

REEDS INC
Form 10-Q
November 13, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

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

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
Non-accelerated filer

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 9,597,877 shares of Common Stock outstanding as of November 13, 2009.

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

	September 30, 2009	December 31, 2008
(unaudited)		
ASSETS		
Current assets:		
Cash	\$76,000	\$229,000
Inventory	3,176,000	2,837,000
Trade accounts receivable, net of allowance for doubtful accounts and returns and discounts of \$97,000 as of September 30, 2009 and December 31, 2008	1,375,000	897,000
Prepaid and other current assets	226,000	68,000
Total Current Assets	4,853,000	4,031,000
Property and equipment, net of accumulated depreciation of \$624,000 as of September 30, 2009 and \$1,150,000 as of December 31, 2008	3,641,000	4,133,000
Brand names	800,000	800,000
Deferred offering costs	177,000	62,000
Deferred financing fees, net of amortization of \$13,000 as of September 30, 2009 and \$40,000 as of December 31, 2008	660,000	77,000
Total assets	\$10,131,000	\$9,103,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$1,758,000	\$1,929,000
Lines of credit	1,447,000	1,354,000
Current portion of long term debt	-	16,000
Current portion of long term financing obligation	37,000	-
Current portion capital leases	23,000	-
Accrued interest	25,000	-
Accrued expenses	96,000	96,000
Total current liabilities	3,386,000	3,395,000
Long term financing obligation, less current portion	3,011,000	-
Capital leases payable, less current portion	136,000	-
Long term debt, less current portion	-	1,747,000
Total Liabilities	6,533,000	5,142,000
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$10 par value, 500,000 shares authorized, 46,621 shares outstanding at September 30, 2009 and 47,121 shares outstanding at December 31, 2008	466,000	471,000
Series B Convertible Preferred stock, \$.0001 par value, 1,846,738 shares authorized, no shares issued or outstanding at September 30, 2009 and December 31, 2008	-	-

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Common stock, \$.0001 par value, 19,500,000 shares authorized, 9,233,688 shares issued and outstanding at September 30, 2009 and 8,979,341 shares issued and outstanding at December 31, 2008	1,000	1,000
Additional paid in capital	19,846,000	18,408,000
Accumulated deficit	(16,715,000)	(14,919,000)
Total stockholders' equity	3,598,000	3,961,000
Total liabilities and stockholders' equity	\$10,131,000	\$9,103,000

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

REED'S, INC.

CONDENSED STATEMENTS OF OPERATIONS

For the Three Months and Nine Months Ended September 30, 2009 and 2008
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Sales	\$ 4,027,000	\$ 4,233,000	\$ 11,658,000	\$ 12,368,000
Cost of sales	3,038,000	2,938,000	8,722,000	9,283,000
Gross profit	989,000	1,295,000	2,936,000	3,085,000
Operating expenses:				
Selling and marketing expense	646,000	819,000	1,853,000	2,994,000
General and administrative expense	623,000	558,000	1,896,000	2,548,000
Impairment of assets	-	-	641,000	-
Total operating expenses	1,269,000	1,377,000	4,390,000	5,542,000
Loss from operations	(280,000)	(82,000)	(1,454,000)	(2,457,000)
Interest income	-	-	-	1,000
Interest expense	(122,000)	(92,000)	(319,000)	(199,000)
Net loss	(402,000)	(174,000)	(1,773,000)	(2,655,000)
Preferred stock dividend	-	-	(23,000)	(23,000)
Net loss attributable to common stockholders	\$ (402,000)	\$ (174,000)	\$ (1,796,000)	\$ (2,678,000)
Loss per share – available to common stockholders basic and diluted	\$ (0.04)	\$ (0.02)	\$ (0.20)	\$ (0.30)
Weighted average number of shares outstanding - basic and diluted	9,215,171	8,928,591	9,125,887	8,868,381

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

REED'S, INC.

CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Nine Months ended September 30, 2009
(unaudited)

	Common Stock		Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance, December 31, 2008	8,979,341	\$ 1,000	47,121	\$ 471,000	\$ 18,408,000	\$ (14,919,000)	\$ 3,961,000
Fair Value of Common Stock issued for services	189,397	—	—	—	247,000	—	247,000
Conversion of preferred stock	2,000	—	(500)	(5,000)	5,000	—	—
Issuance of warrants in connection with financing obligation	—	—	—	—	653,000	—	653,000
Sale of common stock	50,000	—	—	—	150,000	—	150,000
Preferred stock dividend	12,950	—	—	—	23,000	(23,000)	—
Fair value vesting of options issued to employees	—	—	—	—	360,000	—	360,000
Net loss	—	—	—	—	—	(1,773,000)	(1,773,000)
Balance, September 30, 2009	9,233,688	\$ 1,000	46,621	\$ 466,000	\$ 19,846,000	\$ (16,715,000)	\$ 3,598,000

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

REED'S, INC.
CONDENSED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2009 and 2008
(Unaudited)

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net loss		