net loss	\$ (2,160,972)	\$ (1,825,936)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	37,256	41,513
Change in fair value of derivative liability	-	6,000
Gain from termination of option agreement	-	(80,400)
Stock-based compensation expense	903,027	154,209
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,120,641)	(871,225)
Inventory	(865,664)	100,438
Prepaid expenses and other current assets	258,338	(50,424)
Accounts payable and accrued expenses	121,828	24,984
Deposits/deferred revenue and other current liabilities	(92,389)	349,836
Net cash (used in) operating activities	<u>(2,919,217)</u>	<u>(2,151,005)</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(12,493)</u>	<u>(5,536)</u>
Net cash (used in) investing activities	<u>(12,493)</u>	<u>(5,536)</u>
Cash flows from financing activities:		
Borrowing under revolving note payable- related party	3,150,000	1,800,000
Proceeds from short term notes payable- related party	-	550,000
Payments on short term notes payable	<u>(91,124)</u>	<u>(80,534)</u>
Net cash provided by financing activities	<u>3,058,876</u>	<u>2,269,466</u>
Net increase in cash and cash equivalents	127,166	112,925
Cash and cash equivalents at beginning of the year	<u>221,906</u>	<u>108,981</u>
Cash and cash equivalents at end of the year	\$ <u><u>349,072</u></u>	\$ <u><u>221,906</u></u>
Supplemental disclosures:		
Cash paid during year for:		
Interest	\$ <u><u>460,589</u></u>	\$ <u><u>424,433</u></u>
Taxes	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>
Non-cash investing and financing activities:		
Issuance of preferred stock as settlement of short term payable from shareholder	\$ <u><u>-</u></u>	\$ <u><u>550,000</u></u>
Issuance of preferred stock as a partial settlement of revolving note payable from Shareholder	\$ <u><u>-</u></u>	\$ <u><u>1,650,000</u></u>
Borrowing under short term notes payable for prepaid expense	\$ <u><u>91,124</u></u>	\$ <u><u>80,543</u></u>

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

Celsius Holdings, Inc. and Subsidiaries
Notes To Consolidated Financial Statements
December 31, 2014 and 2013

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Business — Celsius Holdings, Inc. (the “Company”) was incorporated under the laws of the State of Nevada on April 26, 2005. On January 24, 2007, the Company entered into a merger agreement and plan of reorganization with Elite FX, Inc., a Florida corporation. Under the terms of the Merger Agreement, Elite FX, Inc. was merged into the Company’s subsidiary, Celsius, Inc. and became a wholly-owned subsidiary of the Company on January 26, 2007. In addition, on March 28, 2007 the Company established Celsius Netshipments, Inc. a Florida corporation as a wholly-owned subsidiary of the Company.

Since the merger, the Company has been engaged in the development, marketing, sale and distribution of “functional” calorie-burning fitness beverages under the Celsius® brand name.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Consolidation Policy — The accompanying consolidated financial statements include the accounts of Celsius Holdings, Inc. and its subsidiaries. All material inter-company balances and transactions have been eliminated in consolidation.

Significant Estimates — The preparation of consolidated 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, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts, reserves for inventory obsolescence, the useful lives and values of property, fixtures and equipment, valuation of stock based compensation and derivative liabilities.

Concentrations of Risk — Substantially all of the Company’s revenue is derived from the sale of the Celsius beverage.

Celsius Holdings, Inc. and Subsidiaries
Notes To Consolidated Financial Statements
December 31, 2014 and 2013

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company uses single supplier relationships for its raw materials purchases and filling capacity, which potentially subjects the Company to a concentration of business risk. If these suppliers had operational problems or ceased making product available to the Company, operations could be adversely affected.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company places its cash and cash equivalents with high-quality financial institutions. At times, balances in the Company's cash accounts may exceed the Federal Deposit Insurance Corporation limit.

At December 31, 2014 and 2013, the Company had the following 10 percent or greater concentrations of revenue with customers:

	2014	2013
A*	49.8%	46.9%
B	10.0%	10.6%
All other	40.2%	42.5%
Total	<u>100.0%</u>	<u>100.0%</u>

At December 31, 2014 and 2013, the Company had the following 10 percent or greater concentrations of accounts receivable with customers:

	2014	2013
A*	68%	69%
All other	32%	31%
Total	<u>100%</u>	<u>100%</u>

*Revenues and receivables from customer A are mainly derived from a distributor located in Sweden.

Cash and Cash Equivalents — The Company considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents. At December 31, 2014 and December 31, 2013, the Company did not have any investments with maturities less than three months.

Accounts Receivable — Accounts receivable are reported at net realizable value. The Company establishes an allowance for doubtful accounts based upon factors pertaining to the credit risk of specific customers, historical trends, and other information. Delinquent accounts are written-off when it is determined that the amounts are uncollectible. At December 31, 2014 and December 31, 2013, there was an allowance for doubtful accounts of \$3,500 and \$7,354, respectively.

Celsius Holdings, Inc. and Subsidiaries
Notes To Consolidated Financial Statements
December 31, 2014 and 2013

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories — Inventories include only the purchase cost and are stated at the lower of cost or market. Cost is determined using the FIFO method. Inventories consist of raw materials and finished products. The Company writes down inventory during the period in which such materials and products are no longer usable or marketable. At December 31, 2014 and December 31, 2013, there was a reserve for obsolescence of \$30,059 and \$14,600, respectively.

Property, Fixtures, and Equipment — Furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of furniture, fixtures, and equipment is calculated using the straight-line method over the estimated useful life of the asset generally ranging from three to seven years.

Impairment of Long-Lived Assets — In accordance with ASC Topic 360, “Property, Plant, and Equipment” the Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison of its carrying amount to the undiscounted cash flows that the asset or asset group is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair value.

Revenue Recognition — Revenue is derived from the sale of beverages. Revenue is recognized when persuasive evidence of an agreement exists, the products are delivered, sales price is fixed or determinable, and collectability is reasonably assured. Any discounts, sales incentives or similar arrangements with the customer are estimated at time of sale and deducted from revenue.

Deferred Revenue — From time to time the Company requires prepayments or deposits in advance of delivery of products and or production, such amounts are initially recorded as deferred revenue. The Company recognizes such revenue as it’s earned in accordance with revenue recognition policies.

Advertising Costs — Advertising costs are expensed as incurred. The Company uses mainly radio, local sampling events, sponsorships, and digital advertising. The Company incurred advertising expense of \$2.6 million and \$1.8 million, during the fiscal years ending 2014 and 2013, respectively.

Research and Development — Research and development costs are charged to operations as incurred and consist primarily of consulting fees, raw material usage and test productions of beverages. The Company incurred expenses of \$25,510 and \$12,234, during the fiscal years ending 2014 and 2013, respectively.

Celsius Holdings, Inc. and Subsidiaries
Notes To Consolidated Financial Statements
December 31, 2014 and 2013

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments — The carrying value of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and notes payable approximates fair value due to their relative short-term maturity and market interest rates.

FAIR VALUE MEASUREMENTS - ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

- | | |
|-------------|---|
| Level
1: | Observable inputs such as quoted market prices in active markets for identical assets or liabilities. |
| Level
2: | Observable market-based inputs or unobservable inputs that are corroborated by market data. |
| Level
3: | Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions. |

The Company did not have any assets or liabilities measured at fair value at December 31, 2014 and 2013.

Income Taxes — The Company accounts for income taxes pursuant to the provisions of ASC 740-10, "Accounting for Income Taxes," which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

Celsius Holdings, Inc. and Subsidiaries
Notes To Consolidated Financial Statements
December 31, 2014 and 2013

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company follows the provisions of the ASC 740 -10 related to, *Accounting for Uncertain Income Tax Positions*. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax positions are all highly certain of being upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

The Company has adopted ASC 740-10-25 *Definition of Settlement*, which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion of an examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open.

As of December 31, 2014, the Company's tax revenues for its tax year's ending in 2014, 2013, 2012, and 2011 remain subject to perpetual audit by the taxing authorities.

Celsius Holdings, Inc. and Subsidiaries
Notes To Consolidated Financial Statements
December 31, 2014 and 2013

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings per Share — Basic earnings per share are calculated by dividing net income (loss) available to stockholders by the weighted-average number of common shares outstanding during each period. Diluted earnings per share are computed using the weighted average number of common and dilutive common share equivalents outstanding during the period. Dilutive common share equivalents consist of shares issuable upon conversion of convertible debt, exercise of stock options and warrants (calculated using the reverse treasury stock method). As of December 31, 2014 there were options outstanding to purchase 3.5 million shares, which exercise price averaged \$0.49 and Series C Preferred Stock warrants outstanding to convert to 4.2 million common shares at \$0.52 price per share. There was \$1.5 million in convertible debt, convertible into 5.0 million shares, with an exercise price of \$0.30 per share. Since potentially dilutive common share equivalents are excluded if their effect is anti-dilutive, the Company has not included them in its computation of diluted earnings per share.

Share-Based Payments — Effective January 1, 2006, the Company has fully adopted the provisions of ASC Topic 718 “Compensation — Stock Compensation” and related interpretations. As such, compensation cost is measured on the date of grant at the fair value of the share-based payments. Such compensation amounts, if any, are amortized over the respective vesting periods of the option grant.

Shipping and Handling Costs — Shipping and handling costs for freight expense on goods shipped are included in cost of sales. Freight expense on goods shipped for the years ended December 31, 2014 and 2013 was \$1,007,054 and \$901,722, respectively.

Recent Accounting Pronouncements

The Company adopts all applicable, new accounting pronouncements as of the specified effective dates.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more

Celsius Holdings, Inc. and Subsidiaries
Notes To Consolidated Financial Statements
December 31, 2014 and 2013

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Early adoption is not permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12, Compensation — Stock Compensation (Topic 718), Accounting for Share-Based Payments when the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force) (ASU 2014-12). The guidance applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. For all entities, the amendments in this Update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The effective date is the same for both public business entities and all other entities. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15). The guidance in ASU 2014-15 sets forth management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern as well as required disclosures. ASU 2014-15 indicates that, when preparing financial statements for interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the

Celsius Holdings, Inc. and Subsidiaries
Notes To Consolidated Financial Statements
December 31, 2014 and 2013

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. Early application is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

All new accounting pronouncements issued but not yet effective are not expected to have a material impact on our results of operations, cash flows or financial position.

Liquidity — These financial statements have been prepared assuming the Company will be able to continue as a going concern. At December 31, 2014, the Company had an accumulated deficit of \$47,350,266 which includes a net loss of \$2,027,136 for the year ended December 31, 2014. The Company also had net cash used in operating activities of \$2,919,217 for the year ended December 31, 2014. While these factors alone may raise doubt as to the Company's ability to continue as a going concern, the Company's sale of common stock to an investor group on April 20, 2015 for a total of \$11.5 million is deemed sufficient to alleviate substantial doubt regarding the Company's ability to continue as a going concern.

3. INVENTORIES

Inventories consist of the following at:

	December 31, 2014	December 31, 2013
Finished goods.....	\$1,570,201	\$691,247
Raw Materials	146,793	144,624
Less: inventory valuation allowance	<u>(30,059)</u>	<u>(14,600)</u>
Inventories, net	<u>\$ 1,686,935</u>	<u>\$ 821,271</u>

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets total \$259,056 and \$426,270, at December 31, 2014 and December 31, 2013, respectively, and consist mainly of prepaid advertising, prepaid insurance, prepaid slotting fees, deposits on purchases, and customer deposits.

Celsius Holdings, Inc. and Subsidiaries
Notes To Consolidated Financial Statements
December 31, 2014 and 2013

5. PROPERTY, FIXTURES, AND EQUIPMENT

Property, fixtures and equipment consist of the following at:

	December 31, <u>2014</u>	December 31, <u>2013</u>
Furniture, fixtures and equipment	\$ 254,083	\$ 241,590
Less: accumulated depreciation	<u>(210,133)</u>	<u>(172,877)</u>
Total	<u>\$ 43,950</u>	<u>\$ 68,713</u>

Depreciation expense amounted to \$37,256 and \$41,513 during the fiscal years ended 2014 and 2013, respectively

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at:

	December 31, <u>2014</u>	December 31, <u>2013</u>
Accounts payable	\$360,062	\$581,764
Accrued expenses	<u>467,987</u>	<u>258,293</u>
Total	<u>\$ 828,049</u>	<u>\$ 840,057</u>

7. DERIVATIVE LIABILITY

In 2012, the Company issued an option agreement to a third party as compensation for services. In February of 2013 the option agreement was terminated. These options included certain anti-dilution provisions that Company determined were derivatives within the scope of ASC 815. The Company accounted for this arrangement in accordance with Accounting Standards Codification topic 815, Accounting for Derivative Instruments and Hedging Activities (“ASC 815”) as well as related interpretations of this standard. In accordance with this standard, derivative instruments are recognized as either assets or liabilities in the balance sheet and are measured at fair values with gains and losses recognized in earnings. The company determines the fair value of derivative instruments based on available market data using appropriate valuation models, considering all of the rights and obligations of the instrument. We estimate fair values of derivative financial instruments using various techniques (and combinations thereof) that are considered consistent with the objective of measuring fair values. In selecting the appropriate technique, we consider, among other factors, the nature of the instrument, the market risks that it embodies and the expected means of settlement. For less complex derivative instruments, we generally use the Black-Scholes

Celsius Holdings, Inc. and Subsidiaries
Notes To Consolidated Financial Statements
December 31, 2014 and 2013

7. DERIVATIVE LIABILITY (continued)

model, adjusted for the effect of dilution, because it embodies all of the requisite assumptions (including trading volatility, estimated terms, dilution and risk free rates) necessary to fair value these instruments. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques (such as Black-Scholes model) are highly volatile and sensitive to changes in the trading market price of our common stock. Since derivative financial instruments are initially and subsequently carried at fair values, our income (expense) reflects the volatility in these estimates and assumption changes. Under the terms of the new accounting standard, increases in the trading price of the Company's common stock and increases in fair value during a given financial quarter result in the application of non-cash derivative expense. Conversely, decreases in the trading price of the Company's common stock and decreases in trading fair value during a given financial quarter result in the application of non-cash derivative income.

The following table presents a reconciliation of the derivative liability measured at fair value on a recurring basis from December 31, 2012 to December 31, 2013:

	Derivative Liability
Balance at December 31, 2012	\$ 74,400
Termination of option agreement	(80,400)
Change in fair value included in earnings	6,000
Balance at December 31, 2013	\$ -

8. DEFERRED REVENUE AND OTHER CURRENT LIABILITIES

Deferred revenue and other current liabilities consist of the following at:

	December 31, 2014	December 31, 2013
Customer deposits	\$351,716	\$383,560
State bottle bill liability	4,886	65,431
Total	<u>\$ 356,602</u>	<u>\$ 448,991</u>

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9. LINE OF CREDIT NOTE PAYABLE – RELATED PARTY

Line of credit note payable - related parties consists of the following as of:

	December 31,	December 31,
	<u>2014</u>	<u>2013</u>
Note Payable – line of credit		
In July 2010, the Company entered into a line of credit note payable with a related party which carries interest of five percent per annum. The Company can borrow up to \$9,800,000. The Company has pledged all of its assets as security for the line of credit. The note matures in December 2016, at which time the principal amount is due. During the fiscal year ended December 31, 2014, the company borrowed an additional \$3,150,000 from this line.		
Long-term portion	<u>\$ 9,250,000</u>	<u>\$ 6,100,000</u>

10. CONVERTIBLE NOTE PAYABLE - RELATED PARTY

	December 31,	December 31,
	<u>2014</u>	<u>2013</u>
Convertible note payable		
Convertible note payable- related party	<u>\$1,500,000</u>	<u>\$1,500,000</u>

In September 2009, the Company entered into a convertible note payable with a related party which carries interest at six percent per annum. The outstanding balance is convertible into the Company's common stock at a conversion price of \$0.30 per share. The Company is obligated to file a registration statement upon written notice from the creditor and such registration statement must be effective within 180 days of the date of notice. If after the 180 days the Company has not complied with the agreement it shall pay \$65,000 per month in penalty, until the registration statement is effective. The Company has not yet received a written request from the creditor regarding the filings of a registration statement. The note matures in December 2016, at which time the principal amount is due. The outstanding balance on the loan as of December 31, 2014 and December 31, 2013 was \$1,500,000.

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11. PREFERRED STOCK – RELATED PARTY

On August 26, 2013, the Company entered into a securities purchase agreement with CDS Ventures of South Florida, LLC (“CDS”), an affiliate of CD Financial, LLC (“CD”). The Company issued 2,200 Series C preferred shares (“Preferred C Shares”), for the cancellation of \$550,000 short term loan from CD Financial, LLC (“CD”) and the cancellation of \$1,650,000 in debt associated with the line of credit with CD Financial, LLC (“CD”). The Preferred C Shares can be converted into Company common stock at any time until December 31, 2018. The conversion price is \$0.52 per share of Company common stock. The conversion price per share of common stock is based on the weighted average of the ten daily VWAPs for the 10 trading days immediately preceding the close date of August 26, 2013. The Preferred C Shares accrue a six percent annual cumulative dividend, payable in additional Preferred C Shares annually. As of December 31, 2014, \$180,403 of dividends have been accrued. The Preferred C Shares mature on December 31, 2018 and are redeemable only in Company Common Stock.

12. RELATED PARTY TRANSACTIONS

The Company’s office is rented from a company affiliated with CD Financial, LLC which is controlled by our majority shareholder Carl DeSantis. Currently, the lease is a month to month lease with rent of \$6,360. The rental fee is commensurate with other properties available in the market.

Also, see Notes 9, 10, and 11

13. STOCKHOLDERS’ DEFICIT

Issuance of preferred stock pursuant to private placement

See Note 11 — Preferred Stock.

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14. INCOME TAXES

Due to recurring losses for book and tax purposes, for the years ended December 31, 2014 and 2013, the Company's net tax provision was zero.

The difference between the effective income tax rate and the applicable statutory federal income tax rate is summarized as follows:

	<u>2014</u>	<u>2013</u>
Statutory federal rate	(35.0%)	(35.0%)
State income tax rate, net of federal benefit.....	(3.5%)	(3.5%)
Permanent differences, including stock based compensation.....	18.5%	2.5%
Change in valuation allowance	<u>20.0%</u>	<u>36.0%</u>
Effective tax rate	<u>0.0%</u>	<u>0.0%</u>

At December 31, 2014 and 2013, the Company's deferred tax assets were as follows:

Deferred Tax Assets	<u>2014</u>	<u>2013</u>
Net operating loss carry forwards.....	16,303,000	15,774,000
Less: Valuation allowance net deferred tax assets	<u>(16,303,000)</u>	<u>(15,774,000)</u>
Net deferred tax assets	<u>0.0</u>	<u>0.0</u>

The valuation allowance increased by approximately \$529,000 in 2014. Total net operating loss carry forwards at December 31, 2014 were approximately \$42.3 million. The losses, if unused, expire through 2034. The Company's net operating loss carry forwards may be limited due to ownership changes pursuant to Internal Revenue Code section 382. Such change of ownership occurred on April 20, 2015 (see note 18).

15. STOCK-BASED COMPENSATION

The Company adopted an Incentive Stock Plan on January 18, 2007. This plan is intended to provide incentives which will attract and retain highly competent persons at all levels as employees of the Company, as well as independent contractors providing consulting or advisory services to the Company, by providing them opportunities to acquire the Company's common stock or to receive monetary payments based on the value of such shares pursuant to Awards issued. While the plan terminates 10 years after the adoption date, issued options have their own schedule of termination. During 2013 the majority of the shareholders approved to

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15. STOCK-BASED COMPENSATION (CONTINUED)

increase the total available shares in the plan from 2.5 million to 3.5 million shares of common stock. During May 2014, the majority of the shareholders approved to increase the total available shares in the plan from 3.5 million to 4.25 million shares of common stock. Until 2017, options to acquire shares of common stock may be granted at no less than fair market value on the date of grant. Upon exercise, shares of new common stock are issued by the Company.

The Company has issued options to purchase approximately 3.8 million shares at an average price of \$0.50 with a fair value of \$1.5 million. For the year ended December 31, 2014 and 2013, the Company recognized an expense of \$686,927 and \$154,209, respectively, of non-cash compensation expense (included in General and Administrative expense in the accompanying Consolidated Statement of Operations) determined by application of a Black Scholes option pricing model with the following inputs: exercise price, dividend yields, risk-free interest rate, and expected annual volatility. As of December 31, 2014, the Company had approximately \$178,000 of unrecognized pre-tax non-cash compensation expense, which the Company expects to recognize, based on a weighted-average period of 0.5 years. The Company used straight-line amortization of compensation expense over the two to three year requisite service or vesting period of the grant. There are options to purchase approximately 3.0 million shares that have vested, of which 267,000 shares were exercised as of December 31, 2014.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of its stock option awards and warrant issuances. The calculation of the fair value of the awards using the Black - Scholes option-pricing model is affected by the Company's stock price on the date of grant as well as assumptions regarding the following:

Estimated volatility is a measure of the amount by which the Company's stock price is expected to fluctuate each year during the expected life of the award; an expected dividend yield of 0, based on the Company's policy not to issue cash dividends; the risk-free interest rate based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted, and a maturity equal to the expected term of the stock option award.

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15. STOCK-BASED COMPENSATION (CONTINUED)

The following table summarizes information about options for purchase of shares; granted, exercised and forfeited during the two-year period ending December 2014:

Options	Shares	Weighted Average Exercise Price	Fair Value	Aggregate Intrinsic Value	Weighted Aver: Remaining Contr: Term (in year)
At December 31, 2012	1,968	\$0.67	\$0.42	\$44	7.2
Granted	1,305	0.27	0.25	—	
Exercised	—	—	—	—	
Forfeiture and cancelled	(899)	0.69	0.42	—	
At December 31, 2013	2,374	\$0.44	\$0.33	\$366	8.5
Granted	1,417	0.78	0.56	—	
Exercised	—	—	—	—	
Forfeiture and cancelled	(295)	0.42	0.38	—	
At December 31, 2014	<u>3,496</u>	<u>\$0.49</u>	<u>\$ 0.41</u>	<u>\$588</u>	<u>6.5</u>
Exercisable at December 31, 2014	2,707	\$0.52	\$0.42	\$477	6.1
Available for future grant	481				

1) values in thousands

The following table summarizes information about options outstanding at December 31, 2014:

Range of Exercise Price	Outstanding options			Vested options		
	Number Outstanding at December 31, 2014 (000s)	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2013 (000s)	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
\$0.20 - \$0.42	1,815	6.2	\$0.23	1,418	\$0.22	5.7
\$1.80 - \$2.40	847	8.7	\$0.34	635	\$0.33	8.5
\$3.59 - \$4.95	760	5.0	\$0.71	580	\$0.70	4.8
\$5.50 - \$22.00	74	3.9	\$6.45	74	\$6.45	3.9
Outstanding options	3,496	6.5	\$0.49	2,707	\$0.55	6.1

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15. STOCK-BASED COMPENSATION (CONTINUED)

The following table summarizes information about non-vested options outstanding at December 31, 2014:

Total Non-vested options	Number of shares (000s)	Weighted Average Grant Date Fair Value
At December 31, 2012	233	0.18
Granted	1,305	0.25
Vested	(433)	0.25
Forfeited	<u>(150)</u>	<u>0.25</u>
At December 31, 2013	955	0.26
Granted	1,417	0.56
Vested	(1,473)	0.45
Forfeited	<u>(110)</u>	<u>0.57</u>
At December 31, 2014	<u>789</u>	<u>\$0.38</u>

16. STOCK WARRANTS

In February 2011, the Company issued warrants to purchase a total of 900,000 shares of common stock as part of the secondary offering completed then. The exercise price is \$5.32 and the warrants expired in February 2013.

In February 2011, the Company issued warrants to purchase a total of 90,000 shares of common stock in conjunction with the secondary offering to the underwriter. The exercise price ranges from \$4.03 to \$5.32 and the warrants expired in February 2013.

	Year Ended December 31, 2014		Year Ended December 31, 2013	
	Warrants in ('000s)	Weighted Average Exercise Price	Warrants in ('000s)	Weighted Average Exercise Price
Balance at the beginning of year	—	—	990	\$5.23
Granted	—	—	—	—
Exercised	—	—	—	—
Expired	—	—	(990)	5.23
Balance at the end of year	—	—	—	—
Warrants exercisable at end of year	—	—	—	—
Weighted average fair value of the warrants granted during the year		—		—

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17. COMMITMENTS AND CONTINGENCIES

The Company has entered into distribution agreements with liquidated damages in case the Company cancels the distribution agreements without cause. Cause has been defined in various ways. It is management's belief that no such agreement has created any liability as of December 31, 2014 and 2013.

The Company entered into an office lease with a related party (see note 12) effective October 2014. The monthly rent amounts to \$6,360 per month and the lease terminates in October 2015. Future annual minimum payments required under operating lease obligations at December 31, 2014 are as follows:

Future Minimum Lease Payments

2015	\$63,600
2016 and thereafter	0
Total	<u>\$63,600</u>

18. SUBSEQUENT EVENTS

We have evaluated events and transactions that occurred subsequent to December 31, 2014 through September 30, 2015 the date these financial statements were available to be issued, for potential recognition or disclosure in the accompanying financial statements. Other than the disclosures shown, we did not identify any events or transactions that should be recognized or disclosed in the accompanying financial statements.

On April 20, 2015, the Company privately sold 12,921,348 shares of its common stock to an investor group led by Hong Kong based Horizon Venture for \$0.89 per share or a total of \$11.5 million. Contemporaneously therewith certain members of the investor group acquired an additional 5,000,000 shares by purchasing an outstanding \$1.5 million convertible note held by CD, an affiliate of Celsius' principal beneficial shareholder, Carl DeSantis and immediately converted the note into the additional shares.

In addition to the foregoing, the outstanding principal amount of Celsius' existing line of credit with CDS, another affiliate of Mr. DeSantis, was reduced by \$4.0 million, which amount was converted into shares of a newly-designated Series D Preferred Stock. The Series D Preferred Stock accrues a cash dividend of 5% per annum payable quarterly, is convertible into shares of Celsius common stock at \$0.86 per share, at any time from time to time until the expiration date

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18. SUBSEQUENT EVENTS (CONTINUED)

of the line of credit or its earlier satisfaction in full and accords the holders thereof voting rights on an “as converted” basis. Further, the borrowing cap under the line of credit was reduced to \$4.5 million and its expiration date was extended to January 2, 2020, with all other terms remaining the same. \$180,000 of accrued but unpaid dividends on Celsius’ Series C Preferred Stock was paid through the issuance of an additional 180 shares of Celsius’ Series C Preferred Stock.

At closing, Celsius, the investors, CD and CDS entered into an Investors’ Rights Agreement, pursuant to which, among matters, the board of directors was expanded to seven (7), two of whom are designated by the investors, the shareholder parties were accorded certain registration rights for their respective shares of common stock or underlying shares of common stock, as the case may be, under the Securities Act of 1933, as amended and the shareholder parties were granted certain participation rights as to future offerings.

In order to effect the transaction, Celsius’ Amended and Restated Articles of Incorporation were amended as authorized by the Board of Directors and majority shareholders (to the extent required), to increase the number of authorized shares of common stock 50,000,000 to 75,000,000 and authorized shares of Series C Convertible Preferred Stock from 2,200 to 3,000 and to designate the newly created Series D Preferred Stock.

Lease Agreement – On July 16, 2015 we entered into a sixty-month lease agreement for 2424 North Federal Hwy. Suite 208, Boca Raton, FL 33431. The lease is effective on November 1, 2015, the term of the lease shall be extended for a period of sixty months so that the termination date shall be October 31, 2020.

Future Minimum Lease Payments

2015	\$12,815
2016	\$77,803
2017	\$82,792
2018	\$85,276
2019	\$87,834
2020	\$75,016
Total	<u>\$421,535</u>