

REEDS INC  
Form 10-Q  
August 14, 2009

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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 June 30, 2009

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

For the transition period from \_\_\_ to \_\_\_

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)

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(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

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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	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

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

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 9,215,693 shares of Common Stock outstanding as of August 13, 2009.

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## Part I – FINANCIAL INFORMATION

## Item 1. Financial Statements

REED'S, INC.  
CONDENSED BALANCE SHEETS

	June 30, 2009	December 31, 2008
(unaudited)		
<b>ASSETS</b>		
Current assets:		
Cash	\$ 421,000	\$ 229,000
Inventory	3,375,000	2,837,000
Trade accounts receivable, net of allowance for doubtful accounts and returns and discounts of \$97,000 as of June 30, 2009 and December 31, 2008	1,356,000	897,000
Prepaid and other current assets	178,000	68,000
<b>Total Current Assets</b>	<b>5,330,000</b>	<b>4,031,000</b>
Property and equipment, net of accumulated depreciation of \$530,000 as of June 30, 2009 and \$1,150,000 as of December 31, 2008	3,431,000	4,133,000
Brand names	800,000	800,000
Deferred offering costs	161,000	62,000
Deferred financing fees, net of amortization of \$2,000 as of June 30, 2009 and \$40,000 as of December 31, 2008	651,000	77,000
<b>Total assets</b>	<b>\$ 10,373,000</b>	<b>\$ 9,103,000</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 2,372,000	\$ 1,929,000
Lines of credit	974,000	1,354,000
Current portion of long term debt	-	16,000
Current portion of long term financing obligation	19,000	-
Accrued interest	33,000	-
Accrued expenses	108,000	96,000
<b>Total current liabilities</b>	<b>3,506,000</b>	<b>3,395,000</b>
Long term financing obligation, less current portion	3,022,000	-
Long term debt, less current portion	-	1,747,000
<b>Total Liabilities</b>	<b>6,528,000</b>	<b>5,142,000</b>
Commitments and contingencies		

Stockholders' equity:		
Preferred stock, \$10 par value, 500,000 shares authorized, 46,621 shares outstanding at June 30, 2009 and 47,121 shares outstanding at December 31, 2008	466,000	471,000
Series B Convertible Preferred stock, \$.0001 par value 9,200,693 shares authorized, no shares issued or outstanding at June 30, 2009 and December 31, 2008	-	-
Common stock, \$.0001 par value, 19,500,000 shares authorized, 9,200,693 shares issued and outstanding at June 30, 2009 and 8,979,341 shares issued and outstanding at December 31, 2008	1,000	1,000
Additional paid in capital	19,691,000	18,408,000
Accumulated deficit	(16,313,000)	(14,919,000)
Total stockholders' equity	3,845,000	3,961,000
Total liabilities and stockholders' equity	\$ 10,373,000	\$ 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 Six Months Ended June 30, 2009 and 2008  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Sales	\$ 4,214,000	\$ 4,571,000	\$ 7,631,000	\$ 8,135,000
Cost of sales	3,114,000	3,302,000	5,684,000	6,346,000
Gross profit	1,100,000	1,269,000	1,947,000	1,789,000
Operating expenses:				
Selling and marketing expense	548,000	1,051,000	1,207,000	2,175,000
General and administrative expense	670,000	659,000	1,273,000	1,990,000
Impairment of assets	641,000	-	641,000	-
Total operating expenses	1,859,000	1,710,000	3,121,000	4,165,000
Loss from operations	(759,000 )	(441,000 )	(1,174,000 )	(2,376,000 )
Interest income	-	-	-	1,000
Interest expense	(114,000 )	(50,000 )	(197,000 )	(106,000 )
Net loss	(873,000 )	(491,000 )	(1,371,000 )	(2,481,000 )
Preferred stock dividend	(23,000 )	(24,000 )	(23,000 )	(24,000 )
Net loss attributable to common stockholders	\$ (896,000 )	\$ (515,000 )	\$ (1,394,000 )	\$ (2,505,000 )
Loss per share – available to common stockholders - basic and diluted	\$ (0.10 )	\$ (0.06 )	\$ (0.15 )	\$ (0.28 )
Weighted average number of shares outstanding - basic and diluted	9,119,099	8,911,327	9,080,506	8,837,956

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, 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	156,402	—	—	—	183,000	—	183,000
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	—	—	—	—	269,000	—	269,000
Net loss	—	—	—	—	—	(1,371,000 )	(1,371,000 )
Balance, June 30, 2009	9,200,693	\$1,000	46,621	\$466,000	\$19,691,000	\$(16,313,000)	\$3,845,000

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, 2009 and 2008  
(Unaudited)

	Six Months Ended June 30, 2009	2008	
Cash flows from operating activities:			
Net loss	\$ (1,371,000)	\$(2,481,000)	
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	239,000	165,000	
Fair value of stock options issued to employees	269,000	(61,000)	
Fair value of common stock issued for services	183,000	335,000	
Impairment loss on assets		84,121	14,493
		69,628	
<b>Total revenues</b>		<b>2,738,804</b>	<b>2,298,703</b>
[ Total Trading Transactions : ]			
Six-month period ended September 30, 2007, ¥ 8,205,220 million			
Six-month period ended September 30, 2006, ¥ 7,597,799 million			
<b>Cost of Revenues :</b>			
Cost of products sold		2,136,432	1,784,872
Cost of services sold		75,523	67,658
Cost of other sales		47,532	38,268
<b>Total cost of revenues</b>		<b>2,259,487</b>	<b>1,890,798</b>
<b>Gross Profit</b>		<b>479,317</b>	<b>407,905</b>
<b>Other Expenses (Income) :</b>			
Selling, general and administrative		296,747	282,697
Provision for doubtful receivables		2,336	1,637
Interest expense, net of interest income		23,713	18,117

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Dividend income	(28,419)	(27,773)	
Gain on sales of securities net	(51,032)	(26,541)	(
Loss on write-down of securities	12,663	3,207	
Gain on disposal or sales of property and equipment net	(6,672)	(1,242)	
Impairment loss of long-lived assets	2,232	9,926	
Impairment loss of goodwill		16,528	(
Compensation and other charges related to DPF incident		(3,864)	
Other (income) expense net	(1,593)	5,106	
<b>Total other expenses</b>	<b>249,975</b>	<b>277,798</b>	<b>(</b>
<b>Income from Continuing Operations before Income Taxes, Minority Interests and Equity in Earnings</b>	<b>229,342</b>	<b>130,107</b>	
<b>Income Taxes:</b>			
Current	99,909	64,300	
Deferred	(10,414)	(9,014)	
Total	89,495	55,286	
<b>Income from Continuing Operations before Minority Interests and Equity in Earnings</b>	<b>139,847</b>	<b>74,821</b>	
<b>Minority Interests in Earnings of Subsidiaries</b>	<b>(20,678)</b>	<b>(1,798)</b>	<b>(</b>
<b>Equity in Earnings of Associated Companies Net (After Income Tax Effect)</b>	<b>72,290</b>	<b>74,512</b>	
<b>Income from Continuing Operations</b>	<b>191,459</b>	<b>147,535</b>	
<b>Income from Discontinued Operations Net (After Income Tax Effect)</b>	<b>60,462</b>	<b>6,920</b>	
<b>Net Income</b>	<b>¥ 251,921</b>	<b>¥ 154,455</b>	<b>¥</b>

**Consolidated Balance Sheets**

(Unaudited)

(Millions of Yen)

**Assets**

	September 30, 2007	March 31, 2007	Increase/ (Decrease)
<b>Current Assets:</b>			
Cash and cash equivalents	¥ 797,855	¥ 800,032	¥ (2,177)
Time deposits	6,816	6,591	225
Marketable securities	13,032	11,670	1,362
Trade receivables:			
Notes and loans, less unearned interest	468,304	475,271	(6,967)
Accounts	2,228,873	2,199,614	29,259
Associated companies	246,008	240,950	5,058
Allowance for doubtful receivables	(25,598)	(29,824)	4,226
Inventories	735,520	696,470	39,050
Advance payments to suppliers	113,009	96,702	16,307
Deferred tax assets - current	29,251	21,354	7,897
Derivative assets	241,572	254,319	(12,747)
Other current assets	256,717	300,627	(43,910)
<b>Total current assets</b>	<b>5,111,359</b>	<b>5,073,776</b>	<b>37,583</b>
<b>Investments and Non current Receivables:</b>			
Investments in and advances to associated companies	1,396,363	1,587,571	(191,208)
Other investments	1,518,612	1,238,853	279,759
Non current receivables, less unearned interest	484,206	462,935	21,271
Allowance for doubtful receivables	(60,794)	(69,775)	8,981
Property leased to others - at cost, less accumulated depreciation	250,488	259,240	(8,752)
<b>Total investments and non current receivables</b>	<b>3,588,875</b>	<b>3,478,824</b>	<b>110,051</b>
<b>Property and Equipment at Cost:</b>			
Land, land improvements and timberlands	189,230	191,537	(2,307)
Buildings, including leasehold improvements	398,258	379,814	18,444
Equipment and fixtures	830,212	790,510	39,702
Mineral rights	148,036	151,752	(3,716)
Vessels	31,646	33,666	(2,020)
Projects in progress	167,087	130,529	36,558
<b>Total</b>	<b>1,764,469</b>	<b>1,677,808</b>	<b>86,661</b>
Accumulated depreciation	(729,338)	(689,508)	(39,830)
<b>Net property and equipment</b>	<b>1,035,131</b>	<b>988,300</b>	<b>46,831</b>
<b>Intangible Assets, less Accumulated Amortization</b>	<b>129,094</b>	<b>104,445</b>	<b>24,649</b>
<b>Deferred Tax Assets - Non current</b>	<b>29,200</b>	<b>34,972</b>	<b>(5,772)</b>
<b>Other Assets</b>	<b>137,176</b>	<b>132,995</b>	<b>4,181</b>

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**Total**

¥ 10,030,835    ¥ 9,813,312    ¥ 217,523

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(Millions of Yen)

Liabilities and Shareholders' Equity

	September 30, 2007	March 31, 2007	Increase/ (Decrease)
<b>Current Liabilities:</b>			
Short term debt	¥ 513,693	¥ 658,747	¥ (145,054)
Current maturities of long term debt	290,806	371,865	(81,059)
Trade payables:			
Notes and acceptances	93,783	98,199	(4,416)
Accounts	1,987,220	1,966,800	20,420
Associated companies	60,805	64,730	(3,925)
Accrued expenses:			
Income taxes	149,203	85,692	63,511
Interest	27,196	25,324	1,872
Other	74,023	84,625	(10,602)
Advances from customers	137,803	113,586	24,217
Derivative liabilities	181,381	198,735	(17,354)
Other current liabilities	105,283	141,899	(36,616)
<b>Total current liabilities</b>	<b>3,621,196</b>	<b>3,810,202</b>	<b>(189,006)</b>
<b>Long term Debt, less Current Maturities</b>	<b>2,945,476</b>	<b>2,887,528</b>	<b>57,948</b>
<b>Accrued Pension Costs and Liability for Severance Indemnities</b>	<b>32,045</b>	<b>33,209</b>	<b>(1,164)</b>
<b>Deferred Tax Liabilities - Non-current</b>	<b>472,876</b>	<b>450,181</b>	<b>22,695</b>
<b>Other Long Term Liabilities</b>	<b>337,720</b>	<b>283,226</b>	<b>54,494</b>
<b>Minority Interests</b>	<b>239,392</b>	<b>238,687</b>	<b>705</b>
<b>Shareholders' Equity:</b>			
Common stock	336,417	323,213	13,204
Capital surplus	431,094	417,900	13,194
Retained earnings:			
Appropriated for legal reserve	41,071	39,670	1,401
Unappropriated	1,287,299	1,072,234	215,065
Accumulated other comprehensive income (loss):			
Unrealized holding gains and losses on available for sale securities	261,334	258,922	2,412
Foreign currency translation adjustments	11,510	(9,409)	20,919
Defined benefit pension plans	2,994	2,287	707
Net unrealized gains and losses on derivatives	14,903	8,930	5,973
<b>Total accumulated other comprehensive income</b>	<b>290,741</b>	<b>260,730</b>	<b>30,011</b>
<b>Treasury stock, at cost</b>	<b>(4,492)</b>	<b>(3,468)</b>	<b>(1,024)</b>
<b>Total shareholders' equity</b>	<b>2,382,130</b>	<b>2,110,279</b>	<b>271,851</b>
<b>Total</b>	<b>¥ 10,030,835</b>	<b>¥ 9,813,312</b>	<b>¥ 217,523</b>





**Statements of Consolidated Shareholders' Equity**

(Unaudited)

(Millions of Yen)

	Six Month			
	Period Ended			Year Ended
	September 30, 2007			March 31, 2007
<b>Common Stock:</b>				
Balance at beginning of period	¥	323,213	¥ 295,766	
Common stock issued upon conversion of bonds		13,204	27,447	
Balance at end of period	¥	336,417	¥ 323,213	
<b>Capital Surplus:</b>				
Balance at beginning of period	¥	417,900	¥ 390,488	
Conversion of bonds		13,162	27,359	
Gain on sales of treasury stock		32	53	
Balance at end of period	¥	431,094	¥ 417,900	
<b>Retained Earnings:</b>				
<b>Appropriated for Legal Reserve:</b>				
Balance at beginning of period	¥	39,670	¥ 38,508	
Transfer from unappropriated retained earnings		1,401	1,162	
Balance at end of period	¥	41,071	¥ 39,670	
<b>Unappropriated:</b>				
Balance at beginning of period	¥	1,072,234	¥ 825,306	
Cumulative effect of a change in accounting principle – adoption of FIN No. 48		(5,113)		
Net income		251,921	301,502	
Cash dividends paid		(30,342)	(53,412)	
Dividends paid per share:				
Six-month period ended September 30, 2007, ¥17.0				
Year ended March 31, 2007, ¥31.0				
Transfer to retained earnings appropriated for legal reserve		(1,401)	(1,162)	
Balance at end of period	¥	1,287,299	¥ 1,072,234	
<b>Accumulated Other Comprehensive Income (After Income Tax Effect):</b>				
Balance at beginning of period	¥	260,730	¥ 129,842	
Unrealized holding gains and losses on available for sale securities		2,412	42,823	
Foreign currency translation adjustments		20,919	73,870	
Minimum pension liability adjustment			1,058	
Defined benefit pension plans		707		
Adjustment to initially apply SFAS No. 158			6,646	
Net unrealized gains and losses on derivatives		5,973	6,491	
Balance at end of period	¥	290,741	¥ 260,730	

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**Treasury Stock, at Cost**

Balance at beginning of period	¥	(3,468)	¥	(2,003)
Purchases of treasury stock		(1,060)		(1,633)
Sales of treasury stock		36		168
Balance at end of period	¥	(4,492)	¥	(3,468)

**Note:** Appropriations of retained earnings are reflected in the consolidated financial statements upon shareholders' approval.

(Millions of Yen)

	Six Month	
	Period Ended	Year Ended
	September 30, 2007	March 31, 2007
<b>Summary of Changes in Equity from Nonowner Sources (Comprehensive Income):</b>		
Net income	¥ 251,921	¥ 301,502
Other comprehensive income (after income tax effect):		
Unrealized holding gains and losses on available for sale securities	2,412	42,823
Foreign currency translation adjustments	20,919	73,870
Minimum pension liability adjustment		1,058
Defined benefit pension plans	707	
Net unrealized gains and losses on derivatives	5,973	6,491
<b>Changes in equity from nonowner sources</b>	<b>¥ 281,932</b>	<b>¥ 425,744</b>

**Statements of Consolidated Cash Flows**

(Unaudited)

(Millions of Yen)

	Six-Month		Six-Month	
	Period Ended		Period Ended	
	September 30, 2007		September 30, 2006	
<b>Operating Activities:</b>				
Net income	¥	251,921	¥	154,455
Adjustments to reconcile net income to net cash provided by operating activities:				
Income from discontinued operations net (after income tax effect)		(60,462)		(6,920)
Depreciation and amortization		66,891		37,446
Pension and severance costs, less payments		(2,971)		(751)
Provision for doubtful receivables		2,336		1,637
Gain on sales of securities net		(51,032)		(26,541)
Loss on write-down of securities		12,663		3,207
Gain on disposal or sales of property and equipment net		(6,672)		(1,242)
Impairment loss of long-lived assets		2,232		9,926
Impairment loss of goodwill				16,528
Deferred income taxes		(10,414)		(9,014)
Minority interests in earnings of subsidiaries		20,678		1,798
Equity in earnings of associated companies, less dividends received		(28,922)		(20,256)
Changes in operating assets and liabilities:				
Increase in trade receivables		(92,917)		(188,458)
Increase in inventories		(19,861)		(50,941)
Increase in trade payables		19,897		134,370
Other net		21,620		(21,238)
Net cash provided by operating activities of discontinued operations		234		1,954
Net cash provided by operating activities		125,221		35,960
<b>Investing Activities:</b>				
Net (increase) decrease in time deposits		(302)		28,491
Net decrease (increase) in investments in and advances to associated companies		124,924		(68,313)
Net increase in other investments		(985)		(64,472)
Net decrease in long-term loan receivables		1,025		11,598
Net increase in property leased to others and property and equipment		(66,834)		(139,316)
Net cash provided by (used in) investing activities		57,828		(232,012)
<b>Financing Activities:</b>				
Net (decrease) increase in short-term debt		(151,942)		210,089
Net (decrease) increase in long-term debt		(3,564)		50
Capital contribution from minority interests				17,095
Purchases of treasury stock net		(991)		(440)
Payments of cash dividends		(30,342)		(24,123)
Net cash (used in) provided by financing activities		(186,839)		202,671
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>		1,613		2,780
<b>Net (decrease) increase in Cash and Cash Equivalents</b>		(2,177)		9,399

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<b>Cash and Cash Equivalents at Beginning of Period</b>		800,032		697,065
<b>Cash and Cash Equivalents at End of Period</b>	¥	797,855	¥	706,464

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**Note:** In accordance with SFAS No.144, the figures for the six-month period ended September 30, 2006 relating to discontinued operations have been reclassified.

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**Basis of Consolidated Financial Statements**

(Unaudited)

**1. Scope of Subsidiaries and Associated Companies**

(1) Subsidiaries

a) Overseas 172

Mitsui & Co. (U.S.A.), Inc., Mitsui & Co. Europe Holdings Plc, Mitsui & Co. (Australia) Ltd.,

Mitsui Iron Ore Development Pty. Ltd., Mitsui Coal Holdings Pty.Ltd.,

Mitsui Sakhalin Holdings B.V., Mitsui E&P Middle East B.V., and others

b) Japan 131

Mitsui Oil Exploration Co., Ltd., Telepark Corp., Mitsui & Co. Financial Services Ltd.,

MITSUI FOODS CO., LTD., Mitsui Oil Co., Ltd., Mitsui Norin Co., Ltd., and others

(2) Associated Companies

a) Overseas 107

Japan Australia LNG (MIMI) Pty. Ltd., Valepar S.A., P.T. Paiton Energy, and others

b) Japan 74

Mitsui Leasing & Development, Ltd., Moshi Moshi Hotline Inc, Nihon Unisys, Ltd., and others

Total 390 subsidiaries and associated companies are excluded from the above. These include the companies which are sub-consolidated or accounted for under the equity method by other subsidiaries, other than trading subsidiaries, and the companies which are managed by trading subsidiaries.

**2. Summary of Change in Significant Accounting Policies**

Accounting for uncertainty in income taxes

During the six-month period ended September 30, 2007, the companies adopted FIN No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No.109. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No.109, Accounting for Income Taxes, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of all tax positions accounted for in accordance with SFAS No. 109. Upon adoption of FIN No. 48, the opening balance of retained earnings as of April 1, 2007 decreased by ¥5,113 million.

Significant accounting policies other than described above have not been changed from the Security Report filed in the Financial Services Agency of Japan on June 22, 2007.



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**Operating Segment Information**

(Unaudited)

Six-month period ended September 30, 2007 (from April 1, 2007 to September 30, 2007)

(Millions of Yen)

	Iron & Steel Products	Mineral & Metal Resources	Machinery & Infrastructure Projects	Chemical	Energy	Foods & Retail	Consumer Service & IT	Logistics & Financial Markets
Total Trading Transactions	741,214	819,546	1,114,799	1,316,032	1,229,699	998,555	570,292	83,131
Gross Profit	31,670	44,580	63,562	58,079	101,176	41,795	59,003	25,346
Operating Income (Loss)	14,291	36,239	14,528	24,610	78,486	9,125	9,502	10,111
Equity in Earnings of Associated Companies	2,681	38,672	1,636	2,867	19,245	784	4,143	(442)
Net Income	11,937	118,167	13,251	10,901	72,465	5,126	8,138	290
Total Assets at September 30, 2007	704,088	1,111,918	1,667,285	969,048	1,716,352	707,841	724,660	649,595

	Americas	Europe, the Middle East and Africa	Asia Pacific	Total	All Other	Adjustments and Eliminations	Consolidated Total
Total Trading Transactions	716,214	254,394	362,424	8,206,300	3,179	(4,259)	8,205,220
Gross Profit	27,548	13,158	16,407	482,324	1,598	(4,605)	479,317
Operating Income (Loss)	3,296	1,113	4,431	205,732	(1,926)	(23,572)	180,234
Equity in Earnings of Associated Companies	2,389	121	412	72,508	42	(260)	72,290
Net Income	2,894	3,612	12,365	259,146	3,514	(10,739)	251,921
Total Assets at September 30, 2007	631,575	202,799	390,362	9,475,523	2,789,912	(2,234,600)	10,030,835

Six-month period ended September 30, 2006 (from April 1, 2006 to September 30, 2006) (As restated)

(Millions of Yen)

	Iron & Steel Products	Mineral & Metal Resources	Machinery & Infrastructure Projects	Chemical	Energy	Foods & Retail	Consumer Service & IT	Logistics & Financial Markets
Total Trading Transactions	676,584	704,162	1,029,226	1,153,972	1,180,574	941,603	725,425	90,191
Gross Profit	27,820	52,346	46,976	51,431	43,767	40,600	61,911	30,590
Operating Income (Loss)	12,256	42,240	7,161	16,934	25,725	7,145	6,961	12,841
Equity in Earnings of Associated Companies	1,443	31,596	13,056	2,576	18,008	1,512	3,464	900
Net Income (Loss)	9,442	60,208	18,012	10,405	29,739	(4,152)	3,281	6,370
Total Assets at September 30, 2006	610,718	805,647	1,458,086	917,917	1,483,584	723,136	801,978	774,065

	Americas	Europe, the Middle East and Africa	Asia Pacific	Total	All Other	Adjustments and Eliminations	Consolidated Total
Total Trading Transactions	591,791	234,369	289,400	7,617,297	3,879	(23,377)	7,597,799
Gross Profit	31,890	11,744	14,525	413,600	4,180	(9,875)	407,905
Operating Income (Loss)	11,738	1,579	4,449	149,029	(1,512)	(23,946)	123,571



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Equity in Earnings of Associated Companies	1,696	166	375	74,792	58	(338)	74,512
Net Income (Loss)	9,123	2,065	10,232	154,725	4,212	(4,482)	154,455
Total Assets at September 30, 2006	464,618	176,477	262,977	8,479,203	2,958,306	(2,059,905)	9,377,604

Notes:

1. The figures of Consolidated Total for the six-month period ended September 30, 2006 has been reclassified to conform to the change in current year presentation for discontinued operations in accordance with SFAS No. 144. The reclassification to income from discontinued operation net (after income tax effect) is included in Adjustments and Eliminations.
2. All Other includes business activities which primarily provide services, such as financing services and operations services to external customers and/or to the companies and associated companies. Total assets of All Other at September 30, 2007 and 2006 consisted primarily of cash and cash equivalents and time deposits related to financing activities, and assets of certain subsidiaries related to the above services.
3. Net loss of Adjustments and Eliminations includes income and expense items that are not allocated to specific reportable operating segments, such as certain expenses of the corporate departments, and eliminations of intersegment transactions.
4. Transfers between operating segments are made at cost plus a markup.
5. Operating Income (Loss) reflects the companies a) Gross Profit, b) Selling, general and administrative expenses, and c) Provision for doubtful receivables as presented in the Statements of Consolidated Income.
6. Based on the reorganization effective April 1, 2007, Iron & Steel Raw Materials and Non-Ferrous Metals which was formerly disclosed as a reportable segment changed its name to Mineral & Metal Resources and Coal and Nuclear Fuel businesses which were formerly included in Iron & Steel Raw Materials and Non-Ferrous Metals were transferred to Energy.

Further, Lifestyle, Consumer Service and Information, Electronics & Telecommunication changed its name of the reportable segment to Consumer Service & IT in relation to the change of the composition of the reportable segment. In addition, subsidiaries in Oceania region which were formerly included in Other Overseas Areas were transferred to Asia Pacific which was formerly disclosed as Asia and subsidiaries in the Middle East, Africa and Russia which were formerly included in Other Overseas Areas were transferred to Europe, the Middle East and Africa which was formerly disclosed as Europe.

The operating segment information for the six-month period ended September 30, 2006 has been restated to conform to the current period presentation.

**Net Income per Share**

(Unaudited)

The following is a reconciliation of basic net income per share to diluted net income per share for the six month periods ended September 30, 2007 and 2006:

Six month period ended September 30, 2007 (from April 1, 2007 to September 30, 2007)

	Net income (numerator) Millions of Yen	Shares (denominator) In Thousands	Per share amount Yen
<b>Basic Net Income per Share:</b>			
Net income available to common shareholders	251,921	1,796,071	140.26
<b>Effect of Dilutive Securities:</b>			
1.05% convertible bonds due 2009	100	28,131	
<b>Diluted Net Income per Share:</b>			
Net income available to common shareholders after effect of dilutive securities	252,021	1,824,202	138.15
Six month period ended September 30, 2006 (from April 1, 2006 to September 30, 2006)			

	Net income (numerator) Millions of Yen	Shares (denominator) In Thousands	Per share amount Yen
<b>Basic Net Income per Share:</b>			
Net income available to common shareholders	154,455	1,722,823	89.65
<b>Effect of Dilutive Securities:</b>			
1.05% convertible bonds due 2009	285	104,201	
<b>Diluted Net Income per Share:</b>			
Net income available to common shareholders after effect of dilutive securities	154,740	1,827,024	84.69

**Subsequent Events**

(Unaudited)

There are no material subsequent events to be disclosed.

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