

REEDS INC  
Form 10-Q  
May 14, 2013

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, 2013

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

(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, 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 12,525,761 shares of Common Stock outstanding as of May 13, 2013.

*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, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash	\$726,000	\$1,163,000
Inventory	6,301,000	5,794,000
Trade accounts receivable, net of allowance for doubtful accounts and returns and discounts of \$300,000 and \$399,000, respectively	2,228,000	1,961,000
Prepaid inventory	190,000	201,000
Prepaid and other current assets	251,000	212,000
Total Current Assets	9,696,000	9,331,000
Property and equipment, net of accumulated depreciation of \$2,471,000 and \$2,351,000, respectively	3,400,000	3,422,000
Brand names	1,029,000	1,029,000
Deferred financing fees, net of amortization of \$38,000 and \$26,000, respectively	42,000	54,000
Total assets	\$14,167,000	\$13,836,000
<b>LIABILITIES AND STOCKHOLDERS’ EQUITY</b>		
Current Liabilities:		
Accounts payable	\$3,396,000	\$3,368,000
Accrued expenses	209,000	233,000
Dividends payable	–	74,000
Line of credit	3,665,000	3,023,000
Current portion of long term financing obligation	95,000	90,000
Current portion of capital leases payable	72,000	69,000
Current portion of term loan	183,000	176,000
Total current liabilities	7,620,000	7,033,000
Long term financing obligation, less current portion, net of discount of \$563,000 and \$576,000, respectively	2,195,000	2,208,000
Capital leases payable, less current portion	79,000	98,000
Term loan, less current portion	350,000	399,000
Total Liabilities	10,244,000	9,738,000

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Commitments and contingencies

Stockholders' equity:

Series A Convertible Preferred stock, \$10 par value, 500,000 shares authorized, 10,411 and 10,411 shares issued and outstanding, respectively	104,000	104,000
Series B Convertible Preferred stock, \$10 par value, 500,000 shares authorized, 0 and 45,062 shares issued and outstanding, respectively	–	456,000
Common stock, \$.0001 par value, 19,500,000 shares authorized, 12,518,333 and 12,084,673 shares issued and outstanding, respectively	1,000	1,000
Additional paid in capital	24,680,000	23,996,000
Accumulated deficit	(20,862,000)	(20,459,000)
Total stockholders' equity	3,923,000	4,098,000
Total liabilities and stockholders' equity	\$14,167,000	\$13,836,000

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, 2013 and 2012

(Unaudited)

	Three months ended March 31,	
	2013	2012
Sales	\$8,126,000	\$6,539,000
Cost of tangible goods sold	4,905,000	4,185,000
Cost of goods sold – idle capacity	686,000	369,000
Gross profit	2,535,000	1,985,000
Operating expenses:		
Delivery and handling expense	906,000	479,000
Selling and marketing expense	880,000	722,000
General and administrative expense	988,000	740,000
Total operating expenses	2,774,000	1,941,000
(Loss) income from operations	(239,000 )	44,000
Interest expense	(164,000 )	(168,000 )
Net loss	(403,000 )	(124,000 )
Preferred stock dividend	–	(9,000 )
Net loss attributable to common stockholders	\$(403,000 )	\$(133,000 )
Loss per share available to common stockholders - basic and diluted	\$(0.03 )	\$(0.01 )
Weighted average number of shares outstanding - basic and diluted	12,320,516	10,921,076

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 March 31, 2013****(unaudited)**

	Common Stock		Series A Preferred Stock		Series B Preferred Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholder Equity
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2012	12,084,673	\$1,000	10,411	\$104,000	45,602	\$456,000	\$23,996,000	\$(20,459,000)	\$4,098,000
Fair Value of common stock issued for services	1,250	—	—	—	—	—	5,000	—	5,000
Cashless exercise of stock options	64,117	—	—	—	—	—	30,000	—	30,000
Proceeds from exercise of warrants	1,189	—	—	—	—	—	—	—	—
Common stock issued upon conversion of Series B preferred stock	319,214	—	—	—	(45,602)	(456,000)	456,000	—	—
Fair value vesting of options issued to employees	—	—	—	—	—	—	119,000	—	119,000
Common stock paid for Series B preferred stock dividend	47,890	—	—	—	—	—	74,000	—	74,000
Net loss	—	—	—	—	—	—	—	(403,000)	(403,000)
Balance, March 31, 2013	12,518,333	\$1,000	10,411	\$104,000	—	—	\$24,680,000	\$(20,862,000)	\$3,923,000

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, 2013 and 2012****(Unaudited)**

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$(403,000 )	\$(124,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	145,000	183,000
Fair value of stock options issued to employees	119,000	26,000
Fair value of common stock issued for services and bonus	5,000	15,000
Allowance for doubtful accounts and returns	40,000	-
Changes in assets and liabilities:		
Accounts receivable	(307,000 )	(464,000)
Inventory	(507,000 )	(113,000)
Prepaid inventory and prepaid other current assets	(28,000 )	(97,000 )
Accounts payable	28,000	233,000
Accrued expenses	(24,000 )	(22,000 )
Net cash used in operating activities	(932,000 )	(363,000)
Cash flows from investing activities:		
Purchase of property and equipment	(98,000 )	(110,000)
Net cash used in investing activities	(98,000 )	(110,000)
Cash flows from financing activities:		
Proceeds from stock option exercises	30,000	-
Principal repayments on long term financing obligation	(21,000 )	(15,000 )
Principal repayments on capital lease obligation	(16,000 )	(14,000 )
Principal repayments on term loan	(42,000 )	(36,000 )
Net draw down (repayments) on lines of credit	642,000	(74,000 )
Net cash provided by (used in) financing activities	593,000	(139,000)
Net decrease in cash	(437,000 )	(612,000)
Cash at beginning of period	1,163,000	713,000
Cash at end of period	\$726,000	\$101,000
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$164,000	\$168,000
Non cash investing and financing activities:		
Series B Preferred stock converted to common stock	\$456,000	\$81,000
Series B Preferred stock dividend payable in common stock	-	\$9,000
Common stock issued in settlement of Series B preferred stock dividend	\$74,000	\$8,000

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

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**REED'S, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**Three Months Ended March 31, 2013 and 2012 (UNAUDITED)**

**1. Basis of Presentation**

The accompanying interim condensed financial statements are unaudited, but in the opinion of management of Reeds, Inc. (the "Company"), contain all adjustments, which include normal recurring adjustments necessary to present fairly the financial position at March 31, 2013 and the results of operations and cash flows for the three months ended March 31, 2013 and 2012. The balance sheet as of December 31, 2012 is derived from the Company's audited financial statements.

Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although management of the Company believes that the disclosures contained in these condensed financial statements are adequate to make the information presented herein not misleading. For further information, refer to the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 25, 2013 and amended on April 15, 2013.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates. Those estimates and assumptions include estimates for reserves of uncollectible accounts, inventory obsolescence, analysis of impairments of recorded intangibles, accruals for potential liabilities and assumptions made in valuing stock instruments issued for services.

The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2013.

**Income (Loss) per Common Share**

Basic earnings (loss) per share is computed by dividing the net income (loss) applicable to common stock holders by the weighted average number of shares of common stock outstanding during the year. Diluted earnings (loss) per share is computed by dividing the net income (loss) applicable to common stock holders by the weighted average number of common shares outstanding plus the number of additional common shares that would have been outstanding if all dilutive potential common shares had been issued, using the treasury stock method. Potential common shares are excluded from the computation when their effect is antidilutive.

For the three months ended March 31, 2013 and 2012 the calculations of basic and diluted loss per share are the same because potential dilutive securities would have an anti-dilutive effect. The potentially dilutive securities consisted of the following as of:

	March 31, 2013	March 31, 2012
Warrants	317,253	1,806,870
Series A Preferred Stock	41,644	186,484
Series B Preferred Stock	–	506,170
Options	839,669	1,097,000
Total	1,198,586	3,596,524

### Recent Accounting Pronouncements

There are recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the Securities Exchange Commission (the "SEC"), such pronouncements are not believed by management to have a material impact on the Company's present or future financial statements.

## **Concentrations**

The Company's cash balances on deposit with banks are guaranteed by the Federal Deposit Insurance Corporation up to \$250,000. The Company may be exposed to risk for the amounts of funds held in one bank in excess of the insurance limit. In assessing the risk, the Company's policy is to maintain cash balances with high quality financial institutions. The Company had cash balances in excess of the guarantee during the three months ended March 31, 2013.

During the three months ended March 31, 2013 and 2012, the Company had two customers, which accounted for approximately 35% and 10% of sales in 2013, and 32% and 14% of sales in 2012, respectively. No other customers accounted for more than 10% of sales in either period. As of March 31, 2013 the Company had accounts receivable due from a customer who comprised \$707,000 (28%) of its total accounts receivable and as of December 31, 2012 the Company had accounts receivable due from two customers who comprised \$580,000 (25%), and \$340,000 (14%), respectively, of its total accounts receivable.

## **Advertising**

Advertising costs are expensed as incurred. For the three months ended March 31, 2013 and 2012, advertising costs were \$21,000 and \$18,000, respectively.

## **Fair Value of Financial Instruments**

The Company uses various inputs in determining the fair value of its investments and measures these assets on a recurring basis. Financial assets recorded at fair value in the balance sheets are categorized by the level of objectivity associated with the inputs used to measure their fair value. Authoritative guidance provided by the FASB defines the following levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these financial assets:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3—Unobservable inputs based on the Company's assumptions.



The Company had no such assets or liabilities recorded to be valued on the basis above at March 31, 2013 or December 31, 2012.

**2. Inventory**

Inventory consists of the following as of:

	March 31, 2013	December 31, 2012
Raw Materials and Packaging	\$3,984,000	\$3,524,000
Finished Goods	2,317,000	2,270,000
	\$6,301,000	\$5,794,000

