

REEDS INC
Form POS AM
July 28, 2008

As filed with the Securities and Exchange Commission on July 25, 2008
Registration No. 333-146012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

POST EFFECTIVE AMENDMENT NO. 1 TO
FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Reed's, Inc.

(Name of small business issuer in its charter)

Delaware	2086	35-2177773
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

**13000 South Spring Street
Los Angeles, California 90061
(310) 217-9400**

(Address and telephone number of principal executive offices and principal place of business)

**Christopher J. Reed
Chief Executive Officer
13000 South Spring Street
Los Angeles, California 90061
(310) 217-9400**

(Name, address and telephone number of agent for service)

With copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective Registration Statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

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 12b2 of the Exchange Act.

- | | |
|--|---|
| <input type="checkbox"/> Large accelerated filer | Accelerated filer <input type="checkbox"/> |
| <input type="checkbox"/> Non-accelerated filer (Do not check if a smaller reporting company) | Smaller reporting company <input checked="" type="checkbox"/> |

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

2,414,995 Shares

REED'S, INC.

Common Stock

We are registering 2,414,995 shares of our common stock for sale by our stockholders from time to time, including 1,500,000 of our outstanding shares of common stock and 914,995 shares of our common stock issuable upon the exercise of outstanding common stock purchase warrants.

The selling stockholders identified in this prospectus, or their pledgees, donees, transferees or other successors-in-interest, may offer the shares from time to time through public or private transactions at prevailing market prices, at prices related to prevailing market prices or at privately negotiated prices. We will not receive any proceeds from the sale of the shares. The prices at which such selling stockholders may sell shares will be determined by the prevailing market price for the shares or in negotiated transactions. The selling stockholders may resell the common stock to or through underwriters, broker-dealers, or agents, who may receive compensation in the form of discounts, concessions, or commissions. The selling stockholders will bear all commissions and discounts, if any, attributable to the sales of shares. We will bear all costs, expenses, and fees in connection with the registration of the shares.

Investing in our common stock involves a high degree of risk. See “Risk Factors” beginning on page 5 for certain risks and uncertainties that you should consider.

Our common stock is quoted on the NASDAQ Capital Market under the symbol “REED.” The last reported sale price of our common stock on July 21, 2008 was \$2.20 per share.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Our principal executive offices are located at 13000 South Spring Street, Los Angeles, California 90061. Our telephone number is 310-217-9400.

The date of this prospectus is July 25, 2008

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate only as of the date of the front cover regardless of the time of delivery of this prospectus or of any sale of shares. Except where the context requires otherwise, in this prospectus, the "Company," "Reed's," "we," "us" and "our" refer to Reed's Inc., a Delaware corporation.

SUMMARY

This summary highlights selected information from this prospectus. It does not contain all of the information that is important to you. We encourage you to carefully read this entire prospectus and the documents to which we refer you. The following summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this registration statement.

Our Company

We develop, manufacture, market and sell natural non-alcoholic and “New Age” beverages, candies and ice creams. “New Age Beverages” is a category that includes natural soda, fruit juices and fruit drinks, ready-to-drink teas, sports drinks and water. We currently offer 18 beverages, three candies and three ice creams. We sell most of our products in specialty gourmet and natural food stores, supermarket chains, retail stores and restaurants in the United States and, to a lesser degree, in Canada.

We primarily sell our products through a network of natural, gourmet and independent distributors. We also maintain an organization of in-house sales managers who work mainly in the stores serviced by our natural, gourmet and mainstream distributors and with our distributors. We also work with regional, independent sales representatives who maintain store and distributor relationships in a specified territory. In Southern California, we have our own direct distribution system.

Our current business strategy is to maintain our marketing focus in the natural food marketplace while expanding sales of our products in mainstream markets and distribution channels.

We produce certain of our soda products for the western half of the United States at an 18,000 square foot warehouse facility owned by us in an unincorporated area of Los Angeles County near downtown Los Angeles, known as The Brewery.

We also contract with The Lion Brewery, Inc., a packing, or co-pack, facility in Pennsylvania, to supply us with soda products for the eastern half of the United States and nationally for soda products that we do not produce at The Brewery. Our Ginger Juice Brews are co-packed for us at a facility in Northern California. Our ice creams are co-packed for us at a dairy in upstate New York. We pack our candy products at the Brewery.

We have not been profitable during our last two fiscal years and there is no assurance that we will develop profitable operations in the future. Our net loss for the years ended December 31, 2007 and 2006 was \$5,551,229 and \$2,213,609, respectively. Our net loss for the three months ended March 31, 2008 and 2007 was \$1,990,069 and \$487,946, respectively. We cannot assure you that we will have profitable operations in the future.

Our principal executive offices are located at 13000 South Spring Street, Los Angeles, California 90061. Our telephone number is 310-217-9400. Our Internet address is www.reedsgingerbrew.com. Information contained on our website or that is accessible through our website should not be considered to be part of this prospectus.

The Offering

Securities offered by the selling stockholders	2,414,995 shares of common stock ¹
Common stock outstanding as of the date of this prospectus	8,926,596 shares
Use of Proceeds	We will not receive any of the proceeds from the sale of the securities owned by the selling stockholders. We may receive proceeds in connection with the exercise of warrants for the underlying shares of our common stock, which may in turn be sold by the selling stockholders under this prospectus. We intend to use any proceeds from the exercise of warrants for working capital and other general corporate purposes. There is no assurance that any of the warrants will ever be exercised for cash, if at all.
Risk Factors	An investment in our securities involves a high degree of risk and could result in a loss of your entire investment. Prior to making an investment decision, you should carefully consider all of the information in this prospectus and, in particular, you should evaluate the risk factors set forth under the caption "Risk Factors" beginning on page 5.
NASDAQ Capital Market Symbol	REED

(1) Consists of 1,500,000 issued and outstanding shares of our common stock and 914,995 shares of our common stock issuable upon the exercise of our outstanding common stock purchase warrants.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. The forward-looking statements are contained principally in, but not limited to, the sections entitled "Risk Factors," "Management's Discussion and Analysis or Plan of Operation" and "Business." Forward-looking statements provide our current expectations or forecasts of future events. Forward-looking statements include statements about our expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not historical facts. Words or phrases such as "anticipate," "believe," "continue," "ongoing," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project" or similar words or phrases, or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Our actual results could differ materially from those anticipated in forward-looking statements for many reasons, including the factors described in the section entitled “Risk Factors” in this prospectus. Accordingly, you should not unduly rely on these forward-looking statements, which speak only as of the date of this prospectus.

Unless required by law, we undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this prospectus or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in the reports we will file from time to time with the Securities and Exchange Commission (the “SEC”) after the date of this prospectus.

Management cautions that these statements are qualified by their terms and/or important factors, many of which are outside of our control, and involve a number of risks, uncertainties and other factors that could cause actual results and events to differ materially from the statements made, including, but not limited to, the following:

- Our ability to generate sufficient cash flow to support capital expansion plans and general operating activities,
 - Decreased demand for our products resulting from changes in consumer preferences,
- Competitive products and pricing pressures and our ability to gain or maintain our share of sales in the marketplace,
 - The introduction of new products,
- Our being subject to a broad range of evolving federal, state and local laws and regulations including those regarding the labeling and safety of food products, establishing ingredient designations and standards of identity for certain foods, environmental protections, as well as worker health and safety. Changes in these laws and regulations could have a material effect on the way in which we produce and market our products and could result in increased costs,
- Changes in the cost and availability of raw materials and the ability to maintain our supply arrangements and relationships and procure timely and/or adequate production of all or any of our products,
 - Our ability to penetrate new markets and maintain or expand existing markets,
 - Maintaining existing relationships and expanding the distributor network of our products,
- The marketing efforts of distributors of our products, most of whom also distribute products that are competitive with our products,
- Decisions by distributors, grocery chains, specialty chain stores, club stores and other customers to discontinue carrying all or any of our products that they are carrying at any time,
 - The availability and cost of capital to finance our working capital needs and growth plans,
 - The effectiveness of our advertising, marketing and promotional programs,

- Changes in product category consumption,
- Economic and political changes,
- Consumer acceptance of new products, including taste test comparisons,
- Possible recalls of our products, and
- Our ability to make suitable arrangements for the co-packing of any of our products.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements.

RISK FACTORS

An investment in our common stock is very risky. Our financial condition is unsound. You should not invest in our common stock unless you can afford to lose your entire investment. You should carefully consider the risk factors described below, together with all other information in this prospectus, before making an investment decision. If an active market is ever established for our common stock, the trading price of our common stock could decline due to any of these risks, and you could lose all or part of your investment. You also should refer to the other information set forth in this prospectus, including our financial statements and the related notes.

Risks Relating to Our Business

We have a history of operating losses. If we continue to incur operating losses, we eventually may have insufficient working capital to maintain or expand operations according to our business plan.

As of March 31, 2008, we had an accumulated deficit of \$13,071,210. For the years ended December 31, 2007 and 2006, we incurred losses from operations of \$5,488,889 and \$1,806,590, respectively. We also incurred losses from operations of \$1,934,461 during the three months ended March 31, 2008. We may not generate sufficient revenues from product sales in the future to achieve profitable operations. If we are not able to achieve profitable operations at some point in the future, we eventually may have insufficient working capital to maintain our operations as we presently intend to conduct them or to fund our expansion and marketing and product development plans. In addition, our losses may increase in the future as we expand our manufacturing capabilities and fund our marketing plans and product development. These losses, among other things, have had and will continue to have an adverse effect on our working capital, total assets and stockholders' equity. If we are unable to achieve profitability, the market value of our common stock will decline and there would be a material adverse effect on our financial condition.

If we need to raise additional financing to support our operations, we cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or if they are not available on acceptable terms, our ability to fund the growth of our operations, take advantage of opportunities, develop products or services or otherwise respond to competitive pressures, could be significantly limited.

We may not be able to develop successful new beverage products which are important to our growth.

An important part of our strategy is to increase our sales through the development of new beverage products. We cannot assure you that we will be able to continue to develop, market and distribute future beverage products that will enjoy market acceptance. The failure to continue to develop new beverage products that gain market acceptance could have an adverse impact on our growth and materially adversely affect our financial condition. We may have higher obsolescent product expense if new products fail to perform as expected due to the need to write off excess inventory of the new products.

Our results of operations may be impacted in various ways by the introduction of new products, even if they are successful, including the following:

- Sales of new products could adversely impact sales of existing products,
- We may incur higher cost of goods sold and selling, general and administrative expenses in the periods when we introduce new products due to increased costs associated with the introduction and marketing of new products, most of which are expensed as incurred, and
- When we introduce new platforms and bottle sizes, we may experience increased freight and logistics costs as our co-packers adjust their facilities for the new products.

The beverage business is highly competitive.

The premium beverage and carbonated soft drink industries are highly competitive. Many of our competitors have substantially greater financial, marketing, personnel and other resources than we do. Competitors in the soft drink industry include bottlers and distributors of nationally advertised and marketed products, as well as chain store and private label soft drinks. The principal methods of competition include brand recognition, price and price promotion, retail space management, service to the retail trade, new product introductions, packaging changes, distribution methods, and advertising. We also compete for distributors, shelf space and customers primarily with other premium beverage companies. As additional competitors enter the field, our market share may fail to increase or may decrease.

The growth of our revenues is dependent on acceptance of our products by mainstream consumers.

We have dedicated significant resources to introduce our products to the mainstream consumer. As such, we have increased our sales force and executed agreements with distributors who, in turn, distribute to mainstream consumers at grocery stores, club stores and other retailers. If our products are not accepted by the mainstream consumer, our business could suffer.

Our failure to accurately estimate demand for our products could adversely affect our business and financial results.

We may not correctly estimate demand for our products. Our ability to estimate demand for our products is imprecise, particularly with new products, and may be less precise during periods of rapid growth, particularly in new markets. If we materially underestimate demand for our products or are unable to secure sufficient ingredients or raw materials including, but not limited to, glass, labels, flavors or packing arrangements, we might not be able to satisfy demand on a short-term basis. Moreover, industry-wide shortages of certain juice concentrates and sweeteners have been and could, from time to time in the future, be experienced, which could interfere with and/or delay production of certain of our products and could have a material adverse effect on our business and financial results. We do not use hedging agreements or alternative instruments to manage this risk.

The loss of our largest customers would substantially reduce revenues.

Our customers are material to our success. If we are unable to maintain good relationships with our existing customers, our business could suffer. Unilateral decisions could be taken by our distributors, and/or convenience chains, grocery chains, specialty chain stores, club stores and other customers to discontinue carrying all or any of our products that they are carrying at any time, which could cause our business to suffer.

United Natural Foods, the parent of certain of our retailers, accounted for approximately 35% and 39% of our sales in each of 2007 and 2006. Trader Joe's accounted for approximately 14% of our 2007 sales and approximately 17% of our sales in 2006. The loss of United Natural Foods or Trader Joe's as a retailer would substantially reduce our revenues unless and until we replaced that source of revenue.

The loss of our third-party distributors could impair our operations and substantially reduce our financial results.

We depend in large part on distributors to distribute our beverages and other products. Most of our outside distributors are not bound by written agreements with us and may discontinue their relationship with us on short notice. Most distributors handle a number of competitive products. In addition, our products are a small part of our distributors' businesses.

We continually seek to expand distribution of our products by entering into distribution arrangements with regional bottlers or other direct store delivery distributors having established sales, marketing and distribution organizations. Many of our distributors are affiliated with and manufacture and/or distribute other soda and non-carbonated brands and other beverage products. In many cases, such products compete directly with our products.

The marketing efforts of our distributors are important for our success. If our brands prove to be less attractive to our existing distributors and/or if we fail to attract additional distributors, and/or our distributors do not market and promote our products above the products of our competitors, our business, financial condition and results of operations could be adversely affected.

United Natural Foods, Inc. accounted for approximately 35% and 39% of our sales in 2007 and 2006. Management believes it could find alternative distribution channels in the event of the loss of this distributor. Such a loss may adversely affect sales in the short term.

The loss of our third-party beverage distributors could impair our operations and adversely affect our financial performance.

Price fluctuations in, and unavailability of, raw materials and packaging that we use could adversely affect us.

We do not enter into hedging arrangements for raw materials. Although the prices of raw materials that we use have not increased significantly in recent years, our results of operations would be adversely affected if the price of these raw materials were to rise and we were unable to pass these costs on to our customers.

We depend upon an uninterrupted supply of the ingredients for our products, a significant portion of which we obtain overseas, principally from China and Brazil. We obtain almost all of our crystallized ginger from Fiji and our Ginger Chews from Indonesia. Any decrease in the supply of these ingredients or increase in the prices of these ingredients as a result of any adverse weather conditions, pests, crop disease, interruptions of shipment or political considerations, among other reasons, could substantially increase our costs and adversely affect our financial performance.

We also depend upon an uninterrupted supply of packaging materials, such as glass for our bottles and kegs for our 5 liter party kegs. We obtain our bottles domestically and our kegs from Europe. Any decrease in supply of these materials or increase in the prices of the materials, as a result of decreased supply or increased demand, could substantially increase our costs and adversely affect our financial performance.

The loss of any of our co-packers could impair our operations and substantially reduce our financial results.

We rely on third parties, called co-packers in our industry, to produce some of our beverages, to produce our glass bottles and to bottle some of our beverages. Our co-packing arrangements with our main co-packer are under a contract that expires on May 31, 2009 and renews automatically for successive two-year terms unless terminated by either party. Our co-packing arrangements with other companies are on a short term basis and such co-packers may discontinue their relationship with us on short notice. While this arrangement permits us to avoid significant capital expenditures, it exposes us to various risks, including:

- Our largest co-packer, Lion Brewery, accounted for approximately 82% and 72% of our total case production in 2007 and 2006, respectively,
- if any of those co-packers were to terminate our co-packing arrangement or have difficulties in producing beverages for us, our ability to produce our beverages would be adversely affected until we were able to make alternative arrangements, and
- Our business reputation would be adversely affected if any of the co-packers were to produce inferior quality products.

We compete in an industry that is brand-conscious, so brand name recognition and acceptance of our products are critical to our success.

Our business is substantially dependent upon awareness and market acceptance of our products and brands by our targeted consumers. In addition, our business depends on acceptance by our independent distributors of our brands as beverage brands that have the potential to provide incremental sales growth rather than reduce distributors' existing beverage sales. Although we believe that we have been relatively successful towards establishing our brands as recognizable brands in the New Age beverage industry, it may be too early in the product life cycle of these brands to determine whether our products and brands will achieve and maintain satisfactory levels of acceptance by independent distributors and retail consumers. We believe that the success of our product name brands will also be substantially dependent upon acceptance of our product name brands. Accordingly, any failure of our brands to maintain or increase acceptance or market penetration would likely have a material adverse affect on our revenues and financial results.

We compete in an industry characterized by rapid changes in consumer preferences and public perception, so our ability to continue to market our existing products and develop new products to satisfy our consumers' changing preferences will determine our long-term success.

Consumers are seeking greater variety in their beverages. Our future success will depend, in part, upon our continued ability to develop and introduce different and innovative beverages. In order to retain and expand our market share, we must continue to develop and introduce different and innovative beverages and be competitive in the areas of quality and health, although there can be no assurance of our ability to do so. There is no assurance that consumers will continue to purchase our products in the future. Additionally, many of our products are considered premium products and to maintain market share during recessionary periods, we may have to reduce profit margins, which would adversely affect our results of operations. In addition, there is increasing awareness and concern for the health consequences of obesity. This may reduce demand for our non-diet beverages, which could affect our profitability. Product lifecycles for some beverage brands and/or products and/or packages may be limited to a few years before consumers' preferences change. The beverages we currently market are in varying stages of their lifecycles and there can be no assurance that such beverages will become or remain profitable for us. The beverage industry is subject to changing consumer preferences and shifts in consumer preferences may adversely affect us if we misjudge such preferences. We may be unable to achieve volume growth through product and packaging initiatives. We also may be unable to penetrate new markets. If our revenues decline, our business, financial condition and results of operations will be materially and adversely affected.

Our quarterly operating results may fluctuate significantly because of the seasonality of our business.

Our highest revenues occur during the spring and summer, the second and third quarters of each fiscal year. These seasonality issues may cause our financial performance to fluctuate. In addition, beverage sales can be adversely affected by sustained periods of bad weather.

Our business is subject to many regulations and noncompliance is costly.

The production, marketing and sale of our unique beverages, including contents, labels, caps and containers, are subject to the rules and regulations of various federal, provincial, state and local health agencies. If a regulatory authority finds that a current or future product or production run is not in compliance with any of these regulations, we may be fined, or production may be stopped, thus adversely affecting our financial conditions and operations. Similarly, any adverse publicity associated with any noncompliance may damage our reputation and our ability to successfully market our products. Furthermore, the rules and regulations are subject to change from time to time and while we closely monitor developments in this area, we have no way of anticipating whether changes in these rules and regulations will impact our business adversely. Additional or revised regulatory requirements, whether labeling, environmental, tax or otherwise, could have a material adverse effect on our financial condition and results of operations.

Rising fuel and freight costs may have an adverse impact on our sales and earnings.

The recent volatility in the global oil markets has resulted in rising fuel and freight prices, which many shipping companies are passing on to their customers. Our shipping costs, and particularly our fuel expenses, have been increasing and we expect these costs may continue to increase. Due to the price sensitivity of our products, we do not anticipate that we will be able to pass all of these increased costs on to our customers. The increase in fuel and freight costs could have a material adverse impact on our financial condition.

Our manufacturing process is not patented.

None of the manufacturing processes used in producing our products are subject to a patent or similar intellectual property protection. Our only protection against a third party using our recipes and processes is confidentiality agreements with the companies that produce our beverages and with our employees who have knowledge of such processes. If our competitors develop substantially equivalent proprietary information or otherwise obtain access to our knowledge, we will have greater difficulty in competing with them for business, and our market share could decline.

We face risks associated with product liability claims and product recalls.

Other companies in the beverage industry have experienced product liability litigation and product recalls arising primarily from defectively manufactured products or packaging. We maintain product liability insurance insuring our operations from any claims associated with product liability and we believe that the amount of this insurance is sufficient to protect us. We do not maintain product recall insurance. In the event we were to experience additional product liability or product recall claim, our business operations and financial condition could be materially and adversely affected.

Our intellectual property rights are critical to our success, the loss of such rights could materially, adversely affect our business.

We regard the protection of our trademarks, trade dress and trade secrets as critical to our future success. We have registered our trademarks in the United States that are very important to our business. We also own the copyright in and to portions of the content on the packaging of our products. We regard our trademarks, copyrights and similar intellectual property as critical to our success and attempt to protect such property with registered and common law trademarks and copyrights, restrictions on disclosure and other actions to prevent infringement. Product packages, mechanical designs and artwork are important to our success and we would take action to protect against imitation of our packaging and trade dress and to protect our trademarks and copyrights, as necessary. We also rely on a combination of laws and contractual restrictions, such as confidentiality agreements, to establish and protect our proprietary rights, trade dress and trade secrets. However, laws and contractual restrictions may not be sufficient to protect the exclusivity of our intellectual property rights, trade dress or trade secrets. Furthermore, enforcing our rights to our intellectual property could involve the expenditure of significant management and financial resources. There can be no assurance that other third parties will not infringe or misappropriate our trademarks and similar proprietary rights. If we lose some or all of our intellectual property rights, our business may be materially and adversely affected.

If we are not able to retain the full time services of our management team, including Christopher J. Reed, it will be more difficult for us to manage our operations and our operating performance could suffer.

Our business is dependent, to a large extent, upon the services of our management team, including Christopher J. Reed, our founder, President, Chief Executive Officer, acting Chief Financial Officer and Chairman of the Board. We depend on our management team, but especially on Mr. Reed's creativity and leadership in running or supervising virtually all aspects of our day-to-day operations. We do not have a written employment agreement with any member of our management team or Mr. Reed. In addition, we do not maintain key person life insurance on any of our management team or Mr. Reed. Therefore, in the event of the loss or unavailability of any member of the management team to us, there can be no assurance that we would be able to locate in a timely manner or employ qualified personnel to replace him. The loss of the services of any member of our management team or our failure to attract and retain other key personnel over time would jeopardize our ability to execute our business plan and could have a material adverse effect on our business, results of operations and financial condition.

We need to manage our growth and implement and maintain procedures and controls during a time of rapid expansion in our business.

The cost of manufacturing and packaging our products was approximately 84% and 80% of our aggregate revenues in 2007 and 2006, respectively. This gross margin places pressure upon our cash flow and cash reserves when our sales increase. If we are to expand our operations, such expansion would place a significant strain on our management, operational and financial resources. Such expansion would also require improvements in our operational, accounting and information systems, procedures and controls. If we fail to manage this anticipated expansion properly, it could divert our limited management, cash, personnel, and other resources from other responsibilities and could adversely affect our financial performance.

Our business may be negatively impacted by a slowing economy or by unfavorable economic conditions or developments in the United States and/or in other countries in which we operate.

A general slowdown in the economy in the United States or unfavorable economic conditions or other developments may result in decreased consumer demand, business disruption, supply constraints, foreign currency devaluation, inflation or deflation. A slowdown in the economy or unstable economic conditions in the United States or in the countries in which we operate could have an adverse impact on our business results or financial condition. Our foreign sales (except for Canada) accounted for less than 1.0% of our sales for the years ended December 31, 2007 and 2006, respectively.

We have operated without independent directors in the past.

We have not had two independent directors through a large portion of our history. As a result, certain material agreements between related parties have not been negotiated with the oversight of independent directors and were entered into at the absolute discretion of the majority stockholder, Christopher J. Reed. Please see the "Certain Relationships and Related Transactions" section for specific details of these transactions.

Risks Relating to Our Securities

We recently conducted a rescission offer for shares issued in our initial public offering. Although we have completed the rescission offer, we may continue to be subject to claims related to the circumstances related to the rescission offer.

From August 3, 2005 through April 7, 2006, we issued 333,156 shares of our common stock in connection with our initial public offering. The shares issued in connection with the initial public offering may have been issued in violation of either federal or state securities laws, or both, and may be subject to rescission. In order to address this issue, we made a rescission offer to the holders of these shares.

Our rescission covered an aggregate of 333,156 shares of common stock issued in connection with our initial public offering. These securities represented all of the shares issued in connection with the initial public offering prior to October 11, 2006. We offered to rescind the shares of our common stock that were subject to the rescission offer for an amount equal to the price paid for the shares plus interest, calculated from the date of the purchase through the date on which the rescission offer expires, at the applicable statutory interest rate per year. If our rescission offer had been accepted by all offerees, we would have been required to make an aggregate payment to the holders of these shares of up to approximately \$1,332,624, plus statutory interest.

On August 12, 2006, we made a rescission offer to all holders of the outstanding shares that we believe are subject to rescission, pursuant to which we offered to repurchase these shares then outstanding from the holders. At the expiration of our rescission offer on September 18, 2006, the rescission offer was accepted by 32 of the offerees to the extent of 28,420 shares for an aggregate of \$118,711.57, including statutory interest. The shares that were tendered for rescission were agreed to be purchased by others and not from our funds.

Federal securities laws do not provide that a rescission offer will terminate a purchaser's right to rescind a sale of stock that was not registered as required or was not otherwise exempt from such registration requirements. Accordingly, although the rescission offer may have been accepted or rejected by some of the offerees, we may continue to be liable under federal and state securities laws for up to an amount equal to the value of all shares of common stock issued in connection with the initial public offering, plus any statutory interest we may be required to pay. If it is determined that we offered securities without properly registering them under federal or state law, or securing an exemption from registration, regulators could impose monetary fines or other sanctions as provided under these laws.

There has been a very limited public trading market for our securities and the market for our securities, may continue to be limited, and be sporadic and highly volatile.

There is currently a limited public market for our common stock. Our common stock was previously listed for trading on the OTC Bulletin Board (the "OTCBB") from January 3, 2007 to November 26, 2007. Since November 27, 2007, our common stock has been listed for trading on the NASDAQ Capital Market. We cannot assure you that an active market for our shares will be established or maintained in the future. Holders of our common stock may, therefore, have difficulty selling their shares, should they decide to do so. In addition, there can be no assurances that such markets will continue or that any shares, which may be purchased, may be sold without incurring a loss. Any such market price of our shares may not necessarily bear any relationship to our book value, assets, past operating results, financial condition or any other established criteria of value, and may not be indicative of the market price for the shares in the future.

In addition, the market price of our common stock may be volatile, which could cause the value of our common stock to decline. Securities markets experience significant price and volume fluctuations. This market volatility, as well as general economic conditions, could cause the market price of our common stock to fluctuate substantially. Many factors that are beyond our control may significantly affect the market price of our shares. These factors include:

- price and volume fluctuations in the stock markets,
- changes in our earnings or variations in operating results,
- any shortfall in revenue or increase in losses from levels expected by securities analysts,
- changes in regulatory policies or law,
- operating performance of companies comparable to us, and
- general economic trends and other external factors.

Even if an active market for our common stock is established, stockholders may have to sell their shares at prices substantially lower than the price they paid for it or might otherwise receive than if a broad public market existed.

Future financings could adversely affect common stock ownership interest and rights in comparison with those of other security holders.

Our board of directors has the power to issue additional shares of common or preferred stock without stockholder approval. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our existing stockholders will be reduced, and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders.

If we issue any additional common stock or securities convertible into common stock, such issuance will reduce the proportionate ownership and voting power of each other stockholder. In addition, such stock issuances might result in a reduction of the book value of our common stock.

Because Christopher J. Reed controls a large portion of our stock, he can control the outcome, or greatly influence the outcome, of all matters on which stockholders vote.

Christopher J. Reed, our President, Chief Executive Officer, acting Chief Financial Officer, and Chairman of the Board owns approximately 36% of our common stock. Therefore, Mr. Reed will be able to control the outcome, or greatly influence the outcome, on all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation, and any merger, consolidation or sale of all or substantially all of our assets or other transactions resulting in a change of control of our company. In addition, as our Chairman and Chief Executive Officer, Mr. Reed has and will continue to have significant influence over our strategy, technology and other matters. Mr. Reed's interests may not always coincide with the interests of other holders of our common stock.

A substantial number of our shares are available for sale in the public market and sales of those shares could adversely affect our stock price.

Sales of a substantial number of shares of common stock into the public market, or the perception that such sales could occur, could substantially reduce our stock price in the public market for our common stock, and could impair our ability to obtain capital through a subsequent financing of our securities. We have 8,926,596 shares of common stock outstanding as of July 23, 2008. Of the shares of our common stock currently outstanding, 5,628,282 shares are "restricted securities" under the Securities Act. Some of these "restricted securities" will be subject to restrictions on the timing, manner, and volume of sales of such shares.

In addition, we have issued and outstanding options and warrants that may be exercised into 2,706,569 shares of common stock and 47,121 shares of Series A preferred stock that may be converted into 188,484 shares of common stock. In addition, our outstanding shares of Series A preferred stock bear a dividend of 5% per year, or approximately \$24,000 per year. We have the option to pay the dividend in shares of our common stock. In 2007 and 2006, we paid the dividend in an aggregate of 3,820 and 7,373 shares of common stock in each such year, respectively, and anticipate that we will be obligated to issue at least this many shares annually to the holders of the Series A preferred stock so long as such shares are issued and outstanding.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report of such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal controls over financial reporting. This requirement applies to us beginning with our annual report on Form 10-KSB for the year ended December 31, 2007. In addition, in the future, an independent registered public accounting firm will be required to attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. Our management may conclude that our internal controls over our financial reporting are not effective. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may still decline to attest to our management's assessment or may issue a report that is qualified if it is not satisfied with our controls or the level at which our controls are documented, designed, operated, or reviewed, or if it interprets the relevant requirements differently from us. Our reporting obligations as a public company will place a significant strain on our management, operational, and financial resources and systems for the foreseeable future. Effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our stock. Furthermore, we anticipate that we will incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the issued and outstanding shares of our common stock or the shares issuable upon the exercise of our outstanding common stock purchase warrants by the selling stockholders pursuant to this prospectus. We may receive proceeds from the issuance of shares of our common stock upon the exercise of common stock purchase warrants. These warrants are exercisable at a weighted average exercise price of \$7.34 per share. We intend to use any proceeds from the exercise of warrants for working capital and other general corporate purposes. These warrants are not being offered under this prospectus; however, the shares of our common stock, issuable upon exercise of these warrants, are being offered under this prospectus by the selling stockholders.

There is no assurance that any of the warrants will ever be exercised for cash, if at all. If all of these outstanding warrants are exercised for cash, we would receive aggregate gross proceeds of approximately \$6,713,963.

SELLING STOCKHOLDERS

Pursuant to various registration rights agreements with the selling stockholders, we have agreed to file with the SEC a registration statement pursuant to the Securities Act covering the resale of our registrable securities owned by such selling stockholders that are subject to the registration rights agreements. Accordingly, we have filed a registration statement on Form S-1 of which this prospectus forms a part, with respect to the resale of these securities from time to time. In addition, we agreed in the registration rights agreements with the investors to register securities of ours they hold and to use our best efforts to keep the registration statement effective until the securities they own covered by this prospectus have been sold or may be sold without registration or prospectus delivery requirements under the Securities Act, subject to certain restrictions.

Selling Stockholders Table

We have filed a registration statement with the SEC, of which this prospectus forms a part, with respect to the resale of our securities covered by this prospectus from time to time under Rule 415 of the Securities Act. Our securities being offered by this prospectus are being registered to permit secondary public trading of our securities. Subject to the restrictions described in this prospectus, the selling stockholders may offer our securities covered under this prospectus for resale from time to time. In addition, subject to the restrictions described in this prospectus, the selling stockholders may sell, transfer or otherwise dispose of all or a portion of our securities being offered under this prospectus in transactions exempt from the registration requirements of the Securities Act. See “Plan of Distribution.”

The table below presents information, as of the date of this prospectus, regarding the selling stockholders and the securities that the selling stockholders (and their pledgees, assignees, transferees and other successors in interest) may offer and sell from time to time under this prospectus. More specifically, the following table sets forth as to the selling stockholders:

- the number of shares of our common stock that the selling stockholders beneficially owned prior to the offering for resale of any of the shares of our common stock being registered by the registration statement of which this prospectus is a part;
- the number of shares of our common stock that may be offered for resale for the selling stockholders’ account under this prospectus; and
- the number and percent of shares of our common stock to be held by the selling stockholders after the offering of the resale securities, assuming all of the resale securities are sold by the selling stockholders and that the selling stockholders do not acquire any other shares of our common stock prior to their assumed sale of all of the resale shares.

The table is prepared based on information supplied to us by the selling stockholders. We do not know when or in what amounts a selling stockholder may offer shares for sale. Although we have assumed for purposes of the table below that the selling stockholders will sell all of the securities offered by this prospectus, because the selling stockholders may offer from time to time all or some of its securities covered under this prospectus, or in another permitted manner, no assurances can be given as to the actual number of securities that will be resold by the selling stockholders or that will be held by the selling stockholders after completion of the resales. The selling stockholders might not sell any or all of the shares offered by this prospectus. In addition, the selling stockholders may have sold, transferred or otherwise disposed of the securities in transactions exempt from the registration requirements of the Securities Act since the date the selling stockholders provided the information regarding their securities holdings. However, for purposes of this table, we have assumed that, after completion of the offering, none of the shares covered by the prospectus will be held by the selling stockholders. Information covering the selling stockholders may change from time to time and changed information will be presented in a post-effective amendment to this registration statement if and when necessary and required. Except as described above, based on information provided to us by the selling stockholders and to our knowledge, there are currently no agreements, arrangements or understandings with respect to the resale of any of the securities covered by this prospectus.

Where applicable, we have indicated in the footnotes to the following table the name and title of the individuals which we have been advised have the power to vote or dispose of the securities listed in the following table.

Name of Selling Security Holder	Shares Beneficially Owned Before Offering ⁽¹⁾		Number of Shares Being Offered ⁽²⁾	Shares Beneficially Owned After Offering ⁽¹⁾	
	Number	Percent		Number	Percent
Advantus Capital LP ⁽³⁾	60,000	*	60,000	0	0
Airport Inn of Las Vegas, Inc. ⁽⁴⁾	75,000	*	75,000	0	0
Eugene Arrington	2,499	*	2,499	0	0
Bruce F. Bailey	2,499	*	2,499	0	0
Tom Bover	18,156	*	18,156	0	0
Philip L. & Shearon L. Breazeale	24,999	*	24,999	0	0
Dr. Edwin R. Buster, III	15,000	*	15,000	0	0
Chang-Fa J. Cheng	12,000	*	12,000	0	0
Fang-Chin Chiang	3,750	*	3,750	0	0
Russell E. Davis	3,000	*	3,000	0	0
Elias Family Charitable Trust ⁽⁵⁾	35,500	(4)	30,000	5,500	(4)
Alma and Gabriel Elias JTWROS ⁽⁵⁾	533,528	(4)	472,585	60,943	(4)
James E. and Jennifer M. Fair Living Trust ⁽⁶⁾	19,999	*	19,999	0	0
Daniel W. Fort	15,000	*	15,000	0	0
George L. Fotiades	12,499	*	12,499	0	0
Theza & Robert Friedman	12,499	*	12,499	0	0
Joseph M. Graham, Jr.	12,525	*	12,525	0	0
Great Gable Master Fund, Ltd. ⁽⁷⁾	381,402	4.3	375,000	6,402	*
Darcy & Edward H. Han	15,000	*	15,000	0	0
Henderson Family Trust ⁽⁸⁾	51,000	*	51,000	0	0
John Reginald Hill	12,499	*	12,499	0	0
Hudson Bay Fund LP ⁽⁹⁾	19,350	*	19,350	0	0
Hudson Bay Overseas Fund Ltd. ⁽⁹⁾	25,650	*	25,650	0	0
Julian Phillip Kemble	2,499	*	2,499	0	0
Richard Krahn	30,000	*	30,000	0	0
Hui Lin	7,500	*	7,500	0	0
Jared Lundgren	7,500	*	7,500	0	0
James V. McKeon	15,000	*	15,000	0	0
D. Herman Mobley	4,500	*	4,500	0	0
Nite Capital Master, Ltd. ⁽¹⁰⁾	105,000	1.2	105,000	0	0
Charles Frank Nosal	7,500	*	7,500	0	0
Stanley Petsagourakis	60,000	*	60,000	0	0
Carol Quelland Trust ⁽¹¹⁾	15,000	*	15,000	0	0
Anthony James Percy Reynolds	2,494	*	2,494	0	0
Michael Rogers	4,500	*	4,500	0	0
Carl Barth Rountree	75,000	*	75,000	0	0
David H. Sanders Revocable Trust ⁽¹²⁾	49,999	*	49,999	0	0
Gerald C. Sloat	11,500	*	10,500	1,000	*
Donald W. Smith	12,499	*	12,499	0	0
Leroy Stevens	18,750	*	18,750	0	0

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Robert Strougo	4,999	*	4,999	0	0
William J. Summers, Jr.	7,500	*	7,500	0	0
Steve Talley	15,000	*	15,000	0	0
John Tandana	3,750	*	3,750	0	0
Tres Girls Limited Partnership ⁽¹³⁾	50,001	*	50,001	0	0
Bradley Van Hull	35,000	*	30,000	5,000	*
Thomas Vermillion	2,499	*	2,499	0	0
Doug Waggoner	12,499	*	12,499	0	0
Shi-Kuen Wang	7,500	*	7,500	0	0
Thomas D. & Noranna B. Warner	15,000	*	15,000	0	0
John Way	2,499	*	2,499	0	0
Wholesale Realtors Supply ⁽⁵⁾	749,696	(4)	369,999	379,697	(4)
The Wondra/Klimen-Wondra Trust ⁽¹⁴⁾	2,499	*	2,499	0	0
Ming-Chen Wu	7,500	*	7,500	0	0
APS Financial Corporation ⁽¹⁵⁾	36,069	*	36,069	0	0
Aegis Capital Corp. ⁽¹⁶⁾	8,000	*	8,000	0	0
Peter Aman ⁽³⁾	31,403	*	31,403	0	0
Neil B. Michaelsen	18,035	*	18,035	0	0
US EURO Securities, Inc. ⁽¹⁷⁾	7,000	*	7,000	0	0
Westrock Advisors, Inc. ⁽¹⁸⁾	64,493	*	64,493	0	0

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the SEC. Shares of common stock subject to options or warrants currently exercisable or exercisable within 60 days of the date of this prospectus, are deemed outstanding for computing the percentage ownership of the stockholder holding the options or warrants, but are not deemed outstanding for computing the percentage ownership of any other stockholder. Unless otherwise indicated in the footnotes to this table, we believe stockholders named in the table have sole voting and sole investment power with respect to the shares set forth opposite such stockholder's name. Unless otherwise indicated, the officers, directors and stockholders can be reached at our principal offices. Percentage of ownership is based on approximately 8,926,596 shares of common stock outstanding as of the date of this prospectus.

(2) The shares of common stock being offered by certain of the selling stockholders include: (A) the number of shares underlying warrants which have an exercise price of \$7.50 per share, and are fully vested and may be exercised any time through June 15, 2012, as follows: Advantus Capital LP (60,000 shares), Airport Inn of Las Vegas, Inc. (25,000 shares), Eugene Arrington (833 shares), Bruce F. Bailey (833 shares), Tom Bover (6,052 shares), Philip L. & Shearon L. Breazeale (8,333 shares), Dr. Edwin R. Buster, III (5,000 shares), Chang-Fa J. Cheng (4,000 shares), Fang-Chin Chiang (1,250 shares), Russell E. Davis (1,000 shares), Elias Family Charitable Trust (10,000 shares), Alma and Gabriel Elias JTWROS (157,528 shares), James E. & Jennifer M. Fair Living Trust (6,666 shares), Daniel W. Fort (5,000 shares), George L. Fotiades (4,166 shares), Theza & Robert Friedman (4,166 shares), Joseph M. Graham, Jr. (4,175 shares), Great Gable Master Fund, Ltd. (125,000 shares), Darcy & Edward H. Han (5,000 shares), Henderson Family Trust (17,000 shares), John Reginald Hill (4,166 shares), Hudson Bay Fund LP (6,450 shares), Hudson Bay Overseas Fund Ltd. (8,550 shares), Julian Phillip Kemble (833 shares), Richard Krahn (10,000 shares), Hui Lin (2,500 shares), Jared Lundgren (2,500 shares), James V. McKeon (5,000 shares), D. Herman Mobley (1,500 shares), Nite Capital Master, Ltd. (35,000 shares), Charles Frank Nosal (2,500 shares), Stanley Petsagourakis (20,000 shares), Carol Quelland Trust (5,000 shares), Anthony James Percy Reynolds (831 shares), Michael Rogers (1,500 shares), Carl Barth Rountree (25,000 shares), David H. Sanders Revocable Trust (16,666 shares), Gerald C. Sloat (3,500 shares), Donald W. Smith (4,166 shares), Leroy Stevens (6,250 shares),

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Robert Strougo (1,666 shares), William J. Summers, Jr. (2,500 shares), Steve Talley (5,000 shares), John Tandana (1,250 shares), Tres Girls Limited Partnership (16,667 shares), Bradley Van Hull (10,000 shares), Thomas Vermillion (833 shares), Doug Waggoner (4,166 shares), Shi-Kuen Wang (2,500 shares), Thomas D. & Noranna B. Warner (5,000 shares), John Way (833 shares), Wholesale Realtors Supply (83,333 shares), The Wondra/Klimen-Wondra Trust (833 shares) and Ming-Chen Wu (2,500 shares); and (B) the number of shares underlying warrants which have an exercise price of \$6.60 per share, and are fully vested and may be exercised any time through June 15, 2012, as follows: APS Financial Corporation (36,069 shares), Aegis Capital Corp. (8,000 shares), Peter Aman (31,403 shares), Neil B. Michaelsen (18,035 shares), US EURO Securities, Inc. (7,000 shares) and Westrock Advisors, Inc. (64,493 shares).

- (3) Advantus Capital LP and Peter Aman may be deemed to be affiliates of each other for purposes of calculating beneficial ownership of their securities in this table. The aggregate beneficial ownership of such stockholders may be deemed to include warrants to purchase up to 91,403 shares of common stock, or 1.01% of the outstanding shares before the offering. Peter Aman directly or indirectly alone or with others has power to dispose of the shares that Advantus Capital LP owns.
- (4) Dario Pini directly or indirectly alone or with others has power to dispose of the shares that this selling stockholder owns.
- (5) Elias Family Charitable Trust, Alma and Gabriel Elias JTWROS and Wholesale Realtors Supply may be deemed to be affiliates of each other for purposes of calculating beneficial ownership of their securities in this table. The aggregate beneficial ownership of such stockholders may be deemed to include 1,067,863 shares of common stock and warrants to purchase up to 250,861 shares of common stock, or 14.37% of the outstanding shares before the offering, and 5.00% of the outstanding shares after the offering (assuming the sale of all of the shares held by such persons which are registered hereby). The aggregate number of shares which may be deemed to be beneficially owned by such stockholders and which are registered hereby includes 621,723 shares of common stock and warrants to purchase up to 250,861 shares of common stock. Gabriel Ellis directly or indirectly alone or with others has power to dispose of the shares that each of Elias Family Charitable Trust and Wholesale Realtors Supply owns.
- (6) James E. Fair directly or indirectly alone or with others has power to dispose of the shares that this selling stockholder owns.
- (7) Kevin Goldstein directly or indirectly alone or with others has power to dispose of the shares that this selling stockholder owns.
- (8) James Henderson directly or indirectly alone or with others has power to dispose of the shares that this selling stockholder owns.
- (9) Hudson Bay Fund LP and Hudson Bay Overseas Fund Ltd. may be deemed to be affiliates of each other for purposes of calculating beneficial ownership of their securities in this table. The aggregate beneficial ownership of such stockholders may be deemed to include 30,000 shares of common stock and warrants to purchase up to 15,000 shares of common stock. Each of Yoav Roth and George Antonopoulos directly or indirectly alone or with others has shared power to dispose of the shares that each of these selling stockholders owns.

- (10) Keith Goodman directly or indirectly alone or with others has power to dispose of the shares that this selling stockholder owns.
- (11) Shaaron Cissel directly or indirectly alone or with others has power to dispose of the shares that this selling stockholder owns.
- (12) David H. Sanders directly or indirectly alone or with others has power to dispose of the shares that this selling stockholder owns.
- (13) Richard Zitelman directly or indirectly alone or with others has power to dispose of the shares that this selling stockholder owns.
- (14) Ralph Wondra directly or indirectly alone or with others has power to dispose of the shares that this selling stockholder owns.
- (15) APS Financial Corporation is a wholly-owned subsidiary of American Physicians Service Group, Inc., a publicly traded corporation.
- (16) Robert Eide directly or indirectly alone or with others has power to dispose of the shares that this selling stockholder owns.
- (17) Michael Fugler directly or indirectly alone or with others has power to dispose of the shares that this selling stockholder owns.
- (18) Each of Greg Martino and Don Hunter directly or indirectly alone or with others has shared power to dispose of the shares that each of these selling stockholders owns.

PLAN OF DISTRIBUTION

The selling stockholders may, from time to time, sell any or all of their securities on any stock exchange, market or trading facility on which the shares are traded or in private transactions. There is a limited public trading market for our common stock. Our common stock is quoted under the symbol "REED" on the NASDAQ Capital Market.

The selling stockholders may use any one or more of the following methods when selling securities:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;

short sales;

broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved. Any profits on the resale of shares of common stock by a broker-dealer acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, attributable to the sale of shares will be borne by a selling stockholder. The selling stockholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares if liabilities are imposed on that person under the Securities Act.

The selling stockholders may from time to time pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time under this prospectus after we have filed a supplement to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act supplementing or amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus and may sell the shares of common stock from time to time under this prospectus after we have filed a supplement to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act supplementing or amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

The selling stockholders and any broker-dealers or agents that are involved in selling the shares of common stock may be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares of common stock purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

We are required to pay all fees and expenses incident to the registration of the shares of common stock. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

The selling stockholders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their shares of common stock, nor is there an underwriter or coordinating broker acting in connection with a proposed sale of shares of common stock by any selling stockholder. If we are notified by any selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of shares of common stock, if required, we will file a supplement to this prospectus. If the selling stockholders use this prospectus for any sale of the shares of common stock, they will be subject to the prospectus delivery requirements of the Securities Act.

Under applicable rules and regulations under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to our common stock for a period of two business days prior to the commencement of the distribution. In addition, the selling stockholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of our common stock by the selling stockholders or any other person. We will make copies of this prospectus available to the selling stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale.

Each of Advantus Capital LP, Hudson Bay Fund LP and Hudson Bay Overseas Fund Ltd., who were purchasers in connection with a private placement of our securities in May and June 2007, has represented to us that it is an affiliate of one or more registered broker-dealers. Each of such stockholders also has represented to us that it purchased the shares and the warrants relating to the shares registered hereunder in the ordinary course of business, and at the time of the purchase of such securities, each of such stockholders had no agreements or understandings, directly or indirectly, with any person to distribute such securities.

We had engaged APS Financial Corporation (“APS”) to act as our placement agent in connection with the May and June 2007 private placement. We agreed to issue to APS (and certain selected dealers which are NASD members), in connection with the private placement, a number of warrants to purchase one share of common stock for each 10 shares of common stock issued in connection with the private placement. Under this arrangement, we issued to APS and such selected dealers, which include Westrock Advisors, Inc. and US EURO Securities, Inc. (and certain of their assignees), warrants to purchase up to 165,000 shares of our common stock. The warrants are exercisable through July 15, 2012 at an exercise price of \$6.60 per share. Each of APS, Westrock Advisors, Inc. and US EURO Securities, Inc., and Aegis Capital Corp. and Neil Michaelsen (two of the assignees of APS), has identified itself or himself to us as a registered broker-dealer, and as a result, each is an underwriter within the meaning of Section 2(a)(11) of the Securities Act in connection with the sale of the shares registered hereunder underlying such warrants. US EURO Securities, Inc. also had acted as one of the co-underwriters of our initial public offering in 2006. In addition, Peter Aman, who is one of the assignees of the warrants issued by us to APS in connection with the private placement, has represented to us that he is an affiliate of one or more registered broker-dealers. Such assignee also has represented to us that he purchased the warrants relating to the shares registered hereunder in the ordinary course of business, and at the time of the purchase of such securities, such assignee had no agreements or understandings, directly or indirectly, with any person to distribute such securities.

MARKET OF COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our common stock has been listed for trading on the OTC Bulletin Board, under the symbol “REED.OB” since January 3, 2007. Since November 27, 2007, our common stock has been listed for trading on the NASDAQ Capital Market. Trading under the symbol “REED”. The following is a summary of the high and low bid prices of our common stock on the OTC Bulletin Board during the periods presented and the high and low sales prices of our common stock on the NASDAQ Capital Market for the periods presented. OTC Bulletin Board bid prices represent inter-dealer prices, without retail mark-up, mark down or commissions, and may not necessarily represent actual transactions:

	Bid Price (OTC Bulletin Board)	
	High	Low
Year Ending December 31, 2007		
First Quarter	7.17	3.00
Second Quarter	9.00	6.00
Third Quarter	10.55	6.75
Fourth Quarter	7.35	5.35

	Sales Price (NASDAQ Capital Market)	
	High	Low
Year Ending December 31, 2008		
First Quarter	6.24	1.50
Second Quarter	3.18	1.92

On July 21, 2008, the closing sales price for the common stock was \$2.20 on the NASDAQ Capital Market. As of the date of this prospectus, there were approximately 256 stockholders of record of the common stock (not including the number of persons or entities holding stock in nominee or street name through various brokerage firms) and approximately 8,926,596 outstanding shares of common stock.

DIVIDEND POLICY

We have never declared or paid dividends on our common stock. We currently intend to retain future earnings, if any, for use in our business, and, therefore, we do not anticipate declaring or paying any dividends in the foreseeable future. Payments of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including the terms of our credit facility and our financial condition, operating results, current and anticipated cash needs and plans for expansion.

We are obligated to pay a non-cumulative 5% dividend from lawfully available assets to the holders of our Series A preferred stock in either cash or additional shares of common stock at our discretion. In 2007 and 2006, we paid the dividend in an aggregate of 3,820 and 7,373 shares of common stock in each such year, respectively, and anticipate that we will be obligated to issue at least this many shares annually to the holders of the Series A preferred stock so long as such shares are issued and outstanding. See “Description of Our Securities - Preferred Stock.”

Equity Compensation Plan Information

The following table provides information, as of December 31, 2007, with respect to options outstanding and available under the 2001 Stock Option Plan and 2007 Stock Option Plan and certain other outstanding options:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in Column (a)) (c)
Equity compensation plans approved by security holders	676,500	\$ 6.32	1,323,500
Equity compensation plans not approved by security holders	1,740,736	\$ 5.64	Not applicable
TOTAL	2,417,236	\$ 5.83	1,323,500

2001 Stock Option Plan and 2007 Stock Option Plan

Pursuant to our 2001 Stock Option Plan, we are authorized to issue options to purchase up to 500,000 shares of common stock and under our 2007 Stock Option Plan, we are authorized to issue options to purchase up to 1,500,000 shares of common stock. As of the date of this prospectus, 1,038,333 options have been issued and remain outstanding under these plans, of which 298,333 options have vested. On August 28, 2001, our board of directors adopted the 2001 Stock Option Plan and the plan was approved by our stockholders. On October 8, 2007, our board of directors adopted the 2007 Stock Option Plan and the plan was approved by our stockholders on November 19, 2007.

The plans permit the grant of options to our employees, directors and consultants. The options may constitute either “incentive stock options” within the meaning of Section 422 of the Internal Revenue Code or “non-qualified stock options.” The primary difference between “incentive stock options” and “non-qualified stock options” is that once an option is exercised, the stock received under an “incentive stock option” has the potential of being taxed at the more favorable long-term capital gains rate, while stock received by exercising a “non-qualified stock option” is taxed according the ordinary income tax rate schedule.

The plans are currently administered by the board of directors. The plan administrator has full and final authority to select the individuals to receive options and to grant such options as well as a wide degree of flexibility in determining the terms and conditions of options, including vesting provisions.

The exercise price of an option granted under the plan cannot be less than 100% of the fair market value per share of common stock on the date of the grant of the option. The exercise price of an incentive stock option granted to a

person owning more than 10% of the total combined voting power of the common stock must be at least 110% of the fair market value per share of common stock on the date of the grant. Options may not be granted under the plan on or after the tenth anniversary of the adoption of the plan. Incentive stock options granted to a person owning more than 10% of the combined voting power of the Common Stock cannot be exercisable for more than five years.

When an option is exercised, the purchase price of the underlying stock will be paid in cash, except that the plan administrator may permit the exercise price to be paid in any combination of cash, shares of stock having a fair market value equal to the exercise price, or as otherwise determined by the plan administrator.

If an optionee ceases to be an employee, director, or consultant with us, other than by reason of death, disability, or retirement, all vested options must be exercised within three months following such event. However, if an optionee's employment or consulting relationship with us terminates for cause, or if a director of ours is removed for cause, all unexercised options will terminate immediately. If an optionee ceases to be an employee or director of, or a consultant to us, by reason of death, disability, or retirement, all vested options may be exercised within one year following such event or such shorter period as is otherwise provided in the related agreement.

When a stock award expires or is terminated before it is exercised, the shares set aside for that award are returned to the pool of shares available for future awards.

No option can be granted under the plan after ten years following the earlier of the date the plan was adopted by the Board of Directors or the date the plan was approved by our stockholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes appearing elsewhere in this prospectus. This discussion and analysis may contain forward-looking statements based on assumptions about our future business. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to those set forth under "Risk Factors" and elsewhere in this prospectus.

Overview

We develop, manufacture, market and sell natural non-alcoholic and "New Age" beverages, candies and ice creams. "New Age Beverages" is a category that includes natural soda, fruit juices and fruit drinks, ready-to-drink teas, sports drinks and water. We currently manufacture, market and sell five unique product lines:

Reed's Ginger Brews,

Virgil's Root Beer and Cream Sodas,

China Colas,

Reed's Ginger Candies, and

Reed's Ginger Ice Creams

We sell most of our products in specialty gourmet and natural food stores (estimated at 4,000 smaller or specialty stores and 3,000 supermarket format), supermarket chains (estimated at 7,500 stores), retail stores and restaurants in the United States and, to a lesser degree, in Canada, Europe and other international territories. We primarily sell our products through a network of natural, gourmet and independent distributors. We also maintain an organization of in-house sales managers who work mainly in the stores serviced by our natural, gourmet and mainstream distributors and with our distributors. We also work with regional, independent sales representatives who maintain store and distributor relationships in a specified territory. In Southern California, we have our own direct distribution system, but we have plans to direct these sales to distributors.

The following table shows a breakdown of net sales with respect to our distribution channels for the periods set forth in the table:

Direct sales to large retailer accounts	% of Total sales
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