Regeneca, Inc.
Form 10-Q
December 20, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

X . **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

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

For the transition period from _____ to _____

Commission File Number 000-30237

REGENECA, INC.

(Exact name of issuer as specified in its charter)

Nevada	**88-0467241**
(State of incorporation)	(I.R.S. Employer Identification No.)

1 Technology, Suite C515

Irvine, CA 92618

(Address of principal executive offices)

(800) 690-6958

(Registrant's telephone number, including area code)

with a copy to:

Christopher A. Wilson, Esq.

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Irvine, CA 92618

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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 X .

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). .

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.

Large accelerated filer	.	Accelerated filer	.
Non-accelerated filer	. (Do not check if a smaller reporting company)	Smaller reporting company	X .

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

As of March 31, 2011, (the last day of the fiscal quarter to which this report relates), there were 843,858,592 common shares of the registrant s $.0001 par value common stock issued and outstanding, and as of December 20, 2011 (the latest practical date) there were 875,999,590 common shares outstanding.

REGENECA, INC.

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Special Note Regarding Forward-Looking Statements

Information included in this Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). This information may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Regeneca, Inc. (the Company), to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words may, will, should, expect, anticipate, estimate, beli or project or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that these projections included in these forward-looking statements will come to pass. Actual results of the Company could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, the Company has no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future

PART I - FINANCIAL INFORMATION

ITEM 1.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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REGENECA, INC.

Condensed Consolidated Balance Sheets

		March 31, 2011 (unaudited)		December 31, 2010
ASSETS				
Current assets				
Cash	$	591,776	$	216,476
Accounts receivable		86,074		1,982
Inventory		375,279		129,541
Prepaid license fee		102,638		102,638
Other current assets		269,946		8,027
Total current assets		**1,425,713**		**458,664**
Prepaid license fee long-term		70,909		96,568
Furniture and equipment, net				6,302
Other long-term assets		187,500		
Total assets	$	**1,684,122**	$	**561,534**
LIABILITIES AND STOCKHOLDERS DEFICIT				
Current liabilities				
Accounts payable	$	285,067	$	208,902
Accrued liabilities		711,401		26,498
Convertible notes payable, net of discounts		493,083		204,717
Derivative liabilities		1,259,058		108,576
Advances payable to related parties		174,412		180,555
Total current liabilities		**2,923,021**		**729,248**
Commitments and contingencies (note 8)				
Stockholders deficit:				
Common stock, $0.0001 par value; 1,000,000,000 shares authorized, 843,858,592 and 824,444,037 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively		84,386		82,444
Additional paid-in capital		3,655,625		3,172,151
Accumulated deficit		(4,978,910)		(3,422,309)
Total stockholders deficit		**(1,238,899)**		**(167,714)**

Total liabilities and stockholders equity		$	**1,684,122**	$	**561,534**

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

REGENECA, INC.

Condensed Consolidated Statements of Operations

(unaudited)

	For the three months ended	
	March 31, 2011	**March 31, 2010**
Revenue	$ 786,905	$ 4,708
Cost of sales	180,748	595
Gross profit	**606,157**	**4,113**
Operating expenses		
Depreciation and amortization expenses	26,450	26,298
Selling, general and administrative expenses	1,789,079	96,362
Total operating expenses	**1,815,529**	**122,660**
Loss from operations	**(1,209,372)**	**(118,547)**
Other expenses		
Change in fair value of derivative liabilities	244,950	
Loss on disposal of assets	5,511	
Interest	96,768	413
	347,229	413
Net loss before income taxes	**(1,556,601)**	**(118,960)**
Income taxes		
Net loss	$ **(1,556,601)**	$ **(118,960)**
Basic and diluted loss per common share:		
Basic and diluted	$ (0.00)	$ (0.00)
Weighted average common shares outstanding- basic and diluted	837,962,671	152,905,060

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

REGENECA, INC.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	For the three months ended	
	March 31, 2011	**March 31, 2010**
Cash flows from operating activities		
Net loss	$ (1,556,601)	$ (118,960)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	63,950	26,298
Change in estimated fair value of derivative liabilities	244,950	
Amortization of debt discount	71,399	
Loss on disposal of asset	5,511	
Fair value of stock issued for services	-	32,458
Stock based compensation	35,415	
Changes in operating assets and liabilities:		
Accounts receivable	(84,092)	(3,381)
Inventories	(245,738)	(139,580)
Other current assets	(36,919)	29,959
Accounts payable	76,165	50,089
Accrued liabilities	684,903	39,942
Advances payable to related parties	(6,143)	84,755
Net cash (used in) provided by operating activities	**(747,200)**	**1,580**
Cash flows from investing activities		
Purchases of furniture and equipment		(1,999)
Net cash used in investing activities		**(1,999)**
Cash flows from financing activities		
Proceeds from issuance of convertible debentures	1,122,500	
Net proceeds from sale of common stock for cash		3,550
Net cash provided by financing activities	**1,122,500**	**3,550**
Net increase in cash	**375,300**	**3,131**
Cash beginning of period	**216,476**	**2,672**
Cash end of period	$ **591,776**	$ **5,803**
Supplemental disclosure of cash flow information		
Interest paid during the period	$ 238	$ 413
Issuance of common stock in connection with consulting agreement	$ 450,000	$ -

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

REGENECA, INC.

Notes to Consolidated Financial Statements

(unaudited)

March 31, 2011

1.

Organization and Business

Regeneca International, Inc. was formed on January 9, 2009 in Nevada to create and commercialize a family of natural and organic compound infused products designed to help improve health. The Company currently conducts operations primarily in the United States using a Direct Response Network Marketing business model. The Company s primary products are RegenErect, an all-natural male enhancement product, and RegeneSlim, a natural appetite suppressant. Sales are made to the consumer through the Company s website and by independent representatives.

On December 31, 2010, Regeneca International, Inc. merged into a wholly-owned subsidiary of the Company (the Merger), and in which the Company issued to the former stockholders of Regeneca International, Inc. 420,466,494 shares of its common stock such that, immediately after the Merger, Regeneca International, Inc. s former stockholders owned approximately 51% of the combined post-Merger entity. The Company subsequently changed its name to Regeneca, Inc. The Merger was accounted for as a capital reorganization or a public shell reverse merger, and, as such, the consolidated financial statements reported herein reflect the operations of Regeneca, Inc. within the new capital structure of the Company.

Going Concern

The financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company s assets and the satisfaction of its liabilities in the normal course of business. Since inception, the Company has been engaged in obtaining financing, recruiting personnel, establishing office facilities and developing its sales and marketing strategy.

The Company does not have sufficient cash on hand to fund its administrative and other operating expenses or its proposed sales and marketing programs for the next twelve months. In 2011 through the date of this report, the Company issued $2,992,500 in convertible notes payable and issued common stock for $150,000 in cash to fund operations. The Company s ability to become a profitable operating company is dependent upon obtaining financing

adequate to fulfill its market introduction activities, and achieving a level of revenues adequate to support the Company s cost structure. Management intends to finance the Company s operations from loans and advances from current stockholders, future public and private debt and equity offerings and proceeds from product sales. However, there can be no assurance that additional capital will be available, which may affect the Company s ability to continue as a going concern. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

Risks and Uncertainties

The Company s research and development activities and the manufacturing and marketing of the Company s products may be subject to the laws, regulations and guidelines, and, in some cases, regulatory approvals, of governmental authorities in the United States and other countries in which the Company s products are or will be marketed. Specifically, in the United States, the Food and Drug Administration (the FDA) regulates, among other areas, new drug and cosmetic product approvals, over the counter drugs and clinical trials of new products and services to establish the proper labeling, safety and efficacy of these products and services and the accuracy of certain marketing claims.

On May 27, 2011, the Company received a warning letter from the FDA dated May 25, 2011 (the Warning Letter). The Warning Letter asserts that the FDA tested lots of the Company s dietary supplement, RegenErect , and concluded that it contained a pharmaceutical ingredient and is, therefore, subject to regulation as a new prescription drug, requiring FDA approval before introduction and delivery. FDA lab analysis has confirmed the presence of Sulfoaildenafil, an analogue of Sildenafil, making these products unapproved new drugs. Sildenafil is an FDA-approved drug used as treatment for male Erectile Dysfunction (ED). The active drug ingredient is not listed on the label for these products.

According to the FDA, use of these products may pose a threat to consumers because the analogue may interact with nitrates found in some prescription drugs (such as nitroglycerin) and may lower blood pressure to dangerous levels. FDA has advised that consumers with diabetes, high blood pressure, high cholesterol, or heart disease often take nitrates. FDA has advised that ED is a common problem in men with these conditions, and consumers may seek these types of products to enhance sexual performance.

The FDA also asserts that, because it is a new prescription drug, RegenErect is misbranded as a dietary supplement, and that the advertising and promotional claims of the Company exceed the claims permitted for dietary supplements. The Warning Letter required the Company to respond within 15 days, disclosing the specific steps taken to correct the alleged violations. The Company responded to the Warning Letter and also undertook a voluntary national recall of certain lots of the Company s RegenErect product.

If unresolved, the claims in the Warning Letter would have a substantial impact on the Company s ability to market and sell RegenErect and would materially affect the business, operations and financial condition of the Company. However, the Company believes that it can adequately address all of the FDA s concerns without a material impact on the Company s business. Nonetheless, the Company cannot give any assurance that the FDA will be satisfied with the Company s response or remedial plan and cannot estimate the date on which these concerns will be resolved, if ever.

2.

Summary of Significant Accounting Policies

a)

Basis of Presentation and Principles of Consolidation

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

b)

Interim Financial Statements

These interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with the instructions of the Securities and Exchange Commission (SEC) for Form 10-Q. They do not include all of the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the Company s audited financial statements and notes thereto for the year ended December 31, 2010 filed with the SEC on Form 10-K. The condensed consolidated balance sheet as of December 31, 2010 has been derived from the audited consolidated financial statements contained in the annual report on Form 10-K for the year ended December 31, 2010.

The condensed consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly the Company s financial position, and the results of its operations and cash flows. The results of operations for the period ended March 31, 2011 are not necessarily indicative of the results to be expected for future quarters or the full year.

c)

Use of Estimates

The preparation of these unaudited condensed consolidated financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to valuation allowances on accounts receivable and inventory, valuation and amortization policies on property and equipment, and valuation allowances on deferred income tax losses. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

d)

Cash Equivalents

The Company considers all highly liquid short-term investments with maturities of less than three months when acquired to be cash equivalents. The Company had no cash equivalents at March 31, 2011 and December 31, 2010.

e)

Concentration of Credit Risk and Off-Balance Sheet Risk

The Company has no material concentrations of credit risk, nor is it a party to any financial instruments with material off-balance sheet risk. Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and accounts receivable. The Company places its cash with major financial institutions.

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Reserves for uncollectible amounts are provided, based on past experience and a specific analysis of the accounts. Management determined there was no such allowance necessary at March 31, 2011.

f)

Inventory

At March 31, 2011 and December 31, 2010, inventory consisted of finished goods and is stated at the lower of cost or market. Cost is based on the first in, first out method. The Company regularly reviews inventory quantities on hand and, when required, provisions are made to reduce excess and obsolete inventories to their estimated net realizable value. No such provision was recorded in the three months ended March 31, 2011 or 2010.

g)

Revenue Recognition and Accounts Receivable

Sales primarily represent sales generated to consumers and independent representatives less any discounts and other deductions. The Company recognizes revenue upon delivery, when both title and the risks and rewards of ownership pass to the independent representatives. More specifically, the Company recognizes revenues when all of the following conditions exist: a) persuasive evidence of an arrangement exists in the form of an accepted purchase order; b) delivery has occurred, based on shipping terms, or services have been rendered; c) the Company s price to the buyer is fixed or determinable, as documented on the accepted purchase order; and d) collectibility is reasonably assured. The Company provides for an estimated allowance for sales returns based on historical product return experience.

Other revenue represents shipping and handling fees billed to consumers and independent representatives.

h)

Stock-based Compensation

The Company records stock-based compensation in accordance with ASC 718, Share-Based Payments, using the fair value method. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments

issued.

i)

Derivative Instruments

The Company evaluates free-standing derivative instruments (or embedded derivatives) to properly classify such instruments within equity or liabilities in our consolidated financial statements.

The classification of a derivative instrument is reassessed at each reporting date. If the classification changes as a result of events during a reporting period, the instrument is reclassified as of the date of the event that caused the reclassification. There is no limit on the number of times a contract may be reclassified.

Instruments classified as derivative liabilities are remeasured each reporting period (or upon classification) and the change in fair value is recorded on our consolidated statement of operations in other (income) expense.

j)

Beneficial Conversion Feature of Convertible Notes Payable

The convertible feature of certain notes payable provides for a rate of conversion that is below market value. Such feature is normally characterized as a "Beneficial Conversion Feature" ("BCF"). We measure the estimated fair value of the BCF in circumstances in which the conversion feature is not required to be separated from the host instrument and accounted for separately, and record that value in the consolidated financial statements as a discount from the face amount of the notes. Such discounts are amortized to interest expense over the term of the notes.

k)

Basic and Diluted Loss Per Common Share

Basic loss per common share is calculated by dividing the net loss by the weighted-average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted net loss per common share is computed by dividing the net loss by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method if their effect is dilutive. For all periods presented, the effects of all stock-based awards were anti-dilutive due to the net loss incurred and therefore, they were not included in the

computation of per share amounts. At March 31, 2011 and December 31, 2010, there were 30,000,000 options to acquire shares of common stock outstanding.

3.

License Agreement

In December 2009, the Company entered into a license agreement with Vivakor, Inc. (Vivakor), a publicly traded company and related party by way of common executive officers, whereby the Company has been granted exclusive worldwide distribution rights to Vivakor s VivaBoost nutraceutical beverage in the direct-to-consumer market. The Company has agreed to purchase $5,000,000 in product over the initial thirty-six month term and, in the event specified purchase milestones are not met during the initial thirty-six month term, Vivakor has the option to modify or terminate the agreement upon 60 days notice. Upon execution of the license agreement, the Company issued to Vivakor 22,734,236 of its common shares, which were valued at $307,915 based on the current stock price of $0.05 per share and were recorded as a prepaid license fee. The prepaid license fee is being expensed on a straight-line basis over the initial thirty-six month term of the license agreement. For the three months ended March 31, 2011 and 2010, the Company recognized amortization expense of $25,660, which decreased the carrying value of the license to a net total of $173,547 ($102,638 short-term and $70,909 long-term) at March 31, 2011.

4.

Other Assets

In February 2011, the Company entered into a two-year agreement with Goal Capital for investor relations consulting services. In connection with the agreement, ten million shares of the Company s common stock were issued to Goal Capital. The shares were valued at a total of $450,000 based on the current stock price of $0.045 per share, which was recorded as a prepaid asset. In the three months ended March 31, 2011, $37,500 was recorded as compensation expense, which decreased the carrying value of the prepaid asset to $412,500 ($225,000 short-term and $187,500 long-term).

5.

Convertible Notes Payable

In the three months ended March 31, 2011, the Company issued $1,122,500 of convertible promissory notes. Under the terms of the note agreements, each note is due interest at 12% per annum, secured by the Company s assets, due in two years from the date of issuance. The notes, along with any accrued interest, shall be convertible into common shares of the Company at the option of the note holder at the lesser of 1) $0.025 per share or 2) 90% of such common stock s fair market value. The notes contain "anti-dilution" protection, such that if the Company issues and sells common stock, or securities convertible into or exercisable for common stock of the Company, at a price per share that is less than the applicable Conversion Price, then the Conversion Price is adjusted downward to match such lower issuance price. On these notes, a debt discount was recorded of approximately $905,500 related to management s

determination that under ASC 815, the anti-dilution features of the notes resulted in a derivative liability. Using a binomial lattice valuation model, management determined that the derivative fair value was $905,500 upon issuance of such notes. Accordingly, management recorded a liability of $905,500 and a debt discount of equal amount.

Significant assumptions used in such valuation include:

	Three months ended
	March 31, 2011
Expected life	2 years
Estimated volatility	38.5%
Risk-free interest rate	0.54% 0.81%
Expected dividends	None

In the three months ended March 31, 2011, the Company recognized interest expense of $71,399 related to such notes. The balance of convertible notes payable is shown net of unamortized discounts in the accompanying condensed consolidated balance sheets.

Below is a table summarizing the Company s balances as of March 31, 2011 related to its convertible notes payable:

	Issue Date	Face Amount	Unamortized Discount	Net Amount	Fair Value of Convertible Option Derivative Value
1)	12/20/2010	$120,000	$47,496	$72,504	$105,538
2)	12/29/2010	130,000	52,111	77,889	115,887
3)	12/31/2010	100,000	27,388	72,612	89,401
4)	1/12/2011	100,000	54,425	45,575	76,285
5)	1/24/2011	175,000	149,382	25,618	139,918
6)	1/28/2011	100,000	62,464	37,536	80,953
7)	2/9/2011	75,000	53,863	21,137	62,684
8)	2/23/2011	375,000	304,409	70,591	323,140
9)	3/9/2011	72,500	49,196	23,304	64,115
10)	3/11/2011	25,000	19,896	5,104	22,184
11)	3/16/2011	200,000	158,787	41,213	178,953
		$1,472,500	$979,417	$493,083	$1,259,058

For the three months ended March 31, 2011, the change in the estimated fair value of derivative liability resulted in an expense of $244,950 and is included in other expense in the condensed consolidated statements of operations.

6.

Advances Payable to Related Parties

Advances payable to related parties are noninterest bearing and represent cash advances directly to the Company as well as Company expenditures that were paid for directly by the related parties on behalf of the Company for which the related parties have not been reimbursed. These advances are unsecured and came from directors and officers of the Company.

7.

Stock Incentive Plan

On December 31, 2010, the Company adopted the 2010 Stock Incentive Plan, pursuant to which the Company is authorized to issue up to 20% of its outstanding shares of common stock to its employees, executives and consultants. On December 31, 2010, the Company issued certain employees, executives, and consultants 30,000,000 options to purchase Company common stock at $0.025 per share, with vesting ranging from 2 years to 3 years. At March 31, 2011, there were 212,000,000 shares available for future grants under the plan.

The Company recorded compensation costs related to options granted under the 2010 Incentive Plan of $35,415 during the three months ended March 31, 2011 and total unrecognized compensation costs related to nonvested options as of March 31, 2011 amounted to approximately $334,585 and, assuming the grantees continue to be employed by or remain as directors of the Company, that amount will be recognized as compensation expense as follows:

Years ending December 31,	
2011 (remainder of year)	$