

REEDS INC
Form POS AM
January 26, 2006

Registration Statement No. 333-120451

As filed with the Securities and Exchange Commission on August 3, 2005

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

Post Effective Amendment 5 to Form SB-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Reed's, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction
of incorporation or organization)*

2086

*(Primary Standard Industrial
Classification Code Number)*

95-4348325

*(IRS Employer
Identification No.)*

Christopher J. Reed

Reed's, Inc.

13000 South Spring Street, Los Angeles, California 90061

Telephone: (310) 217-9400

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

Copies of all communications to:

Lawrence W. Horwitz, Esq.

HORWITZ & CRON

Four Venture - Suite 390, Irvine, California 92618

Telephone: (949) 450-4942

(Name, address, and telephone number of registrant's counsel)

Approximate date of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, 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 of 1933, check the following box and list the Securities Act of 1933 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 of 1933, 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.

Title of Each Class of Securities to be Registered	Amount to be	Proposed Maximum	Proposed Maximum	Amount of Registration
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	Registered	Offering Price Per Share	Aggregate Offering Price ⁽¹⁾	Fee
Common stock, \$.0001 par value	2, 000,000	\$ 4.00	\$ 8,000,000	\$ 1,014
Underwriter's warrants to purchase shares of common stock, \$.001 par value ⁽²⁾	200,000	\$ 6.60	---	---
Shares of common stock underlying underwriter's warrants	200,000	\$ 6.60	\$ 1,320,000	\$ 101
Totals	2,200,000	---	\$ 9,320,000	\$ 1,115

CALCULATION OF REGISTRATION FEE

(1) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended.

(2) In connection with the sale of the common stock, we are granting to the underwriter a warrant to purchase up to 200,000 shares of common stock at a per share purchase price equal to 165% of the public offering price per share. Certain of these warrants maybe deistributed to participating broker-dealers. No registration fee is required pursuant to Rule 457(g).

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 this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

We are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

DATED August 3, 2005

REED'S, INC.

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

We are offering up to 2,000,000 shares of our common stock. No public market currently exists for our shares. 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 Brookstreet Securities Corporation, our underwriter, a member of the National Association of Securities Dealers, Inc., for a commission equal to 6% of the gross sales made in this offering. In addition, Brookstreet will receive a lead underwriter's concession of 1% of gross sales made in this offering and a non-accountable expense allowance of 3% of gross sales made in this offering. Brookstreet has entered into a Selected Dealers Agreement with certain NASD licensed brokers to participate in this offering providing concessions from the compensation payable to Brookstreet. Participating broker-dealers, other than Brookstreet, will receive (and Brookstreet's compensation will accordingly be reduced) 6% of gross sales plus underwriter warrants in an amount equal to 6% of the shares issued from investors identified by the participating broker-dealer, under this offering.

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. Our underwriter currently intends to apply for quotation of our common stock upon the Over the Counter Bulletin Board ("OTCBB") quotation system. We have reserved the market trading ticker symbol "REED" with NASD.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 3 to read about factors you should consider before buying shares of our common stock.

	Per Share	If 200,000 Shares are Sold(1)	If 1,000,000 Shares are Sold(1)	If 2,000,000 Shares are Sold(1)
Proceeds to the Company	\$ 3.60	\$ 720,000	\$ 3,600,000	\$ 7,200,000
Underwriter Commission	\$ 0.40	\$ 80,000	\$ 400,000	\$ 800,000
Proceeds to the Company before estimated expenses of the offering	\$ 4.00	\$ 800,000	\$ 4,000,000	\$ 8,000,000
Proceeds to the Company after estimated expenses of the offering	---	\$ 44,985	\$ 3,303,985	\$ 6,853,985

(1) The amounts shown are for illustrative purposes only. The offering is a best efforts offering with no assurance that all or any shares will be sold.

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; we will not accept subscriptions to this offering from residents of Pennsylvania and Texas until at least 500,000 shares have been sold; we will not accept subscriptions to this offering from Ohio residents until at least 700,000 shares sold, and then only from investors whose annual salary is at least \$65,000 and whose net worth exclusive of home, furnishings, and automobile is at least \$250,000; and we will not accept subscriptions to this offering from residents of Arizona until 800,000 shares have been sold.

There is no minimum number of shares we must sell in this offering. Offering proceeds will not be placed in escrow. Upon receipt, offering proceeds will be deposited into the Company's operating account and used to conduct the Company's business affairs. The offering will terminate nine months after the effective date of this prospectus unless terminated sooner by us.

Neither the Securities and Exchange Commission nor any state securities regulators have approved or disapproved these securities or determined if this prospectus is accurate or complete. 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 date of this Prospectus is August 3, 2005

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Dealers who solicit prospective investors in the subject offering are required to deliver a copy of this Prospectus commencing upon the effective date of the subject Registration Statement and terminating 40 days thereafter. The effective date of the Registration Statement, of which this Prospectus is a part, is August 3, 2005.

PROSPECTUS SUMMARY

This summary highlights information found in greater detail elsewhere in this prospectus. Prior to making an investment decision, you should read the entire prospectus carefully; including the section entitled "Risk Factors" beginning on page 3.

About Our Company

We are a growing developer, manufacturer, marketer, and seller of New Age beverages, as well as 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 14 beverages, 2 candies, and 3 ice creams.

We sell the majority of our products primarily in upscale gourmet and natural food stores and supermarket chains in the United States and, to a lesser degree, in Canada. Historically, most of our beverages were sold in the natural food industry.

Our current business strategy is to maintain a firm marketing focus in the natural food marketplace while building a national direct sales and distribution force to take our proven products into mainstream market and distribution channels. We believe that the proceeds of this offering may greatly accelerate the success of this business strategy by providing working capital to finance an expanded sales and distribution network.

At this time, we produce our carbonated beverages at two facilities. Our Brewery in Los Angeles handles the western half of the United States and we have a contract with The Lion Brewery, Inc., a packing, or co-pack, facility in Pennsylvania for the eastern United States. Our Ginger Juice Brews are co-packed for us in Northern California. Our ice creams are co-packed for us at a dairy in upstate New York.

We have a national network of natural and specialty food distributors in the United States and Canada. We also have mainstream beverage distributors in select markets. In Southern California, we have our own direct distribution in addition to other local distributors. We currently rely upon one retailer for between 10-15% of our aggregate gross revenues. If we were to lose this retailer, our operations would be materially effected.

We currently maintain two separate sales organizations, one of which handles natural food sales and the other of which handles mainstream sales. Both sales forces consist of sales managers and sales representatives. The natural food sales force works mainly in the natural and gourmet food stores serviced by the natural and gourmet distributors. Representatives are responsible for the accounts in their territory and they stay on a focused schedule of visits to maintain store and distributor relationships. In the future, we intend to integrate both our distributions and sales forces.

In December 2000, we purchased an 18,000 square foot warehouse, the Brewery, at 13000 South Spring Street, Los Angeles, California 90061, in an unincorporated area of Los Angeles County near downtown Los Angeles. This facility serves as our principal executive offices, our West Coast bottling plant, and our Southern California warehouse facility. Our telephone number is 310.217.9400.

We have not generated a profit during our last two fiscal years and there is no assurance that we will develop profitable operations in the future. Our net operating loss for the calendar year 2004 was \$479,371 and for 2003 it was \$771,997. We are offering a maximum of 2,000,000 of our shares. In the event the maximum amount of this offering is sold, then the shares sold will represent 29% of the then outstanding common stock and Christopher Reed and his family members will own 54.3% of our outstanding common stock.

This offering is a best efforts offering through our underwriter, Brookstreet Securities Corporation and certain selected broker-dealers. While there is no assurance, our underwriter currently intends to apply for quotation of our common

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stock upon the Over the Counter Bulletin Board (“OTCBB”) quotation system. This will require that we complete certain filings and disclosures of information to the National Association of Securities Dealers and to the OTCBB itself. Our shares are currently not traded on the public securities markets and even if our shares of common stock become quoted on the OTCBB, there is no assurance that an active public market for our shares of stock will be established.

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

Common Stock being offered	2,000,000 shares
Offering Price	\$4.00 per share
Common stock outstanding:	
Prior to this offering	4,988,591 shares
After this offering:	
if 200,000 shares are sold	5,188,591 shares
if 1,000,000 shares are sold	5,988,591 shares
if all 2,000,000 shares are sold	6,988,591 shares

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, to purchase fully-branded coolers, in-store displays, and hire a chief operating officer, and for working capital.

Summary Financial Information

The following historical financial information should be read in conjunction with the audited financial statements and the notes to those statements and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. The statements of operations with respect to the years ended December 31, 2004 and 2003, and the balance sheet data at December 31, 2004 are derived from, and are qualified by reference to, the audited financial statements included elsewhere in this prospectus. The historical results are not necessarily indicative of results to be expected for any future periods.

Statements of Operations Data:	Three Months Ended March 31,		Years Ended December 31,	
	2005 (Unaudited)	2004 (Unaudited)	2004	2003
Sales	\$ 1,817,336	\$ 1,713,340	\$ 8,978,365	\$ 6,781,776
Gross profit	331,049	410,670	1,875,328	1,319,571
Selling, general and administrative expenses	501,225	372,186	1,946,667	1,414,148
Income (loss) from operations	(170,176)	38,484	(71,339)	(94,577)
Net Loss	(241,386)	(21,455)	(479,371)	(771,997)
Net Loss per share, basic and diluted	(0.05)	(0.01)	(0.10)	(0.16)
Weighted average shares used to compute net loss per share	4,726,091	4,726,091	4,726,091	4,724,488

Balance Sheet Data:

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	March 31, 2005 (Unaudited)	December 31, 2004
Total assets	\$ 5,063,121	\$ 5,098,403
Current liabilities	3,064,585	2,834,589
Long-term liabilities, less current portion	1,270,222	1,294,114
Stockholders' equity	728,314	969,700

RISK FACTORS

An investment in our common stock is very risky. You should carefully consider the risk factors described below, together with all other information in this prospectus, before making an investment decision. 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 operations as presently set forth in our business plan.

As of December 31, 2004, we had an accumulated deficit of \$2,403,638. For the years ended December 31, 2004 and 2003, we incurred losses from operations of \$71,339 and \$94,577, respectively. As of March 31, 2005, we had an accumulated deficit of \$2,645,024. For the three months ended March 31, 2005, we incurred losses from operations of \$170,176 and in the three months ended March 31, 2004, we experienced a profit from operations of \$38,484. If we are not able to begin to earn an operating profit at some point in the future, we eventually may have insufficient working capital to maintain our operations as we presently intend to conduct them. In addition, we may not be able to contribute profit from operations toward the expansion and other business plans discussed in this prospectus.

The beverage business is highly competitive.

We compete for distributors, shelf space, and customers primarily with other New Age beverage companies including:

- SoBe (owned by Pepsi)
- Snapple, Mystic, IBC and Stewart's (owned by Cadbury Schweppes)
 - Henry Weinhard (owned by Phillip Morris)
 - Arizona
 - Hansen's
 - Knudsen & Sons
 - Jones Sodas
 - A&W Root Beer
 - Blue Sky
 - Natural Brews

Several of our competitors and potential competitors have financial resources greater than ours, and Pepsi, Cadbury Schweppes, and Phillip Morris have substantially greater financial resources than ours. These greater resources permit our competitors to implement extensive advertising and promotional programs, which we have not been, and may not be, able to match. As competitors enter the field, our market share may fail to increase or may decrease despite our efforts to continue to produce superior products with higher quality ingredients and a brewing process that we believe remains a trade secret. See "Business — Competition."

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.

The loss of our largest retailer would substantially reduce revenues.

During 2003, Trader Joe's accounted for approximately 15% of our sales in 2003 and for 14% of our sales in 2004. The loss of Trader Joe's as a retailer would substantially reduce our revenues unless and until we replaced that source of revenue.

Any decrease in the supply of ginger, other key ingredients or finished products, or increase in the prices of such ingredients, could significantly increase our costs, and thereby reduce our profits.

We depend upon an uninterrupted supply of ginger and certain other ingredients, 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 third-party suppliers or service providers 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. The loss of our third-party suppliers or service providers could impair our operations and adversely affect our financial performance.

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

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 some of our employees. 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. See "Business — Proprietary Rights."

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. While we have to date not experienced any product liability or product recall claims, there is no assurance that we will not experience such claims in the future. In the event we were to experience a product liability or product recall claim, our business operations could be materially and adversely effected.

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 Accounting 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 company does not employ a Chief Financial Officer among its executive staff. Given the absence of formal financial training in our Chief Executive Officer's education and the increasing complexity of accountancy and cash management for reporting companies, CEO Chris Reed's lack of knowledge in this area may affect the future results of our operations.

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. As we experience significant growth, such an expansion has placed, and is expected to continue to place, a significant strain on our management, operational and financial resources. Such growth will require improvements in our operational, accounting and information systems, procedures and controls. If we fail to manage this growth 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 presently intend to utilize 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. See “Use of Proceeds.”

We have operated without independent directors in the past

We have not had two independent directors through a large portion of our history. This means that the material agreements between related parties have not been negotiated with the oversight of independent directors; this means that most agreements into which we have entered were at the absolute discretion of the majority shareholder, Chris Reed. Please see the “Certain Relationships and Related Transactions” section for specific details of these transactions.

Risks Relating to This Offering

It may be a conflict of interest for Peter Sharma III to hold a position on the Board of Directors, while also being a primary selling agent, supervised by a separate broker/dealer, as well as being indebted to the issuer.

As a director, Mr. Sharma has a fiduciary responsibility to our shareholders. Mr. Sharma’s position with Brookstreet Securities Corporation and his financial indebtedness may compromise his ability to make decisions in the best interest of our shareholders.

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. It was and is our opinion that the adverse market conditions referred to in our Application For Withdrawal were directly affected by lead up to and initiation of war in Iraq and the ensuing public uncertainty and market downturn; thus we withdrew the offering due to what we perceived as poor market conditions for a public offering in the economic climate surrounding the 2003 Iraq War.

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.

We cannot assure you that an active market for our shares will be established or maintained in the future. It is the intention of our underwriter to apply for quotation of our common stock on the Over The Counter Bulletin Board quotation system (the “OTCBB”). 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.

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 \$3.00 per share, or approximately 75%, 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. The dilution will be \$3.45 per share (86%) if only 1,000,000 shares (50%) are sold, and \$3.94 per share (98%) if only 200,000 shares (10%) are sold. See "Dilution."

Our ability to obtain needed additional financing is uncertain.

We currently believe that our available cash resources, combined with the net proceeds from this offering and cash flow from operations, will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least 12 months after the date of this prospectus. We may 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
- acquire other businesses

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.

Our ability to implement our full business expansion plan is largely dependent upon the outcome of this offering. Assuming no funds from this offering were available, over the next 12 months, we would be able to launch the 750 ml. champagne bottles for approximately three to five of our products, including our Reed's Ginger Brew and swing-lid bottles for approximately two of our products. In addition, we would be able to hire approximately two additional sales representatives. Other elements of our expansion plan might have to be curtailed or delayed unless we could find alternative external sources of working capital.

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 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, CEO, Chairman of the Board, and Chief Accounting Officer currently owns approximately 64% 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 53% of our outstanding voting stock, and if only 200,000 shares in this offering (10%) are sold, he will own approximately 62% 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. See "Principal Stockholders." ***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.***

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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 an offering of equity securities. After this offering, we will have 6,988,591 shares of common stock outstanding if all 2,000,000 shares in this offering are sold, 5,988,591 shares of common stock outstanding if 1,000,000 shares in this offering (50%) are sold, and 5,188,591 shares of common stock outstanding if 200,000 shares in this offering (10%) 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.

Of the shares of our common stock currently outstanding, 4,539,916 shares are “restricted securities” under the Securities Act of 1933, as amended. Some of these “restricted securities” will be subject to restrictions on the timing, manner, and volume of sales of such shares. See “Shares Available For Future Resale.”

Our common stock may become subject to “penny stock” regulations that may affect the liquidity for our common stock.

Our common stock may become subject to the rules adopted by the Securities and Exchange Commission, or 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 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 to 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 Commission 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.

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FORWARD LOOKING STATEMENTS

Some of the statements made in this prospectus, including certain statements made under “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business” constitute forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of such terms or other comparable terminology.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievement expressed or implied by such forward-looking statements.

Management cautions that these statements are qualified by their terms and/or important factors, many of which are outside the control of the Company, 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 Company’s ability to generate sufficient cash flows 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 the Company’s ability to gain or maintain its share of sales in the marketplace;
 - The introduction of new products;