Reed's Inc. Announces Third Quarter 2008 Financial Results

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Symbols: REED

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 Company Expects Full Year 2008 Sales to Increase Approximately 20%
  Company Expects 2008 Gross Profit to Increase 100% Year-over-Year
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LOS ANGELES, Nov. 11, 2008 (GLOBE NEWSWIRE) -- Reed's, Inc. (Nasdaq:REED), today announced its financial results for the three and nine months ended September 30, 2008.

Third Quarter 2008 Highlights:

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  * Net sales increased 9% to $4.2 million from $3.9 million in the
    same period last year
  * Gross profit increased 62% to $1.3 million from $0.8 million in the
    same period last year
  * Gross margin expanded 1010 basis points to 30.7% of net sales from
    20.6% of net sales in the third quarter of 2007
  * Operating expenses decreased to 32.5% of net sales from 59.8% of
    net sales in the third quarter of 2007
  * Company achieves a positive Adjusted EBITDA of $131,983
  * Net loss attributable to common stockholders decreased to $174,000
    compared to loss of $1,526,000 in the prior year period
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"We are extremely pleased with our third quarter results which demonstrate our revenue and margin enhancement efforts are producing the results we expected," commented Chris Reed, Founder and Chief Executive Officer. "During the third quarter of 2008, we delivered revenue growth of 9% compared to the third quarter of 2007 which included promotional sales not repeated in the third quarter of 2008, expanded gross margins by 48% and delivered profitable results on an Adjusted EBITDA basis (excluding non cash expense). We attribute our strong sales growth to the strength of the Reed's and Virgil's brands in our core natural foods channel, the initial success of our re-focused sales strategy in mainstream grocery store accounts and our ongoing product diversification initiatives. Despite the current economic slowdown, an emphasis on healthier lifestyles is driving demand for natural and organic products. SPINS, a leading information and service provider for the natural products industry, recently reported that in the twelve weeks ending October 4th, 2008, natural and organic product growth rates from Natural retailers were more than triple those of Conventional Food retailers. In addition, our sales force continues to make progress in expanding into mainstream grocery store accounts. We recently announced enhanced partnerships with several nationwide grocery stores including Earth Fare, Quality Food Centers, Yokes Fresh Markets and Rosauers Supermarkets. We also continue to expand our product portfolio with the recent introduction of Virgil's Real Cola and Reed's Natural Energy Elixir. We are especially excited to announce the launch of Reed's Natural Energy Elixir which will expand our reach into one of the fastest growing segments of the beverage market."

Mr. Reed continued, "In addition to driving top-line growth, we continue to implement methods to improve gross margins and operating efficiencies. As an example, in April of 2008 we raised prices of our Reed's Ginger Brews in order to be inline with competitor pricing in the natural foods category. We are better leveraging the use of promotional discounting, and subsequent to the end of the second quarter, we held the line on operating expense. In fact, operating expenses declined for the third consecutive quarter. As a result of these measures, we made a measureable improvement in our net loss -- approaching breakeven and achieving positive adjusted EBITDA. Subsequent to quarter end, we have renegotiated our agreement with our main co-packing facility. We estimate this will result in gross margin improvement of approximately 500 to 600 basis points and generate cost savings of approximately $1.0 million in 2009."

Mr. Reed concluded, "We look forward to building upon our positive year-to-date performance in the fourth quarter of 2008. We expect to realize additional gross margin improvement and operating expense efficiencies in the fourth quarter resulting in sequential improvement in our bottom line. Turning to 2009, we believe we are well positioned for profitable growth. Sales in 2009 will benefit from the organic growth of our 2008 product launches, many of which have been in the mainstream and natural foods markets for less than a year, and the expansion of Reed's presence within our newly enhanced supermarket partnerships. In addition, we have a number of exciting new product launches anticipated for 2009 that we expect will drive future revenue growth. Lastly, we will maintain our keen focus on improving gross margins, and holding the line on operating expenses."

Third Quarter 2008 Results

For the quarter ended September 30, 2008, net sales increased 9.0% to $4,233,186 from $3,881,328 for the prior year period. Sales growth was primarily driven by increases in the Company's Virgil's and Reed's Ginger Brews product lines. Growth within the Virgil's product line was primarily due to an increase in sales of Virgil's Root Beer, Virgil's Cream Soda and Black Cherry Cream Soda, the Virgil's 5 liter party keg, the introduction of Virgil's diet soda line and the launch of Virgil's Real Cola.

The increase in sales was also attributable to additional sales from newly introduced mainstream distributors and increased sales from existing natural food distributors and retailers.

Net sales for the three months ended September 30, 2007 included $251,401 in promotional sales to Costco which did not occur in the three months ended September 30, 2008. The Company does not consider promotional sales to Costco part of its core business growth. Excluding these sales, the Company's third quarter sales would have increased 16.6%.

Gross profit for the quarter ended September 30, 2008, increased 62.3% to $1,295,499, or 30.7% of sales, from $798,273, or 20.6% of sales for the prior year period. The Company's gross margin in the third quarter of 2008 benefitted from pricing increases of the Company's Reed's Ginger Brew line by approximately 20%, inline with competitors in natural soda category, and better management of the use of promotional discounting by the sales force. Subsequent to quarter end, the Company renegotiated its production costs from its largest co-packer which is expected to improve gross margins by 5 - 6% in 2009.

Operating expenses for the third quarter of 2008 decreased by 40.5% to $1,377,456, or 32.5% of net sales, from $2,318,723, or 59.8% of net sales, in the third quarter of 2007. The decrease in operating expenses was primarily due to decreased selling expense related to a reduction in the Company's sales force from 33 to 17 people and a decrease in general and administrative expense resulting from a decrease in legal, accounting and investor relations expense. Operating expenses have declined for the third consecutive quarter. The Company expects to stabilize its operating expenses at this level for the next few quarters and increase in 2009 in later quarters due to increased gross profits expected in 2009.

For the quarter ended September 30, 2008, interest expense was $92,201 compared to interest expense of $51,407 in the three months ended September 30, 2007. Interest expense increased due to increased borrowing on the Company's $3.0 million credit facility with First Capital.

The net loss attributable to common stockholders for the quarter ended September 30, 2008, improved to $174,158 from a net loss attributable to common stockholders of $1,525,959 for the quarter ended September 30, 2007. The net loss per share attributable to common stockholders -- basic and fully diluted was $0.02 for the quarter ended September 30, 2008 and $0.18 for the quarter ended September 30, 2007.