

REEDS INC
Form 10-Q
May 16, 2011

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from__ to__
Commission file number

Commission file number: 001-32501

REED'S INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

35-2177773
(I.R.S. Employer Identification No.)

13000 South Spring St. Los Angeles, Ca. 90061
(Address of principal executive offices) (Zip Code)

(310) 217-9400
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated
filer

Accelerated filer

Non-accelerated
filer

Smaller reporting
company

Indicate by check mark whether the issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: There were a total of 10,819,225 shares of Common Stock outstanding as of May 05, 2011.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report include forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "proposed," "intended," or "continue" or the negative of these terms or other comparable terminology. You should read statements that contain these words carefully, because they discuss our expectations about our future operating results or our future financial condition or state other "forward-looking" information. There may be events in the future that we are not able to accurately predict or control. Before you invest in our securities, you should be aware that the occurrence of any of the events described in this Quarterly Report could substantially harm our business, results of operations and financial condition, and that upon the occurrence of any of these events, the trading price of our securities could decline and you could lose all or part of your investment. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, growth rates, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report to conform these statements to actual results.

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Part I – FINANCIAL INFORMATION

Item 1. Financial Statements

REED'S, INC.
CONDENSED BALANCE SHEETS

	March 31, 2011 (unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash	\$ 1,024,000	\$ 1,084,000
Inventory	4,157,000	4,555,000
Trade accounts receivable, net of allowance for doubtful accounts and returns and discounts of \$105,000 and \$105,000, respectively	1,568,000	1,295,000
Prepaid inventory	146,000	138,000
Prepaid and other current assets	49,000	78,000
Total Current Assets	6,944,000	7,150,000
Property and equipment, net of accumulated depreciation of \$1,300,000 and \$1,178,000, respectively		
	3,695,000	3,650,000
Brand names	1,029,000	1,029,000
Deferred financing fees, net of amortization of \$17,000 and \$8,000, respectively	37,000	47,000
Total assets	\$ 11,705,000	\$ 11,876,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 2,078,000	\$ 2,586,000
Accrued expenses	144,000	162,000
Dividends payable	53,000	44,000
Recycling fees payable	294,000	325,000
Line of credit	2,035,000	2,038,000
Current portion of long term financing obligation	59,000	55,000
Current portion of capital leases payable	41,000	39,000
Current portion of note payable	44,000	71,000
Total current liabilities	4,748,000	5,320,000
Long term financing obligation, less current portion, net of discount of \$664,000 and \$677,000, respectively		
	2,265,000	2,268,000
Capital leases payable, less current portion	135,000	146,000
Total Liabilities	7,148,000	7,734,000
Commitments and contingencies		
Stockholders' equity:		
Series A Convertible Preferred stock, \$10 par value, 500,000 shares authorized, 46,621 shares issued and outstanding	466,000	466,000
Series B Convertible Preferred stock, \$10 par value, 500,000 shares authorized, 81,866 and 85,766 shares issued and outstanding, respectively	819,000	858,000
Common stock, \$.0001 par value, 19,500,000 shares authorized, 10,808,091 and 10,446,090 shares issued and outstanding, respectively	1,000	1,000

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Additional paid in capital	22,531,000	21,701,000
Accumulated deficit	(19,260,000)	(18,884,000)
Total stockholders' equity	4,557,000	4,142,000
Total liabilities and stockholders' equity	\$11,705,000	\$11,876,000

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

REED'S, INC.
CONDENSED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2011 and 2010
(Unaudited)

	Three months ended March 31,	
	2011	2010
Sales	\$5,140,000	\$4,012,000
Cost of tangible goods sold	3,321,000	2,388,000
Cost of goods sold – idle capacity	402,000	241,000
Gross profit	1,417,000	1,383,000
Operating expenses:		
Delivery and handling expenses	388,000	317,000
Selling and marketing expense	580,000	524,000
General and administrative expense	655,000	652,000
Total operating expenses	1,623,000	1,493,000
Loss from operations	(206,000)	(110,000)
Interest expense	(159,000)	(149,000)
Net loss	(365,000)	(259,000)
Preferred stock dividend	(11,000)	(14,000)
Net loss attributable to common stockholders	\$(376,000)	\$(273,000)
Loss per share available to common stockholders - basic and diluted	\$(0.04)	\$(0.03)
Weighted average number of shares outstanding - basic and diluted	10,619,242	9,834,696

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

REED'S, INC.
CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Three months ended March 31, 2011
(unaudited)

	Common Stock		Series A Preferred Stock		Series B Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2010	10,446,090	\$1,000	46,621	\$466,000	85,766	\$858,000	\$21,701,000	\$(18,884,000)	\$4,142,000
Fair Value of common stock issued for services	17,495	-	-	-	-	-	42,000	-	42,000
Common stock issued upon conversion of Series B preferred stock	27,300	-	-	-	(3,900)	(39,000)	39,000	-	-
Sale of common stock	304,880	-	-	-	-	-	672,000	-	672,000
Exercise of warrants	11,000	-	-	-	-	-	25,000	-	25,000
Fair value vesting of options issued to employees	-	-	-	-	-	-	50,000	-	50,000
Series B preferred stock dividend	-	-	-	-	-	-	-	(11,000)	(11,000)
Common stock paid for Series B preferred stock dividend	1,326	-	-	-	-	-	2,000	-	2,000
Net loss	-	-	-	-	-	-	-	(365,000)	(365,000)
Balance, March 31, 2011	10,808,091	\$1,000	46,621	\$466,000	81,866	\$819,000	\$22,531,000	\$(19,260,000)	\$4,557,000

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

REED'S, INC.
CONDENSED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2011 and 2010
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$(365,000)	\$(259,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	144,000	148,000
Fair value of stock options issued to employees	50,000	57,000
Fair value of common stock issued for services and bonus	42,000	127,000
Changes in assets and liabilities:		
Accounts receivable	(273,000)	(331,000)
Inventory	398,000	(293,000)
Prepaid expenses and inventory and other current assets	21,000	(435,000)
Accounts payable	(508,000)	(8,000)
Accrued expenses	(18,000)	10,000
Recycling fees payable	(31,000)	11,000
Net cash used in operating activities	(540,000)	(973,000)
Cash flows from investing activities:		
Purchase of property and equipment	(167,000)	(51,000)
Net cash used in investing activities	(167,000)	(51,000)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of offering costs	672,000	-
Proceeds from issuance of common stock in shelf offering, net of offering costs	-	410,000
Proceeds from warrant exercises		