

REEDS INC  
Form 10QSB  
August 15, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended June 30, 2005

Commission file number: 333-120451

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REED'S INC.

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(Exact name of registrant as specified in its charter)

Delaware

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(State of incorporation)

95-4348325

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(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

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(Registrant's telephone number, including area code)

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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

There were 4,726,091 shares of the registrant's common stock outstanding as of June 30, 2005.

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**REED'S, INC****CONDENSED BALANCE SHEET****ASSETS**

	<b>June 30, 2005 (Unaudited)</b>	<b>December 31, 2004</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 230,404	\$ 42,488
Inventory	1,197,601	1,301,025
Trade accounts receivable, net of allowance for doubtful accounts and returns and discounts of \$79,431 as of June 30, 2005 and \$74,974 as of December 31, 2004	864,919	797,614
Other receivables	8,794	3,163
Prepaid expenses	36,541	5,652
<b>Total Current Assets</b>	<b>2,338,259</b>	<b>2,241,139</b>
Property and equipment, net of accumulated depreciation of \$434,227 as of June 30, 2005 and \$390,363 as of December 31, 2004	1,809,364	1,821,473
<b>OTHER ASSETS</b>		
Brand names	800,201	800,201
Other intangibles, net of accumulated amortization of \$3,350 as of June 30, 2005 and \$2,978 as of December 31, 2004	15,263	15,635
Deferred stock offering costs	354,435	219,955
Due from director	116,210	91,197
<b>Total Other Assets</b>	<b>1,286,109</b>	<b>1,035,791</b>
<b>TOTAL ASSETS</b>	<b>\$ 5,433,732</b>	<b>\$ 5,098,403</b>

**LIABILITIES AND STOCKHOLDER'S EQUITY****CURRENT LIABILITIES**

Accounts payable	\$ 1,664,156	1,412,124
Lines of credit	1,556,490	1,128,222
Current portion of long term debt	83,064	106,113
Note payable-related party	--	21,000
Accrued interest	114,263	115,581
Accrued expenses	44,865	51,549
<b>Total Current Liabilities</b>	<b>3,462,838</b>	<b>2,834,589</b>
Loans payable, related party	252,358	252,358
Long term debt, less current portion	1,038,788	1,041,756
<b>Total Liabilities</b>	<b>4,753,984</b>	<b>4,128,703</b>

**COMMITMENTS AND CONTINGENCIES**

**STOCKHOLDERS' EQUITY**

Preferred stock, \$10.00 par value, 500,000 shares authorized, 58,940 outstanding	589,402	589,402
Common stock, \$.0001 par value, 11,500,000 shares authorized, 4,726,091 shares issued and outstanding	472	472
Common stock to be issued (269,867 shares)	34,720	-
Additional paid in capital	2,753,994	2,783,464
Accumulated deficit	(2,698,840)	(2,403,638)
Total stockholders' equity	679,748	969,700
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 5,433,732</b>	<b>\$ 5,098,403</b>

See accompanying Notes to Condensed Financial Statements

**REED'S, INC.**

**CONDENSED STATEMENTS OF OPERATIONS**  
**For the Three and Six Months Ended June 30, 2005 and 2004**  
**(Unaudited)**

	Three months ended (Unaudited)		Six months ended (Unaudited)	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
<b>SALES</b>	\$ 2,582,273	\$ 2,782,004	\$ 4,399,608	\$ 4,495,344
<b>COST OF SALES</b>	2,069,274	2,321,097	3,555,561	3,623,767
<b>GROSS PROFIT</b>	512,999	460,907	844,047	871,577
<b>OPERATING EXPENSES</b>				
Selling	236,218	198,033	521,116	336,278
General & Administrative	244,502	227,634	456,599	461,575
	480,720	425,667	977,715	797,853
<b>INCOME (LOSS) FROM OPERATIONS</b>	32,279	35,240	(133,668)	73,724
<b>OTHER EXPENSES</b>				
Interest Expense	(90,327)	(54,074)	(161,534)	(114,013)
<b>NET LOSS</b>	\$ (58,048)	\$ (18,834)	\$ (295,202)	\$ (40,289)
<b>PREFERRED STOCK DIVIDEND</b>	(29,470)	-	(29,470)	-
<b>NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>	\$ (87,518)	\$ -	\$ (324,672)	\$ -
<b>LOSS PER SHARE</b> — Basic and Diluted	\$ (.02)	\$ (.01)	\$ (.07)	\$ (.01)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED</b>	4,812,710	4,726,091	4,769,640	4,726,091

See accompanying Notes to Condensed Financial Statements

**REED'S, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For the Six Months Ended June 30, 2005 (Unaudited)**

	Common Stock			Preferred Stock			Accumulated Deficit	Total
	Shares	Amount	Common Stock To Be issued	Additional Paid In Capital	Shares	Amount		
Balance, December 31, 2004	4,726,091	\$ 472	\$ —	\$ 2,783,464	58,940	\$ 589,402	\$(2,403,638)	\$ 969,700
Exercise of Warrants (Unaudited)	—	—	5,250	—	—	—	—	5,250
Preferred Stock Dividend (unaudited)	—	—	29,470	(29,470)	—	—	—	—
Net loss for the six months ended June 30, 2005 (Unaudited)	—	—	—	—	—	—	(295,202)	(295,202)
Balance June 30, 2005 (Unaudited)	4,726,091	\$ 472	\$ 34,720	\$ 2,753,994	58,940	\$ 589,402	\$(2,698,840)	\$ 679,748

See Accompanying Notes to Condensed Financial Statements

## REED'S INC.

**CONDENSED STATEMENTS OF CASH FLOWS**  
**For the six months ended June 30, 2005 and 2004**  
**(Unaudited)**

	<b>Six Months Ended</b>	
	<b>(Unaudited)</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Loss	\$ (295,202)	\$ (40,289)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	46,610	51,959
Changes in operating assets and liabilities:		
Accounts receivable	(67,305)	(763,672)
Inventory	103,424	(110,425)
Prepaid Expenses	(33,264)	(35,710)
Other receivables	(5,631)	(245)
Accounts payable	252,032	587,123
Accrued expenses	(6,684)	(34,504)
Accrued interest	3,932	23,468
Net cash used in operating activities	(24,708)	(253,287)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(31,754)	(51,354)
Due from director	(25,013)	--
Net cash used in investing activities	(56,767)	(51,354)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of previous line of credit	(759,387)	--
Borrowings on new line of credit	1,109,543	--
Borrowings on debt	190,000	--
Principal payments on debt	(216,016)	(65,255)
Proceeds received prior to issuance of preferred stock	--	310,900
Net borrowing on lines of credit	78,112	226,813
Payments on debt to related parties	(21,000)	
Payments for deferred stock offering costs	(134,481)	(7,672)
Net cash provided by financing activities	246,771	464,786
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>187,916</b>	