

REEDS INC  
Form 10-Q  
August 13, 2012

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 June 30, 2012

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

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REED'S INC.

(Exact name of registrant as specified in its charter)

Delaware                      35-2177773  
(State of incorporation)    (I.R.S. Employer Identification No.)

13000 South Spring St. Los Angeles, Ca. 90061

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(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 S 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 S No

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

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

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 11,252,483 shares of Common Stock outstanding as of August 3, 2012.

*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**

	June 30, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,391,000	\$ 713,000
Inventory	5,046,000	6,099,000
Trade accounts receivable, net of allowance for doubtful accounts and returns and discounts of \$195,000 and \$135,000, respectively	2,543,000	1,626,000
Prepaid inventory	241,000	168,000
Prepaid and other current assets	148,000	123,000
<b>Total Current Assets</b>	<b>9,369,000</b>	<b>8,729,000</b>
Property and equipment, net of accumulated depreciation of \$2,048,000 and \$1,739,000, respectively	3,418,000	3,512,000
Brand names	1,029,000	1,029,000
Deferred financing fees, net of amortization of \$88,000 and \$50,000, respectively	52,000	85,000
<b>Total assets</b>	<b>\$ 13,868,000</b>	<b>\$ 13,355,000</b>
<b>LIABILITIES AND STOCKHOLDERS’ EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 2,648,000	\$ 2,310,000
Accrued expenses	208,000	196,000
Dividends payable	85,000	83,000
Recycling fees payable	99,000	111,000
Line of credit	2,951,000	3,095,000
Current portion of long term financing obligation	80,000	71,000
Current portion of capital leases payable	61,000	56,000
Current portion of term loan	163,000	152,000
<b>Total current liabilities</b>	<b>6,295,000</b>	<b>6,074,000</b>
Long term financing obligation, less current portion, net of discount of \$614,000 and \$626,000, respectively	2,231,000	2,247,000

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Capital leases payable, less current portion	121,000	153,000
Term loan, less current portion	490,000	576,000
Total Liabilities	9,137,000	9,050,000
Commitments and contingencies		
Stockholders' equity:		
Series A Convertible Preferred stock, \$10 par value, 500,000 shares authorized, 32,941 and 46,621 shares issued and outstanding, respectively	329,000	466,000
Series B Convertible Preferred stock, \$10 par value, 500,000 shares authorized, 52,507 and 80,415 shares issued and outstanding, respectively	525,000	804,000
Common stock, \$.0001 par value, 19,500,000 shares authorized, 11,207,769 and 10,885,833 shares issued and outstanding, respectively	1,000	1,000
Additional paid in capital	23,478,000	22,924,000
Accumulated deficit	(19,602,000)	(19,890,000)
Total stockholders' equity	4,731,000	4,305,000
<b>Total liabilities and stockholders' equity</b>	<b>\$13,868,000</b>	<b>\$13,355,000</b>

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

**REED'S, INC.****CONDENSED STATEMENTS OF OPERATIONS**

For the Three and Six Months Ended June 30, 2012 and 2011

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Sales	\$7,831,000	\$6,191,000	\$14,370,000	\$11,331,000
Cost of tangible goods sold	4,696,000	3,762,000	8,881,000	7,083,000
Cost of goods sold – idle capacity	438,000	493,000	807,000	895,000
Gross profit	2,697,000	1,936,000	4,682,000	3,353,000
Operating expenses:				
Delivery and handling expenses	585,000	544,000	1,064,000	932,000
Selling and marketing expense	699,000	601,000	1,421,000	1,181,000
General and administrative expense	805,000	676,000	1,545,000	1,331,000
Total operating expenses	2,089,000	1,821,000	4,030,000	3,444,000
Income (loss) from operations	608,000	115,000	652,000	(91,000 )
Interest expense	(164,000 )	(170,000 )	(332,000 )	(329,000 )
Net income (loss)	444,000	(55,000 )	320,000	(420,000 )
Preferred stock dividends	(23,000 )	(33,000 )	(32,000 )	(44,000 )
Net income (loss) attributable to common stockholders	\$421,000	\$(88,000 )	\$288,000	\$(464,000 )
Income (loss) per share available to common stockholders, basic	\$0.04	\$(0.01 )	\$0.03	\$(0.04 )
Weighted average number of shares outstanding - basic	11,041,558	10,818,170	10,981,317	10,719,256
Income (loss) per share available to common stockholders, diluted	\$0.04	\$(0.01 )	\$0.02	\$(0.04 )
Weighted average number of shares outstanding - diluted	11,940,343	10,818,170	11,647,148	10,719,256

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

**REED'S, INC.****CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****For the Six Months Ended June 30, 2012****(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, 2011	10,885,833	\$1,000	46,621	\$466,000	80,415	\$804,000	\$22,924,000	\$(19,890,000)	\$4,305,000
Fair Value of common stock issued for services	13,883	—	—	—	—	—	20,000	—	20,000
Cashless exercise stock options	18,551	—	—	—	—	—	—	—	—
Proceeds from exercise of warrants	18,389	—	—	—	—	—	31,000	—	31,000
Common stock issued upon conversion of Series A preferred stock	54,720	—	(13,680)	(137,000)	—	—	137,000	—	—
Common stock issued upon conversion of Series B preferred stock	195,356	—	—	—	(27,908)	(279,000)	279,000	—	—
Fair value vesting of options issued to employees	—	—	—	—	—	—	55,000	—	55,000
	—	—	—	—	—	—	—	(16,000)	(16,000)



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Series A preferred stock dividend									
Series B preferred stock dividend	-	-	-	-	-	-	-	(16,000 )	(16,000 )
Common stock paid for Series B preferred stock dividend	21,037	-	-	-	-	-	32,000	-	32,000
Net income	-	-	-	-	-	-	-	320,000	320,000
Balance, June 30, 2012	11,207,769	\$1,000	32,941	\$329,000	52,507	\$525,000	\$23,478,000	\$(19,602,000)	\$4,731,000

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

**REED'S, INC.****CONDENSED STATEMENTS OF CASH FLOWS****For the Six Months Ended June 30, 2012 and 2011****(Unaudited)**

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income (loss)	\$ 320,000	\$(420,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	372,000	308,000
Fair value of stock options issued to employees	55,000	103,000
Fair value of warrants issued for services	–	26,000
Fair value of common stock issued for services and bonus	20,000	77,000
Increase in allowance for doubtful accounts	60,000	–
Changes in assets and liabilities:		
Accounts receivable	(977,000 )	(711,000)
Inventory	1,053,000	(23,000 )
Prepaid expenses and inventory and other current assets	(98,000 )	(314,000)
Accounts payable	338,000	305,000
Accrued expenses	14,000	19,000
Recycling fees payable	(12,000 )	(62,000 )
Net cash provided by (used in) operating activities	1,145,000	(692,000)
Cash flows from investing activities:		
Purchase of property and equipment	(215,000 )	(229,000)
Net cash used in investing activities	(215,000 )	(229,000)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of offering costs	–	672,000
Proceeds from stock option and warrant exercises	31,000	25,000
Principal repayments on long term financing obligation		