

REEDS INC
Form POS AM
September 01, 2006
[Back to Table of Contents](#)

As filed with the Securities and Exchange Commission on September 1, 2006
Registration No. 333-120451

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

POST-EFFECTIVE AMENDMENT NO. 8 TO
FORM SB-2/A
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

REED'S, INC.

(Name of small business issuer in its charter)

Delaware
(State or jurisdiction of
incorporation or organization)

2086
(Primary Standard Industrial
Classification Code Number)

95-4348325
(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:

**Jeffrey P. Berg, Esq.
Kenneth M.H. Hoff, Esq.
Jenkins & Gilchrist, LLP
12100 Wilshire Boulevard
Suite 1500**

Los Angeles, California 90025-7120
(310) 820-8800

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. x

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. o

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. o

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. o

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

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.

Back to Table of Contents

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated September 1, 2006

2,000,000 Shares

REED'S, INC.

Common Stock

We develop, manufacture, market and sell natural non-alcoholic beverages, candies and ice creams.

We are offering up to 2,000,000 shares of our common stock. The public offering price is \$4.00 per share. This price has been arbitrarily set. The shares are being offered on a best efforts basis through US EURO Securities, Inc. and Brookstreet Securities Corporation, our underwriters (which are members of the National Association of Securities Dealers, Inc., or NASD).

There is no current public market for our shares and there is no assurance that a public market for our shares will ever develop. In the event a public market for our shares does not develop, purchasers in this offering may be unable to sell the shares for an extended period of time. We intend to apply for listing of our common stock on the Nasdaq Capital Market or the American Stock Exchange following the completion of this offering, if we are able to qualify for such markets, and if not, we anticipate that US EURO Securities, Inc. will apply for quotation of our common stock on the Over the Counter Bulletin Board, or the OTCBB. However, we cannot assure you when or if a market for our common stock will be established.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 4 to read about factors you should consider before buying shares of our common stock.

	Per Share		Total
Public offering price	\$	4.00	\$ 8,000,000
Underwriting discounts and commissions	\$	0.40	\$ 800,000
Proceeds, before expenses, to us	\$	3.60	\$ 7,200,000

There is no minimum number of shares we must sell in this offering. We have previously sold 333,156 shares of common stock in this offering, resulting in gross proceeds of \$1,332,624 to us. Offering proceeds will not be placed in escrow. Upon receipt, offering proceeds will be deposited into our operating account and used to conduct our business affairs. The offering will continue until either all of the shares have been sold or we terminate the offering, but in no event later than nine months after the date of this prospectus

We will not accept subscriptions to this offering from residents of Pennsylvania and Texas until at least 500,000 shares have been sold elsewhere; we will not accept subscriptions to this offering from residents of the District of Columbia until at least 200,000 shares have been sold elsewhere; and we will not accept subscriptions to this offering from residents of Arizona until 800,000 shares have been sold elsewhere.

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.

Brookstreet Securities Corporation has been the subject of disciplinary actions taken by the NASD. For more information regarding these actions, please contact the NASD at (800) 289-9999.

The shares of common stock will be ready for delivery to purchasers on or about _____, 2006.

US EURO Securities, Inc.

The date of this prospectus is _____, 2006

[Back to Table of Contents](#)

Back to Table of Contents

TABLE OF CONTENTS

	<u>Page</u>
<u>Summary</u>	1
<u>Risk Factors</u>	4
<u>Special Note Regarding Forward-Looking Statements</u>	13
<u>Estimated Use of Proceeds</u>	15
<u>Dividend Policy</u>	17
<u>Capitalization</u>	17
<u>Dilution</u>	18
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Business</u>	32
<u>Management</u>	46
<u>Certain Relationships and Related Transactions</u>	50
<u>Principal Stockholders</u>	52
<u>Description of Our Securities</u>	53
<u>Shares Eligible for Future Sale</u>	56
<u>Rescission Offer</u>	58
<u>Plan of Distribution</u>	59
<u>Legal Matters</u>	64
<u>Experts</u>	64
<u>Where You Can Find Additional Information</u>	64
<u>Index to Financial Statements</u>	F-1

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. We are offering to sell shares of our common stock only in jurisdictions where offers and sales are 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.

Back to Table of Contents

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 15 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 believe that the proceeds of this offering may accelerate the success of this business strategy by providing working capital to finance an expanded in-house sales and distribution network.

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, 2005 and 2004 was \$825,955 and \$479,371, respectively. Our net loss for the six months ended June 30, 2006 and 2005 was \$956,835 and \$295,202, 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

We are offering a maximum of 2,000,000 of our shares. We have previously sold 333,156 shares of common stock in this offering, resulting in gross proceeds of \$1,332,624 to us. In the event the maximum amount of this offering is

Edgar Filing: REEDS INC - Form POS AM

sold, then the shares sold will represent approximately 29% of the then outstanding common stock and Christopher Reed and his family members will own approximately ___% of our outstanding common stock.

This offering is a best efforts offering through our underwriters, US EURO Securities, Inc. and Brookstreet Securities Corporation and certain selected broker-dealers. There is no current market for our shares and there can be no assurance that a public market for our shares will ever develop. Further, there can be no assurance that in the event a public market for our shares were to develop that this market would be sustained over an extended period of

-1-

Back to Table of Contents

time or that it would be of sufficient trading volume to allow ready liquidity to all investors in our shares. We intend to apply for listing of our common stock on the Nasdaq Capital Market or the American Stock Exchange following the completion of this offering, if we are able to qualify for such markets, and if not, we anticipate that US EURO Securities, Inc. will apply for quotation of our common stock on the Over the Counter Bulletin Board, or the OTCBB. However, we cannot assure you when or if a market for our common stock will be established.

Common Stock	2,000,000 ⁽¹⁾ shares
Common Stock to be outstanding after the offering	7,002,326 ⁽²⁾ shares

(1) We have previously sold 333,156 shares of common stock in this offering, resulting in gross proceeds of \$1,332,624 to us, and the number of shares to be outstanding after this offering will include such shares.

(2) Assumes the sale of all 2,000,000 shares offered pursuant to this prospectus.

Use of Proceeds

We plan to use the net proceeds to hire additional sales representatives, launch new products, pay for retail slotting, expand our brand advertising, update our West Coast production facility, the Brewery, purchase fully-branded coolers, in-store displays, hire a chief operating officer and for working capital.

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 pursuant to a Registration Statement on Form SB-2. The shares we issued in connection with the initial public offering may not have been issued pursuant to an effective registration statement and may not have been exempt from the registration or qualification requirements under the Securities Act of 1933, as amended, or the Securities Act, and under those state securities laws that provide an exemption from such requirements. We became aware that the shares may not have been issued pursuant to an effective registration statement. Because the shares may not have been issued pursuant to an effective registration statement and there may not have been an available exemption from the registration requirements of the Securities Act or the registration or qualification requirements of the various states for such issuances, 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 prior to the effective date of this registration statement.

The rescission offer was accepted by _____ of the purchasers and _____ were repurchased for a gross amount of \$_____. This exposure amount was calculated by reference to the acquisition price of \$4.00 per share for the common stock in connection with the earlier offering, plus accrued interest at the applicable statutory rate. The shares that were tendered for rescission were purchased by others and not from our funds.

We had entered into agreements with Mark Reed and Robert T. Reed, Jr. (the “designated purchasers”) that they would irrevocably commit to purchase up to all of the shares in the rescission offer that are tendered to us for rescission. Each of the designated purchasers is a brother of Christopher J. Reed, our Chief Executive Officer, Chief Financial Officer and the Chairman of the Board of Directors. Robert T. Reed, Jr. also is our Vice President and National Sales Manager - Mainstream and a beneficial owner of approximately ___% of our common stock. We assigned to the designated purchasers the right to purchase any rescission shares at 100% of the amount required to pay the rescission price under applicable state law.

Federal securities laws do not provide that a rescission offer terminates 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. In connection with those offerees who rejected the rescission offer, 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 also understand that the Securities and Exchange Commission, or SEC, and certain state regulators, including California, have requested additional information regarding the rescission offer. If it is determined that we offered securities without properly registering them under

Back to Table of Contents

federal or state law, or securing an exemption from registration, regulators could impose monetary fines or other sanctions as provided under these laws. We believe our anticipated rescission offer could provide us with additional meritorious defenses against any future claims relating to these shares.

Summary Financial Data

The following historical financial information should be read in conjunction with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes included elsewhere in this prospectus. The historical results are not necessarily indicative of results to be expected for any future periods:

Balance Sheet Data:	June 30, 2006 (Unaudited)	December 31, 2005
Total assets	\$ 5,124,380	\$ 4,912,195
Current liabilities	4,266,040	3,450,269
Long-term liabilities, less current portion	1,236,926	1,312,931
Stockholders' equity (deficiency)	(378,586)	148,995

Statements of Operations Data:	Six Months Ended June 30,		Years Ended December 31,	
	2006 (Unaudited)	2005 (Unaudited)	2005	2004
Sales	\$ 5,137,089	\$ 4,399,608	\$ 9,470,285	\$ 8,978,365
Gross profit	858,348	844,047	1,724,786	1,875,328
Operating expenses	1,616,829	977,715	2,241,237	1,946,667
Loss from operations	(758,481)	(133,668)	(516,451)	(71,339)
Net Loss attributable to common stockholders	(986,305)	(324,672)	(855,425)	(479,371)
Net Loss per share, basic and diluted	(0.19)	(0.07)	(0.18)	(0.10)
Weighted average shares used to compute net loss per share, basic and diluted	5,239,913	4,769,640	4,885,151	4,726,091

[Back to Table of Contents](#)

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 a 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 June 30, 2006, we had an accumulated deficit of \$4,245,368, a working capital deficiency of \$1,840,391 and a stockholders' deficiency of \$378,586. For the six months ended June 30, 2006 and 2005, we had incurred losses from operations of \$758,481 and \$133,668, respectively. As of December 31, 2005, we had an accumulated deficit of \$3,259,063, a working capital deficiency of \$1,594,758 and stockholders' equity of \$148,995. For the years ended December 31, 2005 and 2004, we incurred losses from operations of \$516,451 and \$71,339, respectively. The report of our auditor accompanying our financial statements filed herewith includes a statement that these factors raise substantial doubt about our ability to continue as a going concern. 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.

This offering is being made on a "best efforts" basis and there is no minimum number of shares we must sell beyond the number of shares that have been sold by us as of the date of this prospectus. We cannot assure you of the number of shares that we will sell in this offering. We currently believe that our available cash resources and cash flow from operations, without any additional net proceeds from this offering, will be sufficient to sustain our business operations for at least 13 months after the date of this prospectus. However, we would be required to reduce our level of operations, including reducing infrastructure, promotions, personnel and other operating expenses.

In addition, our ability to implement our full business expansion plan is largely dependent upon the outcome of this offering. If we do not receive the maximum proceeds from this offering, some or all of the elements of our expansion plan may have to be curtailed or delayed unless we are able to find alternative external sources of working capital. We would need to raise additional funds to respond to business contingencies, which may include the need to:

- fund more rapid expansion,
- fund additional marketing expenditures,
- enhance our operating infrastructure,
- respond to competitive pressures, and

acquire other businesses.

Back to Table of Contents

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 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 46% of our sales in the six months ended June 30, 2006, and approximately 39% of our sales in each of 2005 and 2004. Trader Joe's accounted for approximately 17% of our sales in the six months ended June 30, 2006, approximately 15% of our sales in 2005 and approximately 14% of our sales in 2004. 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

-5-

Back to Table of Contents

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 39% of our sales in 2005 and 2004. 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 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.

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 in 2007. 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 63.5% of our total case production in 2005,
- 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.

[Back to Table of Contents](#)

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. 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

-7-

[Back to Table of Contents](#)

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 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. 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.

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.

On January 20, 2006, Consac Industries, Inc. (dba Long Life Teas and Long Life Beverages) filed a lawsuit in the United States District Court for the Central District of California against Reed's Inc. and Christopher Reed, Case No. CV06-0376. The complaint asserts claims for negligence, breach of contract, breach of warranty, and breach of express indemnity relating to Reed's, Inc.'s manufacture of approximately 13,000 cases of "Prism Green Tea Soda" for Consac. Consac contends that we negligently manufactured the soda resulting in at least one personal injury. Consac seeks \$2.6 million in damages, plus interest and attorneys fees. Although we believe that we have meritorious defenses to this proceeding, there can be no assurances as to its outcome. In the event we were to experience additional product liability or product recall claims, our business operations could be materially and adversely effected. An adverse outcome in this proceeding would have a material adverse effect on our business operations and financial condition.

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

We own numerous trademarks 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. However, 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.

-8-

Back to Table of Contents

If we are not able to retain the full-time services of 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 Christopher J. Reed, our founder, President, Chief Executive Officer, Chairman of the Board and Chief Financial Officer. We depend 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 Mr. Reed. In addition, we do not maintain key person life insurance on Mr. Reed. Therefore, in the event of the loss or unavailability of Mr. Reed 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 Mr. Reed 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.

Our Chief Executive Officer may lack the experience and formal training to serve as our Chief Financial Officer.

Our Chief Executive Officer, Christopher J. Reed, currently also serves as our Chief Financial Officer. However, Mr. Reed does not have any formal financial training as a Chief Financial Officer. Due to the increasing complexity of accountancy and cash management for reporting companies and the emphasis on internal controls over financial reporting, Mr. Reed's lack of experience in this area may adversely affect the future results of our operations and our ability to maintain an adequate system of internal controls over financial reporting.

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 is approximately 80% of our aggregate revenues. This gross margin places pressure upon our cash flow and cash reserves when our sales increase. It is our intention to use the proceeds of this offering to expand our business operations. 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 management has broad discretion in the application of the net proceeds from this offering.

Our Board of Directors and management have used and presently intend to use a substantial portion of the net proceeds of this offering for the specific purposes set forth in "Use of Proceeds." However, we have broad discretion with respect to redirecting the application and allocation of the net-proceeds of this offering in light of changes in circumstances and the availability of certain business opportunities. As a result, any return on investment to investors will be substantially dependent upon the discretion and judgment of our management with respect to the application and allocation of the net proceeds of the offering.

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.

[Back to Table of Contents](#)

Risks Related to This Offering and Our Securities

We recently conducted a rescission offer for shares issued in our initial public offering. Although we have completed this 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 pursuant to a Registration Statement on Form SB-2. 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 prior to the effective date of this registration statement.

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 the date of this prospectus. 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.

This rescission offer was accepted by _____ of the offerees to the extent of _____ shares for an aggregate of \$_____, including statutory interest. All of these shares were 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. We also understand that the SEC and certain state regulators, including California, have requested additional information regarding the rescission offer. 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.

We have previously been unsuccessful in a prior public offering.

We have previously tried to raise money in a public offering. This offering was declared effective on December 31, 2002 and was subsequently withdrawn on March 27, 2003 due to what we perceived as poor market conditions for a public offering in the economic climate at the time.

We determined the offering price for the shares being offered arbitrarily. The market price for the common stock after the offering may vary from the offering price.

Prior to this offering, there was no public market for our common stock. We arbitrarily determined the offering price for the shares being offered. The price bears no direct relationship to our assets, earnings, book value, or other such criteria of value. For this reason, the market price after the offering may vary from the initial offering price.

There is not yet a public trading market for our securities and if a market develops for our securities, it could be limited, sporadic and highly volatile.

Edgar Filing: REEDS INC - Form POS AM

There is currently no public market for our common stock and we cannot assure you when or if there will be a market for our common stock. We cannot assure you that an active market for our shares will be established or maintained in the future. We intend to apply for listing of our common stock on the Nasdaq Capital Market or the American Stock Exchange following the completion of this offering, if we are able to qualify for such markets, and

-10-

Back to Table of Contents

if not, we anticipate that US EURO Securities, Inc., one of our underwriters in this offering, will apply for quotation of our common stock on OTCBB. However, the OTCBB is not a national securities exchange, and many companies have experienced limited liquidity when traded through this quotation system. Therefore, if you purchase shares of our common stock and later decide to sell the shares, you may have difficulty selling the shares. Even if a market for our common stock is established, stockholders may have to sell our stock at prices substantially lower than the price they paid for it or might otherwise receive than if a broad public market existed.

In addition, if a market develops for our common stock, the market price of our common stock may be volatile, which could cause the value of your investment 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 generally,
- 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.

Such factors may cause the market price of our common stock to decrease significantly. You may be unable to sell your shares of common stock at or above the initial public offering price.

Since there is no minimum number of shares which must be subscribed for before we can use the proceeds from sales, our expansion plans will be affected by the number of shares actually sold.

The speed with which we implement our expansion plans will depend, to a large degree, on the amount of funds available for expansion. Such funds may be provided by the sale of common stock in this offering, our existing lines of credit, and revenues from sales, future loans or otherwise. If we sell less than all the shares in this offering, our ability to implement the expansion plans described under “Use of Proceeds” and elsewhere in this prospectus could be delayed, depending on the amount of other funds available to us for such purposes.

You will experience immediate and substantial dilution in this offering.

The initial public offering price is substantially higher than the net tangible book value of each outstanding share of common stock. Purchasers of common stock in this offering will suffer immediate and substantial dilution. The dilution will be \$3.32 per share, or approximately 83%, in the net tangible book value of the common stock from the public offering price if all 2,000,000 shares being offered are sold, and \$3.80 per share or approximately 95%, in the net tangible book value of the common stock from the public offering price if only 1,000,000 shares are sold. We have previously sold 333,156 shares of common stock in this offering, resulting in gross proceeds of \$1,332,624 to us.

Future financings could adversely affect your 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

-11-

Back to Table of Contents

rights, preferences or privileges senior to those of existing stockholders, including, those persons acquiring shares in this offering.

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 majority 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, Chairman of the Board and Chief Financial Officer owns, before the commencement of this offering, approximately 60% of our outstanding voting stock. If all the shares in this offering are sold, Mr. Reed will own approximately 46% of our outstanding voting stock. If 1,000,000 shares in this offering (50%) are sold, Mr. Reed will own approximately 54% of our outstanding voting 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 will be available for sale in the public market after the offering 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 after this offering, or the perception that such sales could occur, could substantially reduce our stock price in any public market, and could impair our ability to obtain capital through a subsequent financing of our securities. After this offering, we will have 7,002,326 shares of common stock outstanding if all 2,000,000 shares in this offering are sold and 6,002,326 shares of common stock outstanding if 1,000,000 shares in this offering (50%) are sold. All the shares of common stock sold in this offering will be freely tradable without restriction or further registration required under federal securities laws.

In addition, we have issued and outstanding options and warrants that may be exercised into 904,241 shares of common stock, 138,025 shares of common stock issuable upon conversion of principal and accrued interest on certain debt at June 30, 2006 and 58,940 shares of Series A preferred stock that may be converted into 235,760 shares of common stock. In addition, our outstanding shares of Series A preferred stock bear a dividend of 5% per year, or approximately \$29,470 per year. We have the option to pay the dividend in shares of our common stock. In 2005 and 2006, we paid the dividend in an aggregate of 7,362 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. We also have 200,000 shares reserved for future issuance under the underwriters' warrant (including 33,316 shares underlying underwriters' warrants which we have agreed to issue to the underwriters relating to the sale of 333,156 shares sold as of the date of this prospectus).

Of the shares of our common stock currently outstanding, 4,240,500 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.

Our common stock may become subject to "penny stock" regulations that may affect the liquidity of our common stock.

Our common stock may become subject to the rules adopted by the SEC that regulates broker-dealer practices in connection with transactions in “penny stocks.” Penny stocks are generally equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the

-12-

Back to Table of Contents

NASDAQ Stock Market, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system).

The penny stock rules require that a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, deliver a standardized risk disclosure document prepared by the SEC, which contains the following:

- a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading,
- a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to violation of such duties or other requirements of securities laws,
- a brief, clear, narrative description of a dealer market, including "bid" and "ask" prices for penny stocks and significance of the spread between the "bid" and "ask" price,
- a toll-free telephone number for inquiries on disciplinary actions; definitions of significant terms in the disclosure document or in the conduct of trading in penny stocks, and
- such other information and is in such form (including language, type, size and format), as the SEC shall require by rule or regulation.

Prior to effecting any transaction in penny stock, the broker-dealer also must provide the customer the following:

- the bid and offer quotations for the penny stock,
- the compensation of the broker-dealer and its salesperson in the transaction,
- the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock,
- the liquidity of the market for such stock, and
- monthly account statements showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for a stock such as our common stock if it is subject to the penny stock rules.

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

phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

-13-

Back to Table of Contents

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 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, 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:

- The effectiveness of our rescission offer to preclude certain holders of our stock from seeking relief for alleged violations of securities laws in connection with securities issuances in connection with our initial public offering,
- 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 its 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,

Back to Table of Contents

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.

ESTIMATED USE OF PROCEEDS

Net proceeds from this offering were calculated based on an offering price of \$4.00 per share and then deducting a 6% sales commission, a 1% lead underwriter's concession, a 3% non-accountable broker expense allowance and other offering expenses estimated to be approximately \$755,000. Net proceeds will range from \$444,354 (assuming only the sale of the 333,156 shares that have been sold as of the date of this Prospectus) to \$6,445,000 (which assumes that all of the shares in the offering have been sold). The offering is being made on a best efforts basis, and we do not know how many shares, if any, will be sold in this offering in excess of the 333,156 shares sold to date.

We have used the proceeds referred to under the heading in the table below "Actual Amount of Shares Sold to Date," as set forth in the table below and we presently expect to use the estimated net proceeds from the balance of the offering substantially as set forth in the table below in the estimated offering columns, assuming the numbers of shares indicated are sold in the offering:

	Actual Amount of Shares Sold to Date (333,156 shares sold or 16.66% of Total)	Estimated Amount if 1,000,000 Shares are Sold (50% of Total)	Estimated Amount if 2,000,000 Shares are Sold (100% of Total)
Gross Offering Receipt	\$ 1,332,624	\$ 4,000,000	\$ 8,000,000
Underwriters' Compensation	133,270	400,000	800,000
Offering Expenses	755,000	755,000	755,000

Proposed Uses	Amount and Percentage of Net Proceeds	Amount and Percentage of Net Proceeds	Amount and Percentage of Net Proceeds
Estimated Net Proceeds from Offering	444,354 (100%)	2,845,000 (100%)	6,445,000 (100%)
Hire additional sales representatives ⁽¹⁾	117,000 (26%)	700,000 (25%)	1,900,000 (30%)
New product launches ⁽²⁾	20,000 (4%)	119,900 (4%)	244,900 (4%)
Retail slotting ⁽³⁾	90,000 (21%)	750,000 (26%)	1,500,000 (23%)
Brand advertising ⁽⁴⁾	122,000 (27%)	750,000 (26%)	1,500,000 (23%)
Cooler and in-store displays ⁽⁵⁾	30,000 (7%)	248,985 (9%)	568,985 (9%)

Edgar Filing: REEDS INC - Form POS AM

Salary for new Chief Financial Officer ⁽⁶⁾	--	100,000 (4%)	100,000 (2%)
Equipment purchases for the Brewery ⁽⁷⁾	35,000 (8%)	150,000 (5%)	150,000 (2%)
Working capital ⁽⁸⁾	30,354 (7%)	26,115 (1%)	481,115 (7%)
Total net proceeds	\$444,354 (100%)	\$2,845,000 (100%)	\$6,445,000 (100%)

-15-

Back to Table of Contents

(1) In connection with our anticipated expansion of sales of our products, we anticipate being able to hire and pay first year compensation for at least two and up to approximately 30 new sales representatives, depending upon the net proceeds of this offering.

(2) We anticipate being able to launch numerous new products or SKUs, depending upon the net proceeds of this offering received by us. Over the next 12 to 24 months we plan to launch several SKUs in the Ginger Brew line, several new SKUs in the Virgil's line, four new China Cola SKUs, and several additional new frozen confections and new candies. A SKU is an identifier that is used by merchants to permit the systematic tracking of products and services offered to customers. We intend to expend some, but not a significant amount of funds on research and development for new products and packaging. The speed with which we expand our marketing and advertising for our products, and the number of products we offer to the public, will depend in large part on the number of shares of common stock sold in this offering. If only a limited number of shares are sold, our expansion plans will take substantially longer to implement.

(3) We will attempt to place our products in up to 30,000 new stores. Some stores, particularly chains, require slotting fees to place product on store shelves. Currently, we do not pay slotting fees to place a majority of our products in stores. Slotting fees in the natural food section of the supermarket are generally not as expensive as in other areas of the store. However, in the future, we may have to pay slotting fees, depending upon the type of stores and chains where we place our products.

(4) We plan to use strategic consumer and trade targeted advertising to build brand awareness, and support existing and new product placements. Our advertising plans include print ads in magazine and newspapers, public relations events and consumer event sponsorships at which we offer samples of our products.

(5) Our marketing plans include placing up to 2,000 Reed's branded refrigerated coolers and Reed's branded in-store displays, which we call Kegerators, throughout the United States and, to a lesser degree, in Canada. We consider coolers and in-store displays to be efficient and proven marketing tools.

(6) Currently our Chief Executive Officer, Christopher J. Reed, serves as our Chief Financial Officer. Mr. Reed does not have any formal financial training as a Chief Financial Officer. Due to the increasing complexity of accountancy and cash management for reporting companies we have set aside this amount from the proceeds of the offering to pay all or a portion of the first year's compensation for a new Chief Financial Officer that we are in the process of recruiting.

(7) Depending upon the net proceeds of this offering, we intend to purchase packaging automation equipment for the Brewery. This will allow us to increase production capacity and reduce overall time that our products can be in production, while decreasing labor costs.

(8) In June 2005, we entered into a revolving loan and security agreement pursuant to which we are able to borrow up to \$1,400,000. As of June 30, 2006, we had \$386,000 available for borrowing under the revolving loan agreement. This revolving loan matures on June 30, 2007. We may extend this revolving loan or seek to obtain a replacement line of credit for that credit facility. If we extend the loan agreement or obtain a replacement line of credit, we may use some of the proceeds from this offering to pay down amounts payable under any such credit facility. However, we may use any funds available under any such credit facility as working capital. We intend to use a portion of any funds borrowed pursuant to this loan agreement, in addition to the proceeds from the sale of the shares in this offering, for the uses described above.

We cannot assure you that the above dollar amounts will be specifically allocated as set forth in the foregoing table. Our management has discretion in the application of the actual net proceeds of the offering. Allocation of net proceeds

is further subject to future events including changes in general economic conditions, changes in our strategy and our response to competitive pressures and consumer preferences associated with the products we sell. Pending full utilization of the proceeds from this offering, we may invest the net proceeds in highly liquid, investment grade securities.

-16-

[Back to Table of Contents](#)

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 2005 and 2006, we paid the dividend in an aggregate of 7,362 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."

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2006 and as adjusted to reflect the sale by us of the maximum number of shares (2,000,000 shares) of common stock in this offering and the application of the estimated net proceeds, assuming an offering price of \$4.00 per share, after deducting underwriter commissions and estimated offering expenses. The table also shows the effect if only 50% of the offering (1,000,000 shares) is completed. The number of shares reflected as outstanding as of June 30, 2006 includes the 333,156 shares sold in this offering as of June 30, 2006. You should read this table in conjunction with, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our audited financial statements and related notes appearing elsewhere in this prospectus. The following table excludes the following shares:

- 291,000 shares of common stock issuable upon exercise of outstanding options issued by us under our 2001 Stock Option Plan, at a weighted average exercise price of \$3.80,
 - 209,000 additional shares of common stock reserved for future issuance under our 2001 Stock Option Plan,
- 613,241 shares of common stock issuable upon exercise of outstanding warrants at a weighted average exercise price of \$2.80,
- 200,000 shares reserved for future issuance under the underwriters' warrants (including 33,316 shares underlying underwriters' warrants which we have agreed to issue to the underwriters relating to the sale of 333,156 shares sold as of the date of this prospectus) at an exercise price of \$6.60 per share,
- 138,025 shares of common stock issuable upon conversion of principal and accrued interest on certain convertible debt at June 30, 2006, and
- 235,760 shares of common stock issuable upon conversion of 58,940 outstanding shares of Series A preferred stock.

Back to Table of Contents

		At June 30, 2006	
	Actual	Pro forma as adjusted for sale of 1,000,000 shares	Pro forma as Adjusted for sale of 2,000,000 shares
Current liabilities			
Current portion of long-term debt	\$ 191,516	\$ 191,516	\$ 191,516
Lines of credit	1,463,461	1,463,461	1,463,461
Total current liabilities	1,654,977	1,654,977	1,654,977
Long-term liabilities			
Long-term debt, less current portion	984,568	984,568	984,568
Notes payable to related parties	252,358	252,358	252,358
Total long-term liabilities	1,236,926	1,236,926	1,236,926
Stockholders' equity:			
Common Stock, par value \$.0001 per share; 11,500,000 shares authorized; 5,335,482 shares issued and outstanding; 6,002,326 shares issued and outstanding as adjusted for the sale of 1,000,000 shares; 7,002,326 shares issued and outstanding as adjusted for the sale of 2,000,000 shares	533	600	700
Preferred Stock, par value \$10.00 per share; 500,000 shares authorized; 58,940 shares issued and outstanding	589,402	589,402	589,402
Additional paid-in capital	3,276,847	4,902,418	8,502,318
Accumulated deficit	(4,245,368)	(4,245,368)	(4,245,368)
Total stockholder's equity (deficit)	(378,586)	1,247,052	4,847,052
Total capitalization	\$ 2,513,317	\$ 4,138,955	\$ 7,738,955

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma as adjusted net tangible book value per share of our common stock immediately after this offering. Pro forma net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding at June 30, 2006.

Investors participating in this offering will incur immediate, substantial dilution. Our net tangible book value was \$(1,213,306), computed by subtracting the total amount of our liabilities from the total amount of our tangible assets and dividing the remainder by the weighted average number of shares of our common stock outstanding, or \$(0.23) per share of common stock outstanding at June 30, 2006. We have previously sold 333,156 shares of common stock in this offering, resulting in gross proceeds of \$1,332,624 to us. Assuming the sale by us of all of the shares of common stock offered in this offering at an initial public offering price of \$4.00 per share, and after deducting estimated

Edgar Filing: REEDS INC - Form POS AM

underwriting discounts and commissions and estimated offering expenses, our as adjusted net tangible book value at June 30, 2006, would have been \$4,782,433, or \$0.68 per share of common stock. This represents an immediate increase in pro forma net tangible book value of \$0.91 per share of common stock to our existing stockholders and an immediate dilution of \$3.32 per share to the new investors purchasing shares in this offering. If fewer than all shares offered hereby are sold, the dilution will be greater to the new investors. If

-18-

Back to Table of Contents

1,000,000 shares sold, new investors purchasing shares in this offering the would experience an immediate dilution of \$3.80 per share The following table illustrates this per share dilution, assuming 1,000,000 and 2,000,000 shares in this offering are sold:

	If 1,000,000 shares are sold	If 2,000,000 shares are sold
Offering Price per Share	\$ 4.00	\$ 4.00
Net tangible book value per common share at June 30, 2006	(0.23)	(0.23)
Increase per common share attributable to new investors	0.42	0.91
Net tangible book value per share of common stock after the offering	0.20	0.68
Dilution per share of common stock to new investors	\$ 3.80	\$ 3.32
Percentage of dilution per share of common stock to new investors	95%	82%

The fo