REEDS INC
Form 424B5
October 06, 2009

PROSPECTUS SUPPLEMENT
(To Prospectus dated August 11, 2009)

Filed pursuant to Rule 424(b)(5)
Registration No. 333-159298

399,189 Units

REED'S, INC.

Pursuant to this prospectus supplement and the accompanying prospectus, we are offering up to 399,189 units (the "Units") at a negotiated purchase price of $1.80 per Unit, to investors. Each Unit shall consist of one share of our common stock ("Shares") and warrants to purchase shares of our common stock ("Warrants") (and the shares of common stock issuable from time to time upon exercise of the Warrants) (collectively, the "Securities"). The Warrants consist of: (i) Series A Warrants, for the purchase of a number of shares of common stock equal to 40% of a purchaser's Shares, which have an initial exercise price of $2.25 per share and are exercisable for a period of five years commencing 183 days from the date of issuance, (ii) Series B Warrants, for the purchase of a number of shares of common stock equal to 50% of a purchaser's Shares, which have an exercise price equal to $1.80 and are exercisable for 60 trading days commencing immediately, and (iii) Series C Warrants, for the purchase of a number of a shares of common stock equal to 20% of a purchaser's Shares, which have an exercise price of $2.25 and are exercisable for five years commencing 183 days from the date of issuance. The Series B Warrants and Series C Warrants will only be issued to purchasers who purchase Units for an aggregate purchase price of at least $125,000. The securities offered hereby initially will be issued as units as set forth above, but will not trade as units. In addition to the Shares and the Warrants, we are also registering the shares of common stock underlying the Warrants.

The Warrants will not be listed on any national securities exchange. Our common stock is quoted on the NASDAQ Capital Market under the symbol "REED." On October 5, 2009, the last reported sale price of our common stock on the NASDAQ Capital Market was $1.75 per share. As of October 5, 2009, the number of outstanding voting and non-voting common shares held by non-affiliates was 5,585,394. The aggregate market value of our outstanding voting and non-voting common equity computed by reference using the last reported sale of such common equity held by non-affiliates, as of October 5, 2009, was $9,774,440.

Investing in our securities involves a high degree of risk. Before buying any securities, you should read the discussion of material risks of investing in our common stock under the heading "Risk factors" of this prospectus supplement.

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 supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

We have retained Source Capital to act as our placement agent in connection with this offering. We have agreed to pay the placement agent the cash fees set forth in the table below, which assumes that we sell all of the Shares we are offering. The placement agent is not required to arrange for the sale of any specific number of Securities or dollar amount but will use best efforts to arrange for the sale of all of the Securities.

	Per Unit	Maximum Offering Amount
Offering price	$ 1.80	$ 718,540
Placement agent fees (maximum) (1)		$ 57,483
Proceeds, before expenses, to us (maximum) (2)		$ 661,057

(1) The placement agent fees shown are the maximum cash fees payable by the Company to the placement agent. We have agreed to pay Source Capital a placement agent fee equal to 8% of the gross proceeds of this offering (which will not include any monies received by us in respect of the exercise of the Warrants).

(2) The proceeds shown exclude proceeds that we may receive upon exercise of the Warrants.

We estimate the total expenses of this offering, excluding the placement agent fees, will be approximately $50,000. Because there is no minimum offering amount required as a condition to closing in this offering, the actual offering amount, the placement agent fees and proceeds to us, if any, in this offering may be substantially less than the maximum offering amounts set forth above.

The date of this prospectus supplement is October 6, 2009.

This prospectus supplement is not complete without, and may not be utilized except in connection with, the accompanying prospectus dated August 11, 2009 and any amendments to such prospectus. This prospectus supplement provides supplemental information regarding us and updates certain information contained in the accompanying prospectus and describes the specific terms of this offering. The accompanying prospectus gives more general information, some of which may not apply to this offering. We incorporate important information into this prospectus supplement and the accompanying prospectus by reference.

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Prospectus supplement

We are offering to sell, and seeking offers to buy, shares of our common stock and warrants only in jurisdictions where offers and sales are permitted. The distribution of this prospectus supplement and the offering of the common stock and warrants in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus supplement must inform themselves about, and observe any restrictions relating to, the offering of the common stock and warrants and the distribution of this prospectus supplement outside the United States. This prospectus supplement does not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this prospectus supplement by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

ABOUT THIS PROSPECTUS

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information about the shares of our common stock and other securities we may offer from time to time under our shelf registration statement, some of which may not apply to the securities offered by this prospectus supplement. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference therein, on the other hand, the information in this prospectus supplement shall control.

We further note that the representations, warranties and covenants made by us in any agreement that is filed as an exhibit to any document that is incorporated by reference in the accompanying base prospectus were made solely for the benefit of the parties to such agreement, including, in some cases, for the purpose of allocating risk among the parties to such agreements, and should not be deemed to be a representation, warranty or covenant to you. Moreover, such representations, warranties or covenants were accurate only as of the date when made. Accordingly, such representations, warranties and covenants should not be relied on as accurately representing the current state of our affairs.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and contained or incorporated by reference in the accompanying prospectus. We have not authorized anyone, including the placement agent, and the placement agent has not authorized anyone, to provide you with different information. We are offering to sell, and seeking offers to buy, our securities only in jurisdictions where offers and sales are permitted. The information contained or incorporated by reference in this prospectus supplement and contained, or incorporated by reference in the accompanying prospectus is accurate only as of the respective dates thereof, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus, or of any sale of our securities offered hereby. It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein and therein, in making your investment decision. You should also read and consider the information in the documents we have referred you to in "Incorporation of Certain Information by Reference" in this prospectus supplement and "Where You Can Find More Information" in the accompanying prospectus.

Unless otherwise indicated, "Reed's" the "Company," "we," "us," "our" and similar terms refer to Reed's, Inc., a Delaware corporation.

This offering of common stock and warrants to purchase shares of our common stock is being made under a registration statement on Form S-3, as amended by Pre-Effective Amendment No. 1 and Pre-Effective Amendment No. 2 thereto (Registration File no. 333-159298) that we filed with the Securities and Exchange Commission as part of a "shelf" registration process. Under the shelf registration process, we may offer to sell shares of our common stock, $0.0001 par value, shares of our preferred stock, $10.00 par value, debt securities in one or more series, warrants to purchase shares of our common stock, preferred stock and/or debt securities, and/or units consisting of two or more of any such securities from time to time in one or more offerings up to a total dollar amount of $1,500,000.

We are not making any representation to you regarding the legality of an investment in the common stock and warrants by you under applicable law. You should consult with your own legal advisors as to the legal, tax, business, financial and related aspect of a purchase of the common stock and warrants.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain matters in prospectus supplement constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements relate to expectations, beliefs, estimates, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may “plan,” “goal,” “objective,” “potential,” “project,” “should,” “will” and “would” or the negative of these terms or other compar terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, the performance of our portfolio and our business, financial condition, liquidity and results of operations may vary materially from those expressed, anticipated or contemplated in our forward-looking statements. You should carefully consider these risks before you invest in our securities, along with the following factors that could cause actual results to vary from our forward-looking statements:

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

are carrying at any time,

- The availability and cost of capital to finance our working capital needs and growth plans,
- The effectiveness of our advertising, marketing and promotional programs,
- Changes in product category consumption,
- Economic and political changes,
- Consumer acceptance of new products, including taste test comparisons,
- Possible recalls of our products, and
- Our ability to make suitable arrangements for the co-packing of any of our products.

Additional factors that could affect future results are set forth below in this prospectus supplement under the caption Risk Factors. We caution investors that the forward-looking statements contained in this prospectus supplement must be interpreted and understood in light of conditions and circumstances that exist as of the date of this prospectus supplement. We expressly disclaim any obligation or undertaking to update or revise forward-looking statements made in this prospectus supplement to reflect any changes in management's expectations resulting from future events or changes in the conditions or circumstances upon which such expectations are based.

Each forward-looking statement should be read in context with, and in understanding of, the various other disclosures concerning our company and our business made elsewhere in this prospectus as well as our public filings with the SEC. You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statements contained in this prospectus supplement or any other filing to reflect new events or circumstances unless and to the extent required by applicable law.

SUMMARY

This summary highlights selected information appearing elsewhere or incorporated by reference in this prospectus supplement and accompanying prospectus and may not contain all of the information that is important to you. This prospectus supplement and the accompanying prospectus include or incorporate by reference information about the securities we are offering as well as information regarding our business and detailed financial data. You should read this prospectus supplement and the accompanying prospectus in their entirety, including the information incorporated by reference.

About Reed’s Inc.

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 16 beverages, including diet 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 in the past maintained our own direct distribution in addition to other local distributors and are presently in the process of discontinuing our direct distribution and redirecting our customers to local distributors.

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

We produce certain of our soda products for the western half of the United States at an 18,000 square foot warehouse facility leased 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 ice creams are co-packed for us at Ronnybrooke Dairy in upstate New York on a purchase order basis. 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, 2008 and 2007 was $3,814,000 and $5,551,000, respectively. We cannot assure you that we will have profitable operations in the future.

Our principal executive offices are at the Brewery, which is located at 13000 South Spring Street, Los Angeles, California 90061. Our telephone number is 310-217-9400. Our Internet address is www.reedsgingerbrew.com.

We have not incorporated by reference into this prospectus supplement or the accompanying prospectus the information in, or that can be accessed through, our website, and you should not consider it to be part of this prospectus supplement or the accompanying prospectus.

THE OFFERING

Securities we are offering	399,189 Units, with each Unit consisting of one share of common stock (the "Shares") and Warrants to purchase shares of common stock as set forth below (and the shares of common stock issuable upon exercise of the Warrants)
Common stock to be outstanding after this offering (1)	9,632,877
Warrants offered by us	The Warrants consist of: (i) Series A Warrants, for the purchase of a number of shares of common stock equal to 40% of a purchaser's Shares, which have an initial exercise price of $2.25 per share and are exercisable for a period of five years commencing 183 days from the date of issuance, (ii) Series B Warrants, for the purchase of a number of shares of common stock equal to 50% of a purchaser's Shares, which have an exercise price equal to $1.80 and are exercisable for 60 trading days commencing immediately, and (iii) Series C Warrants, for the purchase of a number of a shares of common stock equal to 20% of a purchaser's Shares, which have an exercise price of $2.25 and are exercisable for five years commencing 183 days from the date of issuance. The Series B Warrants and Series C Warrants will only be issued to purchasers who purchase Units for an aggregate purchase price of at least $125,000. This prospectus supplement also relates to the offering of the shares of common stock issuable upon exercise of the Warrants.
Use of proceeds	general corporate purposes
NASDAQ CAPITAL MARKET Symbol	REED

(1) The number of shares of common stock shown above to be outstanding after this offering is based on the 9,233,688 shares outstanding as of October 5, 2009 and assumes the sale of all Shares.

RISK FACTORS

Investing in our common stock involves a high degree of risk. In addition to the risks related to our business set forth in this prospectus supplement, the accompanying prospectus and the other information included and incorporated by reference in this prospectus supplement and accompanying prospectus, you should carefully consider the risks described below before purchasing our common stock. Additional risks, uncertainties and other factors not presently known to us or that we currently deem immaterial may also impair our business operations. Any of the risks, uncertainties and other factors could have a materially adverse effect on our business, financial condition or results of operations and could cause the trading price of our common stock to decline substantially.

Risks Related to Our Business

We have a history of losses and will incur additional losses.

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, 2009, we had an accumulated deficit of $16,313,000 and had incurred losses from operations of $896,000 and $1,394,000 during the three and six months ended June 30 , 2009 respectively . For the years ended December 31, 2008 and 2007, we incurred losses from operations of $3,571,000 and $5,489,000, respectively.

As of June 30, 2009, we had outstanding borrowings of $974,000 under our secured line of credit agreement with First Capital Western Region LLC.

On June 16, 2009, we closed on a sale and leaseback transaction with regards to our real property, plant and equipment located at 12930 South Spring Street and 13000 South Spring Street, Los Angeles, California 90061. In connection with this transaction, we paid off the first trust deed secured by the property in the amount of $1,756,000. Additionally, we amended our secured line of credit agreement with First Capital Western Region LLC. The credit facility was reduced to $2 million and reserves against available collateral were increased by $350,000. Proceeds from the sale and leaseback transaction were applied to reduce the outstanding loan under the credit facility by $1,264,000.

We recognize that operating losses negatively impact liquidity and we are working on decreasing operating losses, while focusing on increasing net sales. We believe the operations of the Company are running at approximately breakeven, after adjusting for non-cash expenses. Our current cash position and lines of credit will enable us to meet our cash needs through at least December 2009.

We may not generate sufficient revenues from product sales in the future to achieve profitable operations. If we are not able to achieve profitable operations at some point in the future, we eventually may have insufficient working capital to maintain our operations as we presently intend to conduct them or to fund our expansion and marketing and product development plans. In addition, our losses may increase in the future as we expand our manufacturing capabilities and fund our marketing plans and product development. These losses, among other things, have had and will continue to have an adverse effect on our working capital, total assets and stockholders' equity. If we are unable to achieve profitability, the market value of our common stock will decline and there would be a material adverse effect on our financial condition.

If we continue to suffer losses from operations, the proceeds from our public offering and private placement may be insufficient to support our ability to expand our business operations as rapidly as we would deem necessary at any time, unless we are able to obtain additional financing. There can be no assurance that we will be able to obtain such financing on acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to pursue our business objectives and would be required to reduce our level of operations, including reducing infrastructure, promotions, personnel and other operating expenses. These events could adversely affect our business, results of operations and financial condition.

In addition, 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 or engage in other strategic initiatives.

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

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

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

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

· Sales of new products could adversely impact sales of existing products,

· We may incur higher cost of goods sold and selling, general and administrative expenses in the periods when we introduce new products due to increased costs associated with the introduction and marketing of new products, most of which are expensed as incurred, and

· When we introduce new platforms and bottle sizes, we may experience increased freight and logistics costs as our co-packers adjust their facilities for the new products.

The beverage business is highly competitive.

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

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

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

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