REEDS INC
Form POS AM
June 28, 2006

As filed with the Securities and Exchange Commission on June 27, 2006

Registration No. 333-120451

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

POST-EFFECTIVE AMENDMENT NO. 7 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	**2086**	**95-4348325**
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

13000 South Spring Street
Los Angeles, California 90061
(310) 217-9400
(Address and telephone number of principal executive offices and principal place of business)

Christopher J. Reed
Chief Executive Officer
13000 South Spring Street
Los Angeles, California 90061
(310) 217-9400
(Name, address and telephone number of agent for service)

With copies to:

Jeffrey P. Berg, Esq.
Jenkens & 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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Amount to be Registered**	**Proposed Maximum Aggregate Offering Price Per Share (1)**	**Proposed Maximum Aggregate Offering Price(1)**	**Amount of Registration Fee**
Common stock, $0.0001 par value	2,000,000	$4.00	$8,000,000	$1,014
Underwriters' warrants to purchase shares of common stock	200,000	$0.001	$200	(2)
Shares of common stock underlying underwriters' warrants (3)	200,000	6.60	1,320,000	101
Total	2,200,000		$9,320,000	$1,115

(1) Estimated solely for the purpose of calculating the registration fee.
(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 may be distributed to participating broker-dealers. No registration fee is required pursuant to Rule 457(g).
(3) Includes such indeterminate number of securities as may be issuable by reason of anti-dilution provisions contained in the underwriters' warrant.

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.

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 June 27, 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 terminate nine months after the effective date of this prospectus unless terminated sooner by us.

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

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. 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 t Reed’s Inc., a Delaware corporation.

SUMMARY

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

Our Company

We develop, manufacture, market and sell natural non-alcoholic and "New Age" beverages, candies and ice creams. "New Age Beverages" is a category that includes natural soda, fruit juices and fruit drinks, ready-to-drink teas, sports drinks and water. We currently offer 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 operating loss for the years ended December 31, 2005 and 2004 was $825,955 and $479,371, respectively. Our net operating loss for the quarters ended March 31, 2006 and 2005 was $369,597 and $241,386, 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 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. Our shares are currently not traded on the public securities markets. 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 shares [(1)]
Common Stock to be outstanding after the offering	6,994,953 shares [(2)]

(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 President, 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 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.

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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:	**March 31, 2006(Unaudited)**	**December 31, 2005**
Total assets	$ 5,138,925	$ 4,912,195
Current liabilities	3,769,282	3,450,269
Long-term liabilities, less current portion	1,284,732	1,312,931
Stockholders' equity	84,911	148,995

Statements of Operations Data :	**Three Months Ended March 31,**		**Years Ended December 31,**	
	2006 (Unaudited)	**2005 (Unaudited)**	**2005**	**2004**
Sales	$ 1,979,272	$ 1,817,336	$ 9,470,285	$ 8,978,365
Gross profit	290,396	331,049	1,724,786	1,875,328
Operating expenses	559,386	501,225	2,241,237	1,946,667
Loss from operations	(268,990)	(170,176)	(516,451)	(71,339)
Net Loss attributable to common stockholders	(369,597)	(241,386)	(855,425)	(479,371)
Net Loss per share, basic and diluted (1)	(0.07)	(0.05)	(0.18)	(0.10)
Weighted average shares used to compute net loss per share	5,157,077	4,726,091	4,885,151	4,726,091

(1) Does not include 39,500 shares issued following March 31, 2006 at $4.00 per share in connection this offering.

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. 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 March 31, 2006, we had an accumulated deficit of $3,628,660. For the three months ended March 31, 2006 and March 31, 2005, we had incurred losses from operations of $268,990 and $170,176, respectively. As of December 31, 2005, we had an accumulated deficit of $3,259,063. For the years ended December 31, 2005 and 2004, we incurred losses from operations of $516,451 and $71,339, respectively. We may not generate sufficient revenues from product sales in the future to achieve profitable operations. If we are not able 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.

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.

Trader Joe’s accounted for approximately 15% of our sales in 2005 and for approximately 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.

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

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

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

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

United Natural Foods, Inc. accounted for approximately 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.

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 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.

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.

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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 shareholder, Christopher J. Reed. Please see the "Certain Relationships and Related Transactions" section for specific details of these transactions.

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.

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 if not, we anticipate that US EURO Securities, Inc. will apply for quotation of our common stock on the 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 $3.23 per share, or approximately 81%, 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 $3.70 per share or approximately 92%, 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 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 6,994,953 shares of common stock outstanding if all 2,000,000 shares in this offering are sold and 5,994,953 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, 136,158 shares of common stock issuable upon conversion of principal and accrued interest on certain debt at March 31, 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, we paid the dividend in an aggregate of 7,362 shares of common stock, 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 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.

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 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

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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.

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,

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· 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,

· 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.

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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%)
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%)

(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 $1,900,000. As of March 31, 2006, we had $257,000 available for borrowing under the revolving loan agreement. This revolving loan matures on June 30, 2006. 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.

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, we paid the dividend in an aggregate of 7,362 shares of common stock, 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 March 31, 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 March 31, 2006 includes the 293,656 shares sold in this offering as of March 31, 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:

- 39,500 shares sold in this offering after March 31, 2006,

- 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,

- 136,158 shares of common stock issuable upon conversion of principal and accrued interest on certain convertible debt at March 31, 2006, and

- 235,760 shares of common stock issuable upon conversion of 58,940 outstanding shares of Series A preferred stock.

	At March 31, 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	$ 168,877	$ 168,877	$ 168,877
Lines of credit	1,539,946	1,539,946	1,539,946
Total current liabilities	1,708,823	1,708,823	1,708,823
Long-term liabilities			
Long-term debt, less current portion	1,032,374	1,032,374	1,032,374
Notes payable to related parties	252,358	252,358	252,358
Total long-term liabilities	1,284,732	1,284,732	1,284,732
Stockholders' equity:			
Common Stock, par value $.0001 per share; 11,500,000 shares authorized; 5,281,247 shares issued and outstanding; 5,987,591 shares issued and outstanding as adjusted for the sale of 1,000,000 shares; 6,987,591 shares issued and outstanding as adjusted for the sale of 2,000,000 shares	528	599	699
Common stock to be issued from dividend declared on Series A preferred stock (7,362 shares)	29,470	29,470	29,470
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	3,094,171	4,881,939	8,481,839
Accumulated deficit	(3,628,660)	(3,628,660)	(3,628,660)
Total stockholder's equity (deficit)	84,911	1,872,749	5,472,749
Total capitalization	$ 3,078,466	$ 4,866,304	$ 8,466,304

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 March 31, 2006.

Investors participating in this offering will incur immediate, substantial dilution. Our net tangible book value was $(729,995), 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 $(0.14) per share of common stock outstanding at March 31, 2006. We have previously sold 333,156 shares of common stock in this offering, resulting in gross proceeds of $1,332,624 to us, of which 39,500 shares were sold after March 31, 2006. 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 underwriting discounts and commissions and estimated offering expenses, our as adjusted net tangible book value at March 31, 2006, would have been $5,409,489, or $0.77 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 $3.23 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 1,000,000 shares sold, new investors purchasing shares in this offering the would experience an immediate dilution of $3.70 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 March 31, 2006	(0.14)	(0.14)
Increase per common share attributable to new investors	0.44	0.91
Net tangible book value per share of common stock after the offering	0.30	0.77
Dilution per share of common stock to new investors	$ 3.70	$ 3.23
Percentage of dilution per share of common stock to new investors	92%	81%

The following charts illustrate the pro forma proportionate ownership of our common stock if 1,000,000 shares and 2,000,000 shares are sold in the offering (including the 333,156 shares sold in this offering as of the date of this prospectus). These charts compare the relative amounts paid, by the present stockholders, and by investors in this offering, assuming no changes in net tangible book value other than those resulting from the offering:

	Shares Purchased		Total Consideration		
If 50% of Offering sold (1,000,000 shares)	**Number**	**Percent**	**Amount**	**Percent**	**Average price per share**
Existing stockholders (1)	5,328,109	88.9%	$ 4,121,810	60.7%	$ 0.77
New investors	666,844	11.1%	$ 2,667,376	39.3%	$ 4.00
Total	5,994,953	100%	$ 6,789,186	100%	

If 100% of Offering sold (2,000,000 shares)	Number	Percent	Amount	Percent	Average price per share
Existing stockholders (1)	5,328,109	76.2%	$ 4,121,810	38.2%	$ 0.77
New investors	1,666,844	23.8%	$ 6,667,376	61.8%	$ 4.00
Total	6,994,953	100%	$ 10,789,186	100%	

(1) Based on the capital contribution from inception to the date of this prospectus, and includes the 333,156 shares of common stock previously issued in connection with this offering.

The discussion and tables above are based on the number of shares of common stock outstanding through the date of this prospectus, and includes 39,500 shares of common stock issued in connection with this offering following March 31, 2006. Further, the discussion and tables above exclude the following shares underlying outstanding shares of Series A convertible preferred stock, and certain options, warrants and convertible debt, which if issued in accordance with their terms, will result in additional dilution to new investors to the extent that outstanding options and warrants to purchase our common stock are exercised or convertible debt or our Series A convertible preferred stock is converted into shares of our common stock:

- 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,
- 136,158 shares of common stock issuable upon conversion of principal and accrued interest on certain convertible debt at March 31, 2006, and
- 235,760 shares of common stock issuable upon conversion of 58,940 shares of Series A preferred stock.

During the five years prior to the date of the prospectus, we sold shares of common stock for prices ranging from $1.00 to $4.00 per share. In addition, we have not issued and will not issue options or warrants with an exercise price less than 85% of the fair market value of the underlying common stock on the day of the grant.

As an historical reference, we here provide a chart recording all issuance of options and warrants:

Table of Warrants and Options issued with price and date:

Year Issued	Option Strike Price issued	Highest Price Paid for Common Shares
1991	0.02	0.27
1992	1.00	1.00
2000	2.00	2.00
2001	3.00	3.00
2002	6.00	6.00
2005	4.00	4.00

For historical reference and analysis, we provide here a reference table of all issuance of common and preferred shares by Reed’s, Inc. (formerly known as Original Beverage Corp.) in chronological order, beginning with issue of our founder’s shares in 1991:

Historical Table of Stock Issuance for Reed’s, Inc. (fka Original Beverage Corp.)

Type of Issuance	Class*	No. of Shares Issued	Price/Share	Year of Issue
Founder’s stock	C	3,200,000	0.0001	1991
Private investment	C	187,500	0.267	1991
Private investment	C	50,000	0.75	1993
Private investment	C	10,000	1.50	1996
Exempt private placement	C	141,100	1.50	1999
SCOR direct public offering	C	450,275	2.00	2000
Exempt private placement (existing shareholder)	C	250,000	2.00	2000
Note conversion options exercise (from 1991)	C	200,000	0.75	2000
Warrant exercise (from 1991)	C	37,500	1.00	2000
Employee bonus grants	C	1,500	2.00	2000
China Cola acquisition	C	130,000	2.00	2000
Options exercise (from 1991)	C	20,000	1.00	2001
Employee bonus grants	C	14,500	2.00	2001
Vendor payment	C	3,200	2.00	2001
Exempt private placement (existing shareholder)	C	500	3.00	2001
Loan conversion option exercise (from 1991)	C	8,889	1.125	2001
Loan conversion option exercise (from 1992)	C	11,877	1.50	2001
Exempt private placement (existing shareholder)	C	3,750	4.00	2001
Employee bonus grants	C	1,500	3.333	2003
Exempt private placement (existing shareholder)	C	3,000	3.50	2003
Exempt private placement (existing shareholders)	‡Pr	‡33,440	‡10.00	2004
Corporate note conversion exercised (from 2001)	‡Pr	‡25,500	‡10.00	2004

Exercise of options, exercise price of $0.20	C	262,500	0.20	2005
Issuance of shares on preferred stock dividend	C	7,362	4.00	2005-06
Sale of common stock in this offering	C	333,156	4.00	2005-06

Average share price excluding founder’s shares and initial seed, including conversion of Pr -- $1.81/share
‡ Series A Preferred at $10 par value convertible to 4 common shares
* Type of share issued C=Common, Pr=Preferred

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

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

Overview

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

- Reed’s Ginger Brews,
- Virgil’s Root Beer and Cream Sodas,

- China Colas,
- Reed’s Ginger Juice Brews,
- Reed’s Ginger Candies, and
- Reed’s Ginger 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.

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

	Direct sales to large retailer accounts	% of total sales	Local direct distribution	% of total sales	Natural, gourmet and mainstream distributors	% of total	Total sales
2005	$ 1,536,896	16	$ 751,999	8	$ 7,181,390	76	$ 9,470,285
2004	1,983,598	22	395,601	4	6,599,166	74	8,978,365
2003	1,286,365	19	90,121	1	5,405,290	80	6,781,776

Historically, we have focused our marketing efforts on natural and gourmet food stores. In 2003, we expanded our marketing efforts to include more mainstream markets. These efforts included selling our products directly to:

- large retail accounts, such as Costco, BJ Wholesale, and Cost Plus World Markets, and
- the natural food section of mainstream national supermarket chains, such as Safeway, Kroger’s, Ralph’s and Bristol Farms.

In addition, since 2003, we have introduced new products and offer specialty beverage packaging options not typically available in the marketplace into the marketplace that have contributed to our growth in sales. These products include a 5-liter “party keg” version of our Virgil’s Root Beer and Cream Soda, 12-ounce long neck bottles of our Virgil’s Cream Soda and 750 ml size bottles of our Reed’s Original Ginger Brew, Extra Ginger Brew and Spiced Apple Brew.

We gauge the financial success of our company by a number of different parameters. Because our industry typically values companies on a top-line basis, one of our main company goals is to increase net sales. Our net sales have increased each year during the period from 2001 to 2005, as follows:

	2001	2002	2003	2004	2005
Net sales	$ 6,200,000	$ 6,400,000	$ 6,800,000	$ 9,000,000	$ 9,500,000

We believe that the increase in net sales over this period comes from three factors:

· successes in our Southern California direct distribution strategy,

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· increases in our core of national distribution to natural and gourmet food stores and mainstream supermarket chains, and

· increases in our direct sales to large retailers.

Almost as important as increasing our net sales are increasing our gross margins. We continue to work to reduce costs related to production of our products. However, we have encountered difficulties in increasing our gross margins due to certain factors, including:

· inefficiencies commensurate with a start-up period for the Brewery that we purchased in 2002 as our West Coast production facility, and

· higher freight, glass and production expenses due to the increase in the cost of fuel and increases in the price of ingredients in our products.

In 2002, we purchased and outfitted the Brewery, in part to help reduce both production costs and freight costs associated with our west coast sales. Gross margins decreased from 24.8% in 2002 to 19.5% in 2003 as a principal result of the start-up of the Brewery. Gross margins increased to 20.9% in 2004 as a principal result of attaining greater functionality and efficiencies in our operation of the Brewery by our own personnel and being able to produce and ship products in the western half of the Untied States from a west coast facility. However, in 2005, gross margins decreased to 18.2% as a principal result of increases in fuel prices, which put downward pressure on our margins due to increased freight expenses and increased glass and production costs, both of which are sensitive to fuel costs.

In addition, our west coast Brewery facility is running at 40% of capacity. We had difficulties with the underutilization of the Brewery at 40% of capacity as a result of working out problems associated with the flavor of our ginger brew products produced at the Brewery, causing us to increase freight and other associated expenses with producing and shipping such products nationally from our east coast co-packing facility. Management is committed to selling a high quality, great tasting product. Since the east coast co-packer is producing such a product, management has elected to continue to sell that product on the west coast, even though it negatively impacts our gross margins. As we are able to make the Brewery become more fully utilized, we believe that we will experience improvements in gross margins due to freight and production savings.

Trends, Risks, Challenges, Opportunities That May or Are Currently Affecting Our Business

Our main challenges, trends, risks and opportunities that could affect or are affecting our financial results include but are not limited to:

Fuel Prices - Our freight rates were approximately 9.7% of net sales during 2005. We expect freight rates to increase by an additional 5% to 10% in 2006 as result of the continuing increase in fuel prices. However, as we increase production at the Brewery, for delivery of products in the western half of the United States, we expect to offset this trend, at least in part, by reducing our need for cross-country freight services from our eastern co-packing facility.

Low Carbohydrate Diets and Obesity - Our products are not geared for the low carbohydrate market. Consumer trends have reflected higher demand for lower carbohydrate products. Despite this trend, we achieved an increase in our sales growth in 2005. We monitor these trends closely and have started developing low-carbohydrate versions of some of our beverages, although we do not have any currently marketable low-carbohydrate products.

Distribution Consolidation - There has been a recent trend towards continued consolidation of the beverage distribution industry through mergers and acquisitions. This consolidation results in a smaller number of distributors to market our products and potentially leaves us subject to the potential of our products either being dropped by these distributors or being marketed less aggressively by these distributors. As a result, we have initiated our own direct distribution to mainstream supermarkets and natural and gourmet foods stores in Southern California and to large national retailers. Consolidation among natural foods industry distributors has not had an adverse affect on our sales.

Consumer Demanding More Natural Foods - The rapid growth of the natural foods industry has been fueled by the growing consumer awareness of the potential health problems due to the consumption of chemicals in the diet. Consumers are reading ingredient labels and choosing products based on them. We design products with these consumer concerns in mind. We feel this trend toward more natural products is one of the main trends behind our growth. Recently, this trend in drinks has not only shifted to products using natural ingredients, but also to products with added ingredients possessing a perceived positive function like vitamins, herbs and other nutrients. Our ginger-based products are designed with this consumer demand in mind.

Supermarket and Natural Food Stores - More and more supermarkets, in order to compete with the growing natural food industry, have started including natural food sections. As a result of this trend, our products are now available in mainstream supermarkets throughout the United States in natural food sections. Supermarkets can require that we spend more advertising money and they sometimes require slotting fees. We continue to work to keep these fees reasonable. Slotting fees in the natural food section of the supermarket are generally not as expensive as in other areas of the store.

Beverage Packaging Changes - Beverage packaging has continued to innovate, particularly for premium products. There is an increase in the sophistication with respect to beverage packaging design. While we feel that our current core brands still compete on the level of packaging, we continue to experiment with new and novel packaging designs such as the 5-liter party keg and 750 ml champagne style bottles. We have further plans for other innovative packaging designs.

Packaging or Raw Material Price Increases - An increase in packaging or raw materials has caused our margins to suffer and has negatively impacted our cash flow and profitability. We continue to search for packaging and production alternatives to reduce our cost of goods.

Cash Flow Requirements - Our growth will depend on the availability of additional capital infusions. We have a financial history of losses and are dependent on non-banking sources of capital, which tend to be more expensive and charge higher interest rates. Any increase in costs of goods will further increase losses and will further tighten cash reserves. We intend to use the proceeds from this offering to increase our liquidity to be able to make cash expenditures, as needed.

***Interest Rates* -** We use lines of credit as a source of capital and are negatively impacted as interest rates rise. Management believes this offering will provide capital sufficient for us to reduce our debt level and allow us to lower our incremental borrowing costs.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. GAAP requires us to make estimates and assumptions that affect the reported amounts in our financial statements including various allowances and reserves for accounts receivable and inventories, the estimated lives of long-lived assets and trademarks and trademark licenses, as well as claims and contingencies arising out of litigation or other transactions that occur in the normal course of business. The following summarize our most significant accounting and reporting policies and practices:

Revenue Recognition. Revenue is recognized on the sale of a product when the product is shipped, which is when the risk of loss transfers to our customers, and collection of the receivable is reasonably assured. A product is not shipped without an order from the customer and credit acceptance procedures performed. The allowance for returns is regularly reviewed and adjusted by management based on historical trends of returned items. Amounts paid by customers for shipping and handling costs are included in sales.

Trademark License and Trademarks. Trademark license and trademarks primarily represent the costs we pay for exclusive ownership of the Reed's® trademark in connection with the manufacture, sale and distribution of beverages and water and non-beverage products. We also own the China Cola® trademark and have applied for a trademark on the Virgil's name. In addition, we own a number of other trademarks in the United States as well as in a number of countries around the world. We account for these items in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Under the provisions of SFAS No. 142, we do not amortize indefinite-lived trademark licenses and trademarks.

In accordance with SFAS No. 142, we evaluate our non-amortizing trademark license and trademarks quarterly for impairment. We measure impairment by the amount that the carrying value exceeds the estimated fair value of the trademark license and trademarks. The fair value is calculated by reviewing net sales of the various beverages and applying industry multiples. Based on our quarterly impairment analysis the estimated fair values of trademark license and trademarks exceeded the carrying value and no impairments were identified during the years ended December 31, 2005 or 2004 or during the three months ended March 31, 2006.

Long-Lived Assets. Our management regularly reviews property, equipment and other long-lived assets, including identifiable amortizing intangibles, for possible impairment. This review occurs quarterly or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. If there is indication of impairment of property and equipment or amortizable intangible assets, then management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. The fair value is estimated at the present value of the future cash flows discounted at a rate commensurate with management's estimates of the business risks. Quarterly, or earlier if there is indication of impairment of identified intangible assets not subject to amortization, management compares the estimated fair value with the carrying amount of the asset. An impairment loss is recognized to write down the intangible asset to its fair value if it is less than the carrying amount. Preparation of estimated expected future cash flows is inherently subjective and is based on management's best estimate of assumptions concerning expected future conditions. No impairments were identified during the years ended December 31, 2005 or 2004 or during the three months ended March 31, 2006.

Management believes that the accounting estimate related to impairment of our long lived assets, including our trademark license and trademarks, is a "critical accounting estimate" because: (1) it is highly susceptible to change from period to period because it requires management to estimate fair value, which is based on assumptions about cash flows and discount rates; and (2) the impact that recognizing an impairment would have on the assets reported on our balance sheet, as well as net income, could be material. Management's assumptions about cash flows and discount rates require significant judgment because actual revenues and expenses have fluctuated in the past and we expect they will continue to do so.

In estimating future revenues, we use internal budgets. Internal budgets are developed based on recent revenue data for existing product lines and planned timing of future introductions of new products and their impact on our future cash flows.

Advertising. We account for advertising production costs by expensing such production costs the first time the related advertising is run.

Accounts Receivable. We evaluate the collectibility of our trade accounts receivable based on a number of factors. In circumstances where we become aware of a specific customer's inability to meet its financial obligations to us, a specific reserve for bad debts is estimated and recorded which reduces the recognized receivable to the estimated amount our management believes will ultimately be collected. In addition to specific customer identification of potential bad debts, bad debt charges are recorded based on our historical losses and an overall assessment of past due trade accounts receivable outstanding.

Inventories. Inventories are stated at the lower of cost to purchase and/or manufacture the inventory or the current estimated market value of the inventory. We regularly review our inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated forecast of product demand and/or our ability to sell the product(s) concerned and production requirements. Demand for our products can fluctuate significantly. Factors that could affect demand for our products include unanticipated changes in consumer preferences, general market conditions or other factors, which may result in cancellations of advance orders or a reduction in the rate of reorders placed by customers. Additionally, our management's estimates of future product demand may be inaccurate, which could result in an understated or overstated provision required for excess and obsolete inventory.

Income Taxes. Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax asset or liability is established for the expected future consequences of temporary differences in the financial reporting and tax bases of assets and liabilities. We consider future taxable income and ongoing, prudent, and feasible tax planning strategies, in assessing the value of our deferred tax assets. If our management determines that it is more likely than not that these assets will not be realized, we will reduce the value of these assets to their expected realizable value, thereby decreasing net income. Evaluating the value of these assets is necessarily based on our management's judgment. If our management subsequently determined that the deferred tax assets, which had been written down, would be realized in the future, the value of the deferred tax assets would be increased, thereby increasing net income in the period when that determination was made.

Results of Operations

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2005

Net sales increased by $161,936, or 8.9%, from $1,817,336 in the first three months ended March 31, 2005 to $ 1,979,272 in the first three months ended March 31, 2006. Sales of our core Reed's Ginger Brew itemsincreased from $916,000 in the first three months ended March 31, 2005 to $1,073,000 in the first three months ended March 31, 2006. Sales of our Virgil's Root Beer 12 ounce bottles and our new Virgil's Cream soda increased by $76,000 from $390,000 and $101,000, respectively, in the first three months ended March 31, 2005 to $467,000 and $100,000, respectively, in the first three months ended March 31, 2006. Candy sales increased by $76,000 from $129,000 in the first three months ended March 31, 2005 to $205,000 in the first three months ended March 31, 2006. These increases were offset by decreases in sales in certain of our other products. Sales of our new Virgil's 5 liter party keg labels decreased from $148,000 in the first three months ended March 31, 2005 to $50,000 in the first three months ended March 31, 2006 due to non-recurring sales to certain large retailers. Ice cream sales increased from $34,000 in the first three months ended March 31, 2005 to $36,000 in the first three months ended March 31, 2006.

Cost of sales increased by $202,589, or 13.6%, from $1,486,287 in the first three months ended March 31, 2005 to $1,688,876 in the first three months ended March 31, 2006. As a percentage of net sales, cost of sales increased from 81.8% in the first three months ended March 31, 2005 to 85.3% in the first three months ended March 31, 2006. Costs of sales increased primarily as a result of increased depreciation (0.6%), increased production expenses due to fuel costs (2.5%) and increased packaging costs (0.4%).

Gross profit decreased from $331,049 in the first three months ended March 31, 2005 to $290,396 in the first three months ended March 31, 2006. As a percentage of net sales, gross profit decreased from 18.2% in the first three months ended March 31, 2005 to 14.7% in the first three months ended March 31, 2006. Effective February 1, 2006, we approved a price increase in a number of our product lines at an average of approximately 7% in order to attempt to increase our gross profit. The full implementation of the price increase is expected to be completed by the middle of the third quarter of 2006. We expect margins to increase by the end of 2006 due to this price increase, provided that these price increases do not adversely affect our volume of sales.

General and administrative and selling expenses increased by $50,719 or 10.2% from $499,099, in the first three months ended March 31, 2005 to $549,818 in the first three months ended March 31, 2006 and increased as a percentage of net sales from 27.5% in the first three months ended March 31, 2005 to 27.8% in the first three months ended March 31, 2006. The increase in expenses was due to increased salaries due to a larger sales force (0.8%), increased sales expenses from increased fuel costs and increased telephone charges (3.8%), increased utility expenses (1.1%) and increased legal and accounting costs due to the costs associated with being a public reporting company(0.8%). Health insurance costs increased due to more people being covered by our health plan (2.3%). Payroll increased due to temporary employee services incurred as a result of an employee departure during the quarter ended March 31, 2006 (2.0%). We reduced our promotional expenses due to fewer club store demos (-1.9%).

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Legal defense costs for the three months ended March 31, 2006 and 2005 were $9,568 and $2,216, respectively. These expenses were incurred for a lawsuit brought against us by a consultant alleging funds due him. We mounted a successful defense in this action and were successful on an appeal of this matter.

Interest expense increased by $29,397, or 41.3%, from $71,210 in the first three months ended March 31, 2005 to $100,607, in the first three months ended March 31, 2006. The increase in interest expense was due to increasing short term interest rates, increased borrowings on our available lines of credit and increasing our long term debt, which was used to purchase brewing equipment, vehicles and office equipment.

As a result of the foregoing, we experienced a net loss of $241,386 in the first three months ended March 31, 2005 and $369,597 in the first three months ended March 31, 2006. Accordingly, we experienced a net loss of $0 .05 per share in the first three months ended March 31, 2005 and $0.07 per share in the first three months ended March 31, 2006.

Twelve Months Ended December 31, 2005 Compared to Twelve Months Ended December 31, 2004

Net sales increased by $491,920, or 5.5%, from $8,978,365 in 2004 to $9,470,285 in 2005. Sales of our core Reed’s Ginger Brew items increased from $3,681,000 in 2004 to $4,103,000 in 2005. Sales of our Virgil’s Root Beer 12 ounce bottles and our new Virgil’s Cream soda increased from $1,591,000 and $139,000, respectively, in 2004 to $2,091,000 and $667,000, respectively, in 2005. Candy sales increased from $699,000 in 2004 to $822,000 in 2005. These increases were offset by decreases in sales in certain of our other products. Sales of our new Virgil’s 5 liter party keg labels decreased from $1,002,000 in 2004 to $575,000 in 2005 due to non-recurring sales in 2004 to certain large retailers. Ice cream sales dropped from $196,000 in 2004 to $145,000 in 2005. Our co-packing sales of private labels from the Brewery dropped from $450,048 in 2004 to $239,835 in 2005.

Cost of sales increased by $642,462, or 9.0%, from $7,103,037 in 2004 to $7,745,499 in 2005. Costs of sales as a percentage of sales increased from 79.1% in 2004 to 81.8% in 2005. Costs of sales as a percentage of sales increased primarily as a result of increases in higher freight costs (0.5%), packaging costs (0.8%) and production expenses (4.4%) due to increased fuel costs and increased depreciation (0.3%), offset by decreases in ingredient costs (-3.3%).

We calculate gross profit as total revenues less cost of sales. Gross profit decreased from $1,875,328 in 2004 to $1,724,786 in 2005. As a percentage of net sales, gross profit decreased from 20.9% in 2004 to 18.2% in 2005. Effective February 1, 2006 we increased prices in a number of our product lines at an average of approximately 7% in order to attempt to increase our gross profit. We expect margins to increase by the end of 2006 due to this price increase, provided that these price increases do not adversely affect our volume of sales.

General and administrative and selling expenses increased by $213,958 or 11.5% from $1,866,511, in 2004 to $2,080,469 in 2005 and increased as a percentage of net sales from 20.8% in 2004 to 22.0% in 2005. The increase in expenses was primarily due to increased salaries due to a larger sales force, more commissions due to increased number of outside sales brokers, increased sales fuel costs, increased fuel expenses for plant heating requirements and increased legal and accounting costs due to the costs associated with this offering and becoming a reporting company under the Exchange Act. In addition, if we are able to receive a significant portion of the proceeds from this offering, we intend to increase our in-house sales force, which we anticipate will permit us to increase sales of our product lines in the future. We anticipate a lead time until these new sales people generate enough additional revenue to support their additional cost.

Beginning in January 2000, we extended an interest-free line of credit to one of our consultants, Peter Sharma, III who was a member of our board until January 27, 2006. In July 2005, a repayment schedule began at $1,000 per month and ending with a balloon payment for the remaining balance, due on December 31, 2007. As of December 31, 2005, management has chosen to reserve the entire amount of the outstanding balance of $124,210. Management is pursuing collection efforts. Mr. Sharma was a registered representative of Brookstreet Securities Corporation until May 4,

2006. Brookstreet is one of our underwriters in this offering. Mr. Sharma received compensation of approximately $28,000 through his former relationship with Brookstreet. We are advised by Brookstreet that Mr. Sharma will not participate in any future sales through Brookstreet in connection with this offering.

Legal defense costs for the years ended December 31, 2005 and 2004 were $36,558 and $80,156, respectively. These expenses were incurred for a lawsuit brought against us by a consultant alleging funds due him. We mounted a successful defense in this action and were successful on an appeal of this matter.

Interest expense increased by $54,472, or 21.4%, from $255,032 in 2004 to $309,504 in 2005. The increase in interest expense was primarily due to increased borrowing on our receivable line of credit with our principal lender. We anticipate using a portion of the proceeds from this offering to pay down existing lines of credit, and expect that such proceeds will reduce our need for debt financing and allow us to obtain more favorable borrowing rates, thus offsetting the rise in the prime rate, and therefore interest expense should decrease.

Loss on extinguishment of debt decreased from $153,000 in 2004 to none in 2005. This loss related to the discount on the conversion of approximately $255,000 of our debt into 25,500 shares of our Series A preferred stock. Upon conversion, the excess of the fair market price of the underlying common stock over the conversion price of $1.50 per share resulted in the loss on extinguishment of debt.

As a result of the foregoing, we experienced a net loss of $479,371 and $855,425 in 2004 and 2005, respectively. In addition, we accrued a $29,470 dividend payable to the holders of our Series A preferred stock in 2005, which we elected to pay in the form of 7,362 shares of common stock. Accordingly, we experienced a net loss of $0.10 and $0.18 per share in 2004 and 2005, respectively.

Management recognizes the operating losses and costs incurred have negatively impacted liquidity. We anticipate using a portion of the proceeds from this offering to pay down existing lines of credit, and expect that such proceeds will reduce our need for debt financing and allow us to obtain more favorable borrowing rates, thus offsetting the rise in the prime rate, and therefore interest expense should decrease. In addition, we anticipate that the price increases management instituted will lead to increased gross margins and decreases in loss from operations, thus improving our profitability.

Liquidity and Capital Resources

Historically, we have financed our operations primarily through private sales of common stock, preferred stock, convertible debt, a line of credit from a financial institution, and cash generated from operations.

As of March 31, 2006, we had a working capital deficit of $ 1,315,156, compared to a working capital deficit of $1,594,758 as of December 31, 2005. This decrease in our working capital deficit should not be viewed as a change in trend. The primary factor contributing to a reduction in our working capital deficit was the cash received from our initial public offering. As of December 31, 2005, we had a working capital deficit of $1,594,758, compared to a working capital deficit of $684,647 as of December 31, 2004. This increase in our working capital deficit was primarily attributable to increases in accounts payable and our line of credit. These increases were required due to the loss we incurred in 2005 and costs incurred for this offering. Cash and cash equivalents were $195,457 as of March 31, 2006, as compared to $27,744 as December 31, 2005 and $42,488 as of December 31, 2004.

As of March 31, 2006, we had outstanding borrowings of $1,539,946 under the following line of credit agreements:

· We have an unsecured $50,000 line of credit with US Bank which expires in December 2009. Interest is payable monthly at the prime rate, as published in the Wall Street Journal, plus 12% per annum. Our outstanding balance was $26,646 at March 31, 2006 and there was $23,354 available under the line of credit. The interest rate in effect at March 31, 2006 was 19.75%.

· We have a line of credit with Merrill Lynch. Robert T. Reed, Jr., our Vice President and National Sales Manager - Mainstream and a brother of our Chief Executive Officer, Christopher J. Reed has pledged certain securities (which do not include any of our securities which are owned by Mr. Reed) in his personal securities account on deposit with Merrill Lynch as collateral for repayment of the line of credit. The amount of the line of credit is based on a percentage value of such securities. At March 31, 2006, the outstanding balance on the line of credit was $642,209, and there was $47,140 available under the line of credit The line of credit bears interest at a rate of rate of 3.785% per annum plus LIBOR (8.695% as of March 31, 2006). In consideration for Mr. Reed's pledging his stock account at Merrill Lynch as collateral, we have agreed to pay Mr. Reed 5% per annum of the amount we borrow from Merrill Lynch, as a loan fee. During the years ended December 31, 2005 and 2004, we paid Mr. Reed $15,250 and $3,125, respectively, under this agreement. In addition, Christopher J. Reed has pledged all of his shares of common stock to Robert T. Reed, Jr. as collateral for the shares pledged by Robert T. Reed, Jr.

· We have a line of credit with Business Alliance Capital Corporation. This line of credit allows us to borrow a maximum amount of $1,910,000, based on a borrowing base of accounts receivables and inventory. The borrowing base on the accounts receivable is 80% of all eligible receivables, which are primarily accounts receivables under 90 days. The inventory borrowing base is 50% of eligible inventory. As of March 31, 2006, the outstanding balance on the line of credit was $871,091. The interest rate on this line of credit is prime plus 2.75%, and the interest rate at March 31, 2006 was 10.5%. The line of credit expires on June 30, 2006 and is guaranteed by Christopher J. Reed and his wife, Judy Reed, who are directors and our principal stockholders. This revolving line of credit is secured by all of our assets, including accounts receivable, inventory, trademarks and other intellectual property, building and equipment. As of March 31, 2006, we had approximately $257,000 of availability on this line of credit.

Our senior line of credit with Business Alliance Capital Corporation expires on June 30, 2006. We believe that we will either be able to negotiate to extend this line of credit or find a replacement line of credit. We cannot assure you on what terms we will be able to extend or replace this line of credit. If we are unable to extend or replace this line of credit and are placed in a position of default under the line of credit, there would be a material adverse effect our financial condition.

At March 31, 2006, we did not have any material commitments for capital expenditures.

Net cash used in operating activities was $491,428 in the quarter ended March 31, 2006, as compared to net cash provided by operating activities was $135,465 in the quarter ended March 31, 2005. This increase in net cash used in operating activities was primarily due to the increase in net loss to $369,587 in the quarter ended March 31, 2006, as compared to $241,368 in the quarter ended March 31, 2005, increases in inventory and accounts receivable in the quarter ended March 31, 2006 from the prior corresponding period, offset by decreases in prepaid expenses in the quarter ended March 31, 2006 from the prior corresponding period.

Net cash used in operating activities decreased to $42,610 in the year ended December 31, 2005 from $176,020 in the year ended December 31, 2004. This decrease primarily was due to the increase in net loss to $825,955 in 2005, as compared to $479,371 in 2004, decreases in accrued interest and increases in prepaid expenses in 2005 from 2004 and a non-recurring write off in deferred offering costs of $153,000 in 2004, offset by a provision for amounts due from a former director in 2005 and the decrease of accounts receivable and inventory in 2005 from 2004.

We used $19,271 in investing activities in the quarter ended March 31, 2006, as compared to $37,001 in the quarter ended March 31, 2005. Net cash used in investing activities in each of these quarters primarily consisted of the purchase of equipment for the Brewery. In the quarter ended March 31, 2005, we made a loan to a director in the amount of $12,813 before we commenced our public offering.

We used $214,667 in investing activities in the year ended December 31, 2005, as compared to $248,187 in the year ended December 31, 2004. Net cash used in investing activities in each of these years primarily consisted of the purchase of equipment for the Brewery and loans made to a director before we commenced our public offering. In the years ended December 31, 2005 and 2004, we purchased equipment for the Brewery in the amounts of $181,654 and $204,147, respectively, and made loans to a former director in the amounts of $33,013 and $44,040, respectively.

Cash flow provided from financing activities in the quarter ended March 31, 2006 was $678,412, as compared to cash flow used in financing activities of $107,792 in the quarter ended March 31, 2005. We received cash from the sale of common stock of $811,955 in this offering in the quarter ended March 31, 2006. We increased borrowings on our line of credit in the amount of $93,993 in quarter ended March 31, 2006, as compared to our making payments on our line of credit in the of $194 in the in the quarter ended March 31, 2005. Deferred offering costs increased to $198,833 in the quarter ended March 31, 2006 as compared to $63,062 in the quarter ended March 31, 2005. The increase in deferred offering costs primarily related to offering costs, such as accounting fees, legal fees, and selling expenses, that we incurred in connection with this offering. We made principal payments on our long-term debt of $28,703 and $44,536 in the quarters ended March 31, 2006 and 2005, respectively.

Cash flow provided from financing activities was $242,533 in the year ended December 31, 2005, as compared to $453,765 in the year ended December 31, 2004. We increased borrowings on our line of credit in 2005 and long term debt in the aggregate amount of approximately $115,000 primarily to purchase manufacturing equipment to improve the Brewery and vehicles for our Southern California direct distribution program. In addition, we received cash from the sale of common stock of approximately $197,000 in this offering in 2005 and approximately $334,000 from the issuance of preferred stock in 2004. The slight increase in cash provided by financing activities from 2004 to 2005 was offset by larger increases in cash used in financing activities from 2004 to 2005. Increases in deferred offering costs increased to $332,858 in 2005 from $219,955 in 2004. The increase in deferred offering costs primarily related to offering costs, such as accounting fees, legal fees, and selling expenses, that we incurred in connection with this offering. We made principal payments on our long-term debt of $263,815 and $208,852 in the years ended December 31, 2005 and 2004, respectively. We also paid to Judy Reed the amount of $21,000 in 2005 as repayment of debt.

During the quarter ended March 31, 2006, we had a net loss of $369,597. At March 31, 2006, we had a working capital deficiency of $1315,156 and an accumulated deficit of approximately $3,630,000. During the year ended December 31, 2005, we had a net loss of $825,955. At December 31, 2005, we had a working capital deficiency of $1,594,758 and an accumulated deficit of approximately $3,260,000.

We have a “best efforts” commitment from our underwriters, US EURO Securities, Inc. and Brookstreet Securities Corporation, to assist us in continuing the process of raising capital through this public offering of our common stock which we commenced in 2005. We believe that we will be successful in raising additional funds from this public offering. However we cannot predict the exact amount which will be raised. Until the commencement of this public offering, we will continue to experience challenges with managing cash flow, but we believe that we have enough liquidity to operate the business in the short term. The addition of cash from this public offering, if successful, would provide us the ability to improve our liquidity position and provide capital to continue to expand the business. The remaining amount of common stock that we can sell in connection with this public offering is 1,666,844 shares at an anticipated offering price of $4.00 per share. If the remainder of the shares were sold, we would receive approximately $6,445,000, net of offering expenses.

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. 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 may not generate sufficient revenues from product sales in the future to achieve profitable operations. If we are not able 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.

We are conducting this offering to raise an additional approximate $6,445,000 of net proceeds from the sale of our common stock. We intend to use the proceeds from this offering for working capital, the expansion and development of our sales and marketing activities and to invest in infrastructure to increase our operational and manufacturing efficiencies. However, this offering is being conducted on a "best efforts" basis, and we cannot assure you that we will sell the maximum amount of securities being offered hereby. Accordingly, if we cannot receive adequate proceeds from this offering, we may be limited in our ability to expand our business operations as rapidly as we would deem necessary at any time, unless we are able to obtain an 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. This inability could adversely affect our business, results of operations and financial condition.

As we are not required to use our capital sources to pay for the repurchase of shares in the rescission offer, 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.

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.

Recent Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. We have evaluated the impact of the adoption of SFAS 151, and do not believe the impact will be significant to our overall results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 29, Accounting for Non-monetary Transactions." The amendments made by Statement 153 are based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for non-monetary exchanges of similar productive assets and replace it with a broader exception for exchanges of non-monetary assets that do not have commercial substance. Previously, Opinion 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. Opinion 29 provided an exception to its basic measurement principle (fair value) for exchanges of similar productive assets. The Board believes that exception required that some non-monetary exchanges, although commercially substantive, be recorded on a carryover basis. By focusing the exception on exchanges that lack commercial substance, the Board believes this Statement produces financial reporting that more faithfully represents the economics of the transactions. The Statement is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for non-monetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this Statement shall be applied prospectively. We have evaluated the impact of the adoption of SFAS 153, and do not believe the impact will be significant to our overall results of operations or financial position.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment.” Statement 123(R) will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123(R) replaces FASB Statement No. 123, “Accounting for Stock-Based Compensation,” and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” Statement 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Public entities (other than those filing as small business issuers) will be required to apply Statement 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. We have evaluated the impact of the adoption of SFAS 123(R), and do not believe the impact will be significant to our overall results of operations or financial position. All options issued prior to December 31, 2005 vested immediately, and therefore, there is no associated unamortized compensation that will be recorded in future periods relating to these options.

In May 2005 the FASB issued SFAS Number 154, “Accounting Changes and Error Corrections.” This SFAS provides guidance on accounting for and reporting of accounting changes and error corrections. We have evaluated the impact of SFAS 154 and do not believe the impact will be significant to our overall results of operations or financial position.

We do not believe that the adoption of the above recent pronouncements will have a material effect on our consolidated financial position or results of operations.

On September 22, 2005, the SEC issued rules to delay by one-year the required reporting by management on internal controls over financial reporting for non-accelerated filers. The new SEC rule extends the compliance date for such registrants to fiscal years ending on or after July 15, 2007. Accordingly, we qualify for the deferral until the year ending December 31, 2007 in order to comply with the internal control reporting requirements.

Inflation

Although management expects that our operations will be influenced by general economic conditions, we do not believe that inflation has a material effect on our results of operations.

BUSINESS

Background

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

- Reed’s Ginger Brews,
- Virgil’s Root Beer and Cream Sodas,
- China Colas,
- Reed’s Ginger Juice Brews,
- Reed’s Ginger Candies, and
- Reed’s Ginger 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.

We produce and co-pack our products principally at our company-owned facility in Los Angeles, California, known as the Brewery, and at a contracted co-packing facility in Pennsylvania. We also co-pack certain of our products at smaller co-packing facilities in the United States and in Europe.

Key elements of our business strategy include:

- increased national direct sales and distribution,
- increased store placement with mainstream stores and retailers,
- strong national distributorships,
- stimulate strong consumer demand for our existing brands and products,
- develop additional unique alternative beverage brands and other products, and
- specialty packaging like our 5-liter party kegs, our ceramic swing-lid bottle and our 750 ml. champagne bottle.

Our current sales efforts are focused in three areas:

- sales to mainstream, natural and specialty food stores and in the United States and, to a lesser degree, Canada, through our regional distributors and sales representatives,
- direct sales effort to large national retailers, and

· direct distribution by our trucks and drivers to retailers in Southern California.

We believe that these marketing efforts have contributed to our growth. We intend to continue to expand our sales personnel in each of these marketing areas with the proceeds from this offering.

In addition, since 2003, we have introduced new products and offer specialty beverage packaging options not typically available in the marketplace into the marketplace that have contributed to our growth in sales. These products include a 5-liter "party keg" version of our Virgil's Root Beer and Cream Soda, 12-ounce long neck bottles of our Virgil's Cream Soda and 750 ml size bottles of our Reed's Original Ginger Brew, Extra Ginger Brew and Spiced Apple Brew and a one pint version of our Virgil's Root Beer with a swing-lid. In addition, we have recently introduced a new flavor, our Black Cherry Cream soda in a 12-ounce bottle. These new packaging options are being utilized in our marketing efforts.

We create consumer demand for our products by

- supporting in-store sampling programs of our products,
- generating free press through public relations,
- advertising in national magazines targeting our customers,
- maintaining a company website (*www.reedsgingerbrew.com*), and
- participating in large public events as sponsors.

Our business expansion plans are contingent to a great extent on the success of this offering. If all or most of the shares being offered hereby are sold, we expect to be able to increase our marketing, advertising and distribution campaigns, and the number of products we offer. The failure to raise the maximum proceeds offered hereby will limit our ability to expand our operations.

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.

Historical Development

In June 1987, Christopher J. Reed, our founder and Chief Executive Officer, began development of Reed's Original Ginger Brew, his first beverage creation. After two years of development, the product was introduced to the market in Southern California stores in 1989. By 1990, we began marketing our products through natural food distributors and moved our production to a larger facility in Boulder, Colorado.

In 1991, we incorporated our business operations in the state of Florida under the name of Original Beverage Corporation and moved all of our production to a co-pack facility in Pennsylvania. We began exhibiting at national natural and specialty food trade shows, which brought national distribution in natural, gourmet and specialty foods and the signing of our first mainstream supermarket distributor. Our products began to receive trade industry recognition as an outstanding new product. The United States National Association of the Specialty Food Trade, or NASFT, named Original Ginger Brew as an "Outstanding Beverage Finalist" in the United States, and the Canadian Fancy Food Association, or CFFA, awarded us "Best Imported Food Product."

Throughout the 1990's, we continued to develop and launch new ginger brew varieties. Reed's Ginger Brews reached broad placement in natural and gourmet foods stores nationwide through major specialty, natural/gourmet and mainstream food and beverage distributors.

In 1997, we began licensing the products of China Cola and eventually acquired the rights to that product in December 2000. In addition, we launched Reed’s Crystallized Ginger Candy, a product which we manufacture in Fiji under a proprietary, natural, non-sulfured process. In 1999, we purchased the Virgil’s Root Beer brand from the Crowley Beverage Company. The brand has won numerous gourmet awards. In 2000, we began to market three new products: Reed’s Original Ginger Ice Cream, Reed’s Cherry Ginger Brew and a beautiful designer 10-ounce gift tin of our Reed’s Crystallized Ginger Candy. In December 2000, we purchased an 18,000 square foot warehouse property, the Brewery, in Los Angeles, California, to house our west coast production and warehouse facility. The Brewery now also serves as our principal executive offices. In 2001, we changed our state of incorporation to Delaware and also changed our name to Reed’s, Inc. We also introduced our Reed’s Chocolate Ginger Ice Cream and Reed’s Green Tea Ginger Ice Cream products and expanded our confectionary line with two new candy products: Reed’s Crystallized Ginger Baking Bits and Reed’s Ginger Candy Chews. In 2002, we launched our Reed’s Ginger Juice Brew line, with four flavors of organic juice blends. In November 2002, we completed our first test runs of Reed’s and Virgil’s products at the Brewery and in January 2003, our first commercially available products came off the Los Angeles line. In 2003, we commenced our own direct distribution in Southern California and introduced sales of our 5-liter Virgil’s party keg. In 2004, we expanded our product line to include Virgil’s Cream Soda (including in a 5-liter keg), Reed’s Spiced Apple Brew in a 750 ml. champagne bottle and draught Virgil’s Root Beer and Cream Soda. In 2006, we expanded our product line to include Virgil’s Black Cherry Cream Soda.

Industry Overview

Our beverages are classified as New Age beverages, a category that includes natural soda, fruit juices and fruit drinks, ready-to-drink teas, sports drinks and water. According to Beverage Marketing Corporation, in 2004, total wholesale dollar sales in the New Age segment were approximately $16.5 billion in wholesale dollar sales, an increase of 11.3% from 2003. (Source: Beverage World Magazine, April 15, 2006.)

Annual confectionary sales (including chocolate, non-chocolate and gum sales) in the United States were approximately $27.9 billion in 2005, of which approximately $8.7 billion was non-chocolate candy. (Source: National Confectioners Association, 2006 Year in Review.)

According to the International Dairy Foods Association (IDFA), total U.S. sales of ice cream and frozen desserts were estimated at approximately $21 billion. The packaged ice cream industry includes economy, regular, premium and super-premium products. Super-premium ice cream, such as Reed’s Ginger Ice Creams, is generally characterized by a greater richness and density than other kinds of ice cream. This higher quality ice cream generally costs more than other kinds and is usually marketed by emphasizing quality, flavor selection, texture and brand image. IICA attributes almost all of the market growth over the past 10 years to sales of super-premium and premium ice creams, particularly the innovative products. Sales of premium and super-premium styles account for approximately 42% of the total industry revenues, versus approximately 15% for all the “light” formulations combined. (Source: CNN/Money, July 29, 2005.)

Our Products

We currently manufacture and sell 15 beverages, three candies and three ice creams. We make all of our products using premium all-natural ingredients.

We produce carbonated and non-carbonated products. Most sales of our beverage products are of our sodas. According to Spence Information Services (SPINS), which is the only sales information service catering to the natural food trade, for the year 2003,

- Reed’s Ginger Brews and Virgil’s Root Beer held three of the top ten items based on dollar and unit sales among all sugar/fructose sweetened sodas in the natural foods industry in the United States, with Reed’s Extra Ginger Brew holding the number one position, and

- Reed’s Original Ginger Brew and Virgil’s were two of the top ten brands based on dollar and unit sales among all sugar/fructose sweetened sodas in the natural foods industry in the United States, with Reed’s Original Brew holding the number one position.

Our carbonated products include six varieties of Reed's Ginger Brews, Virgil's Root Beer and Cream Sodas, China Cola and Cherry China Cola. We also sell four varieties of a new line of non-carbonated ginger brews called Reed's Ginger Juice Brews.

Our candy products include Reed's Crystallized Ginger Candy, Reed's Crystallized Ginger Baking Bits and Reed's Ginger Candy Chews.

Our ice cream products include Reed's Original Ginger Ice Cream, Reed's Chocolate Ginger Ice Cream and Reed's Green Tea Ginger Ice Cream.

Beverages

Reed's Ginger Brews

Ginger ale is the oldest known soft drink. Before modern soft drink technology existed, non-alcoholic beverages were brewed at home directly from herbs, roots, spices, and fruits. These handcrafted brews were then aged like wine and highly prized for their taste and their tonic, health-giving properties. Reed's Brews are a revival of this home brewing art and we make them with care and attention to wholesomeness and quality, using the finest fresh herbs, roots, spices, and fruits. Our expert brew masters brew each batch and age it with great pride.

We believe that Reed's Ginger Brews are unique in their kettle brewed origin among all mass-marketed soft drinks. Reed's Ginger Brews contain between 8 and 26 grams of fresh ginger in every 12-ounce bottle. We use no refined sugars as sweeteners. Our products differ from commercial soft drinks in three particular characteristics: sweetening, carbonation and coloring for greater adult appeal. Instead of using injected-based carbonation, we produce our carbonation naturally, through slower, beer-oriented techniques. This process produces smaller, longer lasting bubbles that do not dissipate rapidly when the bottle is opened. We do not add coloring. The color of our products comes naturally from herbs, fruits, spices, roots and juices.

In addition, since Reed's Brews are pasteurized, they do not require or contain any preservatives. In contrast, modern commercial soft drinks generally are produced using natural and artificial flavor concentrates prepared by flavor laboratories, tap water, and highly refined sweeteners. Typically, manufacturers make a centrally processed concentrate that will lend itself to a wide variety of situations, waters, and filling systems. The final product is generally cold-filled and requires preservatives for stability. Colors are added that are either natural, although highly processed, or artificial.

In addition, while we make no claim as to any medical or therapeutic benefits of our products, we have found friends and advocates among alternative, holistic, naturopathic, and homeopathic medical practitioners, dieticians and medical doctors, who tell us that they recommend Reed's Extra Ginger Brew for their patients as a simple way to ingest a known level of ginger. The United States Food and Drugs Administration (FDA) include ginger on their GRAS (generally recognized as safe) list. However, neither the FDA nor any other government agency officially endorses or recommends the use of ginger as a dietary supplement.

We currently manufacture and sell six varieties of Reed's Ginger Brews:

- *Reed's Original Ginger Brew* was our first creation, and is a Jamaican recipe for homemade ginger ale using 17 grams of fresh ginger root, lemon, lime, honey, fructose, pineapple, herbs and spices. Reed's Original Ginger Brew is 20% fruit juice.

- *Reed's Extra Ginger Brew* is the same approximate recipe, with 26 grams of fresh ginger root for a stronger bite. Reed's Extra Ginger Brew is 20% fruit juice.

- *Reed's Premium Ginger Brew* is the no-fructose version of Reed's Original Ginger Brew, and is sweetened only with honey and pineapple juice. Reed's Premium Ginger Brew is 20% fruit juice.

- *Reed's Raspberry Ginger Brew* is brewed from 17 grams of fresh ginger root, raspberry juice and lime. Reed's Raspberry Ginger Brew is 20% raspberry juice and is sweetened with fruit juice and fructose.

- *Reed's Spiced Apple Brew* uses 8 grams of fresh ginger root, the finest tart German apple juice and such apple pie spices as cinnamon, cloves and allspice. Reed's Spiced Apple Brew is 50% apple juice and sweetened with fruit juice and fructose.

- *Reed's Cherry Ginger Brew* is the newest addition to our Ginger Brew family, and is naturally brewed from: filtered water, fructose, fresh ginger root, cherry juice from concentrate and spices. Reed's Cherry Ginger Brew is 22% cherry juice.

All six of Reed's Ginger Brews are offered in 12-ounce bottles and are sold in stores as singles, in four-packs and in 24-bottle cases. Reed's Original Ginger Brew is sold by select retailers in a special 12-pack. Reed's Spiced Apple Brew is now available in a 750 ml. champagne bottle.

Virgil's Root Beer

Over the years, Virgil's Root Beer has won numerous awards and has a reputation among many as one of the best root beers made anywhere. Virgil's Root Beer won the "Outstanding Beverage" award at the NASFT's International Fancy Food and Confection Show in 1997.

Virgil's is a premium root beer. We use all-natural ingredients, including filtered water, unbleached cane sugar, anise from Spain, licorice from France, bourbon vanilla from Madagascar, cinnamon from Sri Lanka, clove from Indonesia, wintergreen from China, sweet birch and molasses from the southern United States, nutmeg from Indonesia, pimento berry oil from Jamaica, balsam oil from Peru, and cassia oil from China.

We collect these ingredients worldwide and gather them together at the brewing and bottling facilities we use in the United States and Germany. We combine and brew these ingredients under strict specifications and finally heat-pasteurize Virgil's Root Beer, to ensure quality.

We sell Virgil's Root Beer in four packaging styles: 12-ounce bottles in a four-pack, a special ceramic-swing-lid style pint bottle, a 5-liter self-tapping party keg and a draught "pony keg."

Virgil's Cream Soda

We launched Virgil's Cream Soda in January 2004. We make this product with the same attention to quality that makes Virgil's Root Beer so popular.

Virgil's Cream Soda is a gourmet cream soda. We brew Virgil's Cream Soda the same way we brew Virgil's Root Beer. We use these all-natural ingredients, including filtered water, unbleached cane sugar and bourbon vanilla from Madagascar.

Virgil's Cream Soda is currently sold in 12-ounce long neck bottles in colorful 4-packs, a 5-liter party keg version and in our draught format.

In 2006, we expanded our product line to include Virgil's Black Cherry Cream Soda in a 12-ounce bottle.

China Cola

We consider China Cola to be the best tasting and most natural cola in the world. We restored China Cola to its original delicious blend of raw cane sugar, imported Chinese herbs, essential oils and natural spices. China Cola contains no caffeine. It comes in two varieties, Original China Cola and Cherry China Cola.

Original China Cola is made from filtered water, raw cane sugar, szechwan poeny root, cassia bark, Malaysian vanilla, oils of lemon, oil of lime, oil of orange, nutmeg, clove licorice, cardamom, caramel color, citric acid and phosphoric acid.

Cherry China Cola is made from the same ingredients as Original China Cola, with the addition of natural cherry flavor.

China Cola and Cherry China Cola sell as singles, in four-packs and in 24-bottle cases.

Reed’s Ginger Juice Brews

In May 2002, we launched a new line of ginger brews called Reed’s Ginger Juice Brews. They are 100% juice products that are non-carbonated and brewed from organic fresh ginger root and sweetened with organic juices. We created this product, in part, in response to a strong trend we have seen toward organic ingredients and non-carbonated beverages in the marketplace. We wanted to extend our ginger brew line and believe that these new flavors will cater to the growing market for organic non-carbonated beverages.

All four of our Reed’s Ginger Juice Brews contain: filtered water, organic fresh ginger root, and organic white grape juice from concentrate. Specifically,

- Reed’s Lemon Guava Ginger Juice Brew adds guava juice from concentrate and lemon juice from concentrate.

- Reed’s Strawberry Kiwi Ginger Juice Brew adds organic strawberry juice from concentrate and organic kiwi juice from concentrate.

- Pineapple Orange Ginger Juice Brew adds organic pineapple juice from concentrate, organic orange juice from concentrate, and organic limejuice from concentrate.

- Reed’s Cranberry Raspberry Ginger Juice Brew adds cranberry juice from concentrate, and organic raspberry juice from concentrate.

Reed’s Ginger Juice Brews drinks come in a 16-ounce juice bottle as singles or in cases of 12 and 24 bottles.

Reed’s Ginger Candies

Reed’s Crystallized Ginger Candy

Reed’s Crystallized Ginger was the first crystallized ginger on the market in the United States to be sweetened with raw cane instead of refined white sugar. Reed’s Crystallized Ginger is custom-made for us in Fiji.

The production process is an ancient one that has not changed much over time. After harvesting baby ginger (the most tender kind), the root is diced and then steeped for several days in large vats filled with simmering raw cane syrup. The ginger is then removed and allowed to crystallize into soft, delicious nuggets. Many peoples of the islands have long enjoyed these treats for health and pleasure.

We sell this product in 3.5-ounce bags, 10-ounce enameled, rolled steel gift tins, 16-ounce re-sealable Mylar bags, and in bulk. We also sell Reed’s Crystallized Ginger Baking Bits in bulk.

Reed’s Ginger Candy Chews

For many years, residents of Southeast Asia from Indonesia to Thailand have enjoyed soft, gummy ginger candy chews. We sell Reed’s Ginger Candy Chews individually wrapped in soft-packs of ten candies and as individually wrapped loose pieces in bulk. Reed’s has taken them a step further, adding more ginger, using no gelatin (vegan-friendly) and making them slightly easier to unwrap than their Asian counterparts.

Reed’s Ginger Candy Chews are made for us in Indonesia from sugar, maltose (malt sugar), ginger, and tapioca starch.

Reed’s Ginger Ice Creams

We make Reed’s Ginger Ice Creams with 100% natural ingredients, using the finest hormone-free cream and milk. We combine fresh milk and cream with the finest natural ginger puree, Reed’s Crystallized Ginger Candy and natural raw cane sugar to make a delicious ginger ice cream with a super premium, ultra-creamy texture and Reed’s signature spicy-sweet bite. Our ice creams are made for us, according to our own recipes, at a dairy in upstate New York.

We sell three Reed’s Ginger Ice Cream products:

· *Reed’s Original Ginger Ice Cream* made from milk, cream, raw cane sugar, Reed’s Crystallized Ginger Candy (finest ginger root, raw cane sugar), ginger puree, and guar gum (a natural vegetable gum),

· *Chocolate Ginger Ice Cream* made from milk, cream, raw cane sugar, finest Belgian cocoa (used to make Belgian chocolate), Reed’s Crystallized Ginger Candy (fresh baby ginger root, raw cane sugar), chocolate shavings (sugar, unsweetened chocolate, Belgian cocoa, soy lecithin and real vanilla), ginger puree, and guar gum (a natural vegetable gum) creating the ultimate chocolate ginger ice cream, and

· *Reed’s Green Tea Ginger Ice Cream* made from milk, cream, the finest green tea, raw cane sugar, ginger puree, Reed’s Crystallized Ginger Candy (fresh baby ginger root, raw cane sugar), and guar gum (a natural vegetable gum) creating the ultimate green tea ginger ice cream.

We sell Reed’s Ginger Ice Creams in pint containers and cases of eight pints. We also intend to supply Reed’s Ginger Ice Creams in foodservice volume packaging.

New Product Development

We are always working on development to continue expanding from our Reed’s Ginger Brew, Virgil’s product line, Reed’s Ginger Juice Brew, Reed’s Ginger Ice Cream, and Reed’s Ginger Candy product lines and packaging styles. However, research and development expenses in the last two years have been nominal. We intend to expend some, but not a significant amount, of funds on research and development for new products and packaging. We intend to introduce new products and packaging as we deem appropriate from time to time for our business plan.

Among the advantages of our owned and self-operated Brewery are the flexibility to try innovative packaging and the capability to experiment with new product flavors at less cost to our operations or capital. Currently, we sell a half-liter Virgil’s Root Beer swing-lid bottle that is made for us in Europe. We intend to produce several of our beverages in one-liter swing-lid bottles in the United States. Our Reed’s Original Ginger Brew, Extra Ginger Brew and Spiced Apple Brew are available in a 750 ml. champagne bottle and other products are planned to be available with this packaging in the near future.

Manufacture of Our Products

We produce our carbonated beverages at two facilities:

· a facility that we own in Los Angeles, California, known as The Brewery, at which we produce certain soda products for the western half of the United States, and

· a packing, or co-pack, facility in Pennsylvania, known as the Lion Brewery, with which they contract to supply us with product we do not produce at The Brewery. The term of our agreement with Lion Brewery expires on May 31, 2007 and renews automatically for successive two-year terms unless terminated by either party. The Lion Brewery assembles our products and charges us a fee, generally by the case, for the products they produce.

Our west coast Brewery facility is running at 40% of capacity. We had difficulties with the underutilization of the Brewery at 40% of capacity as a result of working out problems associated with the flavor of our ginger brew products produced at the Brewery, causing us to increase freight and other associated expenses with producing and shipping such products nationally from our east coast co-packing facility. Management is committed to selling a high quality, great tasting product. Since the east coast co-packer is producing such a product, management has elected to continue to sell that product on the west coast, even though it negatively impacts our gross margins. As we are able to make the Brewery become more fully utilized, we believe that we will experience improvements in gross margins due to freight and production savings.

Our Ginger Juice Brews are co-packed for us at H.A. Ryder in Northern California. We supply all the ingredients and packaging. The co-pack facility assembles our products and charges us a fee, by the case. Our ice creams are co-packed for us at Ronnybrooke dairy in upstate New York. We supply all the flavor additions and packaging and the dairy supplies the ice cream base. The co-pack facility assembles our products and charges us a fee, by the unit produced for us. We have half-liter swing-lid bottles of our Virgil's Root Beer line co-packed for us at the Hofmark Brewery in southern Germany. The co-pack facility assembles our products and charges us a fee by the unit they produce for us. Our arrangements with H.A Ryder, Ronnybrooke Dairy and Hofmark Brewery are on an order by order by basis.

We follow a 'fill as needed' manufacturing model to the best of our ability and we have no significant backlog of orders.

Substantially all of the raw materials used in the preparation, bottling and packaging of our products are purchased by us or by our contract packers in accordance with our specifications. Reed's Crystallized Ginger is made to our specifications in Fiji. Reed's Ginger Candy Chews are made to our specifications in Indonesia, and we repackage them at the Brewery in Los Angeles.

Generally, we obtain the ingredients used in our products from domestic suppliers and each ingredient has several reliable suppliers. We have no major supply contracts with any of our suppliers. As a general policy, we pick ingredients in the development of our products that have multiple suppliers and are common ingredients. This provides a level of protection against a major supply constriction or calamity.

We believe that as we continue to grow, we will be able to keep up with increased production demands. We believe that the Brewery has ample capacity to handle increased West Coast business. To the extent that any significant increase in business requires us to supplement or substitute our current co-packers, we believe that there are readily available alternatives, so that there would not be a significant delay or interruption in fulfilling orders and delivery of our products. In addition, we do not believe that growth will result in any significant difficulty or delay in obtaining raw materials, ingredients or finished product that is repackaged at the Brewery.

Our Primary Markets

We target a niche in the soft drink industry known as New Age beverages. The soft drink industry generally characterizes New Age Beverages as being made more naturally, with upscale packaging, and often creating and utilizing new and unique flavors and flavor combinations.

The New Age beverage segment is highly fragmented and includes such competitors as SoBe, Snapple, Arizona, Hansen's and Jones Soda, among others. These brands have the advantage of being seen widely in the national market and being commonly well known for years through well-funded ad campaigns. Despite our products' having a relatively high price for a premium beverage product, no mass media advertising and a relatively small presence in the mainstream market compared to many of our competitors, we believe that results to date demonstrate that Reed's Ginger Brews and Virgil's sodas are making market inroads among these significantly larger brands. See "Business -

Competition.”

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We sell the majority of our products in natural food stores, mainstream supermarket chains and foodservice locations, primarily in the United States and, to a lesser degree, in Canada.

Natural Food Stores

Our primary and historical marketing source of our products has been natural food and gourmet stores. These stores include Whole Foods Market, Wild Foods, Trader Joe's and Wild Oats. We also sell in gourmet restaurants and delis.

We believe that our products have achieved a leading position in their niche in the fast-growing natural food industry.

With the advent of large natural food store chains and specialty merchants, the natural foods segment continues to grow each year in direct competition with the mainstream grocery trade.

Mainstream Supermarkets and Retailers

We sell our products in over 1,000 mainstream supermarkets throughout the United States, and to a lesser extent, in Canada. These stores include national and regional supermarket chains, such as Kroger, Ralph's, Raley's, Safeway and Winn-Dixie. Generally, these stores market our products in specialty natural and gourmet sections within the stores, although we are increasing our presence in mainstream soft drink sections in these stores.

Supermarkets, particularly supermarket chains and prominent local supermarkets, often impose slotting fees before permitting new product placements in their store or chain. These fees can be structured to be paid one-time only or in installments. We pursue broad-based slotting in supermarket chains throughout the United States and, to a lesser degree, in Canada. However, our direct sales team in Southern California and our national sales management team have been able to place our products without having to pay slotting fees much of the time. However, slotting fees for new placements normally cost between $10 and $100 per store per new item placed.

We also sell our products to large national retailers who place our products within their national distribution streams. These retailers include Costco, Sam's Club and Trader Joe's.

Foodservice placement

We also market our beverage products to industrial cafeterias, bars and restaurants. We intend to place our beverage products in stadiums, sports arenas, concert halls, theatres, and other cultural centers as a long-term marketing plan. In addition, we plan to market our ice creams in restaurants nationwide.

International Sales

We have developed a limited market for our products in Canada, Europe and Asia. Sales outside of North America currently represent less than 1% of our total sales. Sales in Canada represent about 1.3% of our total sales.

The European Union is an open market for Reed's with access to that market due in part to the ongoing production of Virgil's Special Extra Nutmeg Root Beer in Germany. We market our products in Europe through a master distributor in Amsterdam and sub-distributors in the Netherlands, Denmark, the United Kingdom and Spain. We are currently negotiating with a Dutch company in Amsterdam for wider European distribution.

American Trading Corp. in Japan orders our products on a regular basis for distribution in Japan. We are holding preliminary discussions with other trading companies and import/ export companies for the distribution of our products throughout Japan, China and the rest of Asia. We believe that these areas are a natural fit for Reed's ginger products, because of the importance of ginger in Asian diet and nutrition.

Distribution, Sales and Marketing

We currently have a national network of mainstream, natural and specialty food distributors in the United States and Canada. We sell directly to our distributors, who in turn sell to retail stores. We also use our own sales group and independent sales representatives to promote our products for our distributors and direct sales to our retail customers. In Southern California, we have our own direct distribution in addition to other local distributors. We plan to expand our direct distribution into other markets.

One of the main goals of our sales and marketing efforts is to increase the number of sales people and distributors focused on growing our brands. Where a market does not support or lend itself to direct distribution, we intend to enlist local mainstream beverage distributors to carry our products. Our increased efforts in marketing also will require us to hire additional sales representatives and other marketing expenses. We plan to use a portion of the proceeds of this offering toward hiring the additional sales people needed to support both the expansion of our existing direct distribution and to grow sales through mainstream distributors. We will be dependent upon obtaining the proceeds from this offering to implement our marketing expansion plans.

We currently maintain two separate sales organizations, one of which handles natural food store sales and the other of which handles mainstream store sales. We currently have three in-house sales managers and eight independent sales representatives. These sales forces consist of in-house sales managers and independent sales representatives who support our distributors and direct selling efforts. The natural food store sales force works mainly in the natural and gourmet food stores serviced by 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 distribution and sales forces.

Our sales force markets existing products, run promotions and introduce new items. Our in-house sales managers are responsible for the distributor relationships and larger chain accounts that require headquarter sales visits and managing our independent sales representatives.

We also offer our products and promotional merchandise directly to consumers via the Internet through our website, *www.reedsgingerbrew.com*.

Marketing to Distributors

We market to distributors using a number of marketing strategies, including direct solicitation, telemarketing, trade advertising and trade show exhibition. These distributors include natural food, gourmet food, and mainstream distributors. Our distributors sell our products directly to natural food, gourmet food and mainstream supermarkets for sale to the public. We maintain direct contact with the distributors through our in-house sales managers. In limited markets, where use of our direct sales mangers are not cost-effective, we utilize food brokers and outside representatives.

Marketing to Retail Stores

We market to retail stores by utilizing trade shows, trade advertising, telemarketing, direct mail pieces and direct contact with the store. Our sales mangers and representatives visit these retail stores to sell directly in many regions. Sales to retail stores are coordinated through our distribution network and our regional warehouses.

Direct Sales and Distribution

In June 2003, we started Direct Sales and Distribution (DSD) to stores in Southern California, using a direct hired sales team and our delivery trucks. Our in-house sales manager works directly with our new route drivers and with distributors in the Southern California area. A DSD system allows us to have greater control over our marketing efforts, as we become less dependent on distributors who have relationships with our competitors. We hope to expand our DSD network to areas outside of Southern California as our resources will allow.

Southern California sales represented approximately $750,000 and $400,000 in 2005 and 2004, respectively. These new direct-distribution accounts also include retail locations, including many new independent supermarkets, “mom and pop” markets and foodservice locations. In addition, direct distribution facilitates our new placements at hospitals, the Getty Center in Los Angeles, Fox Studios and other cultural and institutional accounts.

Marketing to Consumers

Advertising. We utilize several marketing strategies to market directly to consumers. Advertising in targeted consumer magazines such as “Vegetarian Times” and “New Age” magazine, in-store discounts on the products, in-store product demonstration, street corner sampling, coupon advertising, consumer trade shows, event sponsoring and our website *www.reedsgingerbrew.com* are all among current consumer-direct marketing devices.

In-Store Draught Displays. As part of our marketing efforts, we have started to offer in-store draught displays, or Kegerators. While we believe that packaging is an important part of making successful products, we also believe that our products and marketing methods themselves need to be exceptional to survive in today’s marketplace. Our Kegerator is an unattended, in-store draught display that allows a consumer to sample our products at a relatively low cost per demonstration. Stores offer premium locations for these new, and we believe unique, draught displays.

On Draught Program. Our West Coast Brewery has initiated an on-draught program. We have installed draught locations at Fox Studios commissaries and in approximately 12 restaurants in Southern California. Currently, we are serving Virgil’s Root Beer, Virgil’s Cream Soda, and Reed’s Extra Ginger Brew on draught. In addition, all of our other carbonated drinks are available in draught format.

Proprietary Coolers. The placement of in-store branded refrigerated coolers by our competitors has proven to have a significant positive effect on their sales. We are currently testing our own Reed’s branded coolers in a number of locations.

Competition

The beverage industry is highly competitive. The principal areas of competition are pricing, packaging, development of new products and flavors and marketing campaigns. Our products compete with a wide range of drinks produced by a relatively large number of manufacturers. Most of these brands have enjoyed broad, well-established national recognition for years, through well-funded ad and other branding campaigns. In addition, the companies manufacturing these products generally have greater financial, marketing and distribution resources than we do.

Important factors affecting our ability to compete successfully include taste and flavor of products, trade and consumer promotions, rapid and effective development of new, unique cutting edge products, attractive and different packaging, branded product advertising and pricing. We also compete for distributors who will concentrate on marketing our products over those of our competitors, provide stable and reliable distribution and secure adequate shelf space in retail outlets. Competitive pressures in the New Age beverage categories could cause our products to be unable to gain or to lose market share or we could experience price erosion.

We believe that our innovative beverage recipes and packaging and use of premium ingredients and a trade secret brewing process provide us with a competitive advantage and that our commitments to the highest quality standards and brand innovation are keys to our success.

Our premium New Age beverage products compete generally with all liquid refreshments and in particular with numerous other New Age beverages, including: SoBe, Snapple, Mistic, IBC, Stewart’s, Henry Weinhard, Arizona, Hansen’s, Knudsen & Sons and Jones Sodas.

Our Virgil's and China Cola lines compete with a number of other natural soda companies, including Stewarts, IBC, Henry Weinhard, Blue Sky, A&W and Natural Brews.

We also generally compete with other traditional soft drink manufacturers and distributors, such as Coke and Pepsi.

Reed's Crystallized Ginger Candy competes primarily with other candies and snacks in general and, in particular, with other ginger candies. The main competitors in ginger candies are Royal Pacific, Australia's Buderim Ginger Company, and Frontier Herbs. We believe that Reed's Crystallized Ginger Candy is the only one among these brands that is sulfur-free.

Reed's Ginger Ice Creams compete primarily with other premium and super-premium ice cream brands. Our principal competitors in the ice cream business are Haagen-Dazs, Ben & Jerry's, Godiva, Starbucks, Dreyer's and a number of smaller natural food ice cream companies.

Proprietary Rights

We own or have made applications for several trademarks that we consider material to our business, including Reed's, Virgil's and China Cola. Two of our material trademarks are registered trademarks in the U.S. Patent and Trademark Office: Reed's(R) and China Cola(R), and we have reapplied for a trademark on the name Virgil's. Registrations for trademarks in the United States will last indefinitely as long as we continue to use and police the trademarks and renew filings with the applicable governmental offices. We have not been challenged in our right to use any of our material trademarks in the United States. We intend to use a portion of the proceeds of this offering to obtain international registration of certain trademarks in foreign jurisdictions, as we see fit.

In addition, we consider our finished product and concentrate formulae, which are not the subject of any patents, to be trade secrets. Our brewing process is a trade secret. This process can be used to brew flavors of beverages other than ginger ale and ginger beer, such as root beer, cream soda, cola, and other spice and fruit beverages. We have not sought any patents on our brewing processes because we would be required to disclose our brewing process in patent applications.

We generally use non-disclosure agreements with employees and distributors to protect our proprietary rights.

Government Regulation

The production, distribution and sale in the United States of many of our products is subject to the Federal Food, Drug and Cosmetic Act; the Dietary Supplement Health and Education Act of 1994; the Occupational Safety and Health Act; various environmental statutes; and various other federal, state and local statutes and regulations applicable to the production, transportation, sale, safety, advertising, labeling and ingredients of such products. California law requires that a specific warning appear on any product that contains a component listed by the State as having been found to cause cancer or birth defects. The law exposes all food and beverage producers to the possibility of having to provide warnings on their products because the law recognizes no generally applicable quantitative thresholds below which a warning is not required. Consequently, even trace amounts of listed components can expose affected products to the prospect of warning labels. Products containing listed substances that occur naturally in the product or that are contributed to the product solely by a municipal water supply are generally exempt from the warning requirement. While none of our beverage products are required to display warnings under this law, we cannot predict whether an important component of any of our products might be added to the California list in the future. We also are unable to predict whether or to what extent a warning under this law would have an impact on costs or sales of our products.

Measures have been enacted in various localities and states that require that a deposit be charged for certain non-refillable beverage containers. The precise requirements imposed by these measures vary. Other deposit, recycling or product stewardship proposals have been introduced in certain states and localities and in Congress, and we anticipate that similar legislation or regulations may be proposed in the future at the local, state and federal levels, both in the United States and elsewhere.

Our facilities in the United States are subject to federal, state and local environmental laws and regulations. Compliance with these provisions has not had, and we do not expect such compliance to have, any material adverse effect upon our capital expenditures, net income or competitive position.

Environmental Matters

Our primary cost of environmental compliance is in recycling fees, which approximated $40,000 in 2005. This is a standard cost of doing business in the soft drink industry.

In California, and in certain other states where we sell our products, we are required to collect redemption values from our customers and remit those redemption values to the state, based upon the number of bottles of certain products sold in that state.

In certain other states and Canada where our products are sold, we are also required to collect deposits from our customers and to remit such deposits to the respective state agencies based upon the number of cans and bottles of certain carbonated and non-carbonated products sold in such states.

Employees

We currently have 30 full-time employees, as follows: one in general management, nine in sales and marketing support, five in operations and 15 in production. We employ additional people on a part-time basis as needed.

We have never participated in a collective bargaining agreement. We believe that the relationship with our employees is good.

Properties

We own an 18,000 square foot warehouse, known as the Brewery, at 13000 South Spring Street in an unincorporated area of Los Angeles County, near downtown Los Angeles. The property is located in the Los Angeles County Mid-Alameda Corridor Enterprise Zone. Businesses located in the enterprise zone are eligible for certain economic incentives designed to stimulate business investment, encourage growth and development and promote job creation.

We purchased the facility in December 2000 for a purchase price of $850,000, including a down payment of $102,000. We financed approximately $750,000 of the purchase price with a loan from U.S. Bank National Association, guaranteed by the United States Small Business Administration. We also obtained a building improvement loan for $168,000 from U.S. Bank National Association, guaranteed by the United States Small Business Administration. Christopher J. Reed, our founder and Chief Executive Officer, personally guaranteed both loans. Both loans are due and payable on November 29, 2025, with interest at the New York prime rate plus 1%, adjusted monthly, with no cap or floor. As of December 31, 2005, the principal and interest payments on the two loans combined were $7,037 per month. This facility serves as our principal executive offices, our West Coast Brewery, and bottling plant and our Southern California warehouse facility.

Legal Proceedings

From time to time, we are a party to claims and legal proceedings arising in the ordinary course of business. Our management evaluates our exposure to these claims and proceedings individually and in the aggregate and provides for potential losses on such litigation if the amount of the loss is estimable and the loss is probable.

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. Some of the allegations made against the company are covered by insurance and some allegations are not covered by insurance. Although we believe that we have meritorious defenses to this proceeding, there can be no assurances as to its outcome.

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.

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. If any or all of the offerees reject 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 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.

Except as set forth above, we believe that there are no material litigation matters at the current time. Although the results of such litigation matters and claims cannot be predicted with certainty, we believe that the final outcome of such claims and proceedings will not have a material adverse impact on our financial position, liquidity, or results of operations.

MANAGEMENT

General

Our directors currently have terms which will end at our next annual meeting of the stockholders or until their successors are elected and qualify, subject to their prior death, resignation or removal. Officers serve at the discretion of the board of directors. Except as described below, there are no family relationships among any of our directors and executive officers. Our board members are encouraged to attend meetings of the board of directors and the annual meeting of stockholders. The board of directors held two meetings and adopted two unanimous written consents in lieu of meetings in 2005.

The following table sets forth certain biographical information with respect to our directors and executive officers:

Name	Position	Age
Christopher J. Reed	President, Chief Executive Officer, Chief Financial Officer and Chairman of the Board	47
Eric Scheffer	Vice President and National Sales Manager - Natural Foods	38
Robert T. Reed, Jr.	Vice President and National Sales Manager - Mainstream	50
Robert Lyon	Vice President Sales - Special Projects	56
Judy Holloway Reed	Secretary and Director	46
Mark Harris	Director	49
Dr. D.S.J. Muffoletto, N.D.	Director	51
Michael Fischman	Director	50

Christopher J. Reed founded our company in 1987. Mr. Reed has served as our Chairman, President, Chief Executive Officer and Chief Financial Officer since our incorporation in 1991. Mr. Reed has been responsible for our design and products, including the original product recipes, the proprietary brewing process and the packaging and marketing strategies. Mr. Reed received a B.S. in Chemical Engineering in 1980 from Rennselaer Polytechnic Institute in Troy, New York.

Eric Scheffer has been our Vice President and National Sales Manager - Natural Foods since May 2001. From September 2000 to May 2001, Mr. Scheffer worked as Vice President of Sales for Rachel Perry Natural Cosmetics. Mr. Scheffer was national sales manager at Earth Science, Inc. from January 1999 to September 2000, where he managed the United States and Canadian outside sales force. Mr. Scheffer was national sales manager at USA Nutritionals from June 1997 to January 1999, where he led a successful effort bridging their marketing from natural foods to mainstream stores. He worked for Vita Source as Western sales manager from May 1994 to June 1997 and was their first sales representative.

Robert T. Reed Jr. has been our Vice President and National Sales Manager - Mainstream since January 2004. Prior to joining us, Mr. Reed was employed with SunGard Availability Services from 1987 through 2003. He started with SunGard as an Account Manager. Over the years, Mr. Reed earned promotions to Director of Sales in 1989, Vice President of Sales in 1992 and Senior Vice President of Sales in 1997. In March 2000, Mr. Reed was appointed President of SunGard eSourcing, a subsidiary of SunGard Availability Services, with annual revenue in excess of $70 million and over 300 employees. During Mr. Reed’s tenure with SunGard Availability Services, revenues increased from $30 million to over $1.2 billion. He earned a Bachelors of Science degree in Business and Finance from Mount Saint Mary’s University in 1977. Mr. Reed is the brother of Christopher J. Reed, our Chairman, President, Chief

Executive Officer and Chief Financial Officer.

Robert Lyon has been our Vice President Sales - Special Projects since June 2002. In that capacity, Mr. Lyon directs our Southern California direct sales and distribution program in mainstream markets. Over the past five years, Mr. Lyon also has operated an organic rosemary farm in Malibu, California, selling bulk to re-packagers. In the 1980s and 1990s, Mr. Lyon operated a successful water taxi service with 20 employees and eight vessels of his own design. He also built the national sales team for a jewelry company, Iberia from 1982 through 1987. Mr. Lyon holds several U.S. patents. He earned a Business Degree from Northwestern Michigan University in 1969.

Judy Holloway Reed has been with us since 1992 and, as we have grown, has run the accounting, purchasing and shipping and receiving departments at various times since the 1990s. Ms. Reed has been one of our directors since June 2004, our Secretary since October 1996 and our Director of Office Operations and Staff Management since June 2004. In the 1980s, Ms. Reed managed media tracking for a Los Angeles Infomercial Media Buying Group and was an account manager with a Beverly Hills, California stock portfolio management company. She earned a Business Degree from MIU in 1981. Ms. Reed is the wife of Christopher J. Reed, our Chairman, President, Chief Executive Officer and Chief Financial Officer.

Mark Harris has been a member of our board of directors since April 2005. Mr. Harris is an independent venture capitalist and has been retired from the work force since 2002. In late 2003, Mr. Harris joined a group of Amgen colleagues in funding NeoStem, Inc., a company involved in stem-cell storage, archiving, and research to which he is founding angel investor. From 1991 to 2002, Mr. Harris worked at biotech giant Amgen managing much of the company's media production for internal use and public relations. Mr. Harris spent the decade prior working in the aerospace industry at Northrop with similar responsibilities.

Dr. Daniel S.J. Muffoletto, N.D. has been a member of our board of directors since April 2005. Dr. Muffoletto has practiced as a Naturopathic Physician since 1986. He has been chief executive officer of Its Your Earth, a natural products marketing company since June 2004. From 2003 to 2005, Dr. Muffoletto worked as sales and marketing director for Worthington, Moore & Jacobs, a Commercial Law League member firm serving FedEx, UPS, DHL and Kodak, among others. From 2001 to 2003, he was the owner-operator of the David St. Michel Art Gallery in Montreal, Québec. From 1991 to 2001, Dr. Muffoletto was the owner/operator of a Naturopathic Apothecary, Herbal Alter*Natives of Seattle, Washington and Ellicott City, Maryland. The apothecary housed Dr. Muffoletto's Naturopathic Practice. Dr. Muffoletto received a Bachelors of Arts degree in Government and Communications from the University of Baltimore in 1977, and conducted postgraduate work in the schools of Public Administration and Publication Design at the University of Baltimore from 1978 to 1979. In 1986, he received his Doctorate of Naturopathic Medicine from the Santa Fe Academy of Healing, Santa Fe, New Mexico.

Michael Fischman has been a member of our board of directors since April 2005. Since 1998, Mr. Fischman has been President and chief executive officer of the APEX course, the corporate training division of the International Association of Human Values. In addition, Mr. Fischman is a founding member and the director of training for USA at the Art of Living Foundation, a global non-profit educational and humanitarian organization at which he has coordinated over 200 personal development instructors since 1997. Among Mr. Fischman's personal development clients are the World Bank, Royal Dutch Shell, the United Nations, the US Department of Probation, the Washington, D.C. Police Department, and Rotary Clubs International.

Other than the relationship of Christopher J. Reed, Judy Holloway Reed, and Robert T. Reed, Jr., none of our directors or executive officers are related to one another.

Peter Sharma, III resigned as one of our directors on January 27, 2006.

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. During the next 12 months, we intend to hire a Chief Financial Officer. In addition, we intend to hire a Distribution Manager with extensive experience in the beverage arena with specific experience in setting up a regional distributor network.

Corporate Governance

We are committed to having sound corporate governance principles. Such principles are essential to running our business efficiently and to maintaining our integrity in the marketplace.

We believe that our directors should have the highest professional and personal ethics and values, consistent with our longstanding values and standards. They should have broad experience at the policy-making level in business or banking. They should be committed to enhancing shareholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all director duties for us. Each director must represent the interests of all shareholders. When considering potential director candidates, the Board also considers the candidate’s character, judgment, diversity, age and skills, including financial literacy and experience in the context of our needs and the needs of the board of directors.

The board of directors does not currently have standing committees audit, nominations or compensation committees. The Board intends to form such committees and adopt charters for such committees in the future. Our Chief Executive Officer and all senior financial officers, including the Chief Financial Officer, are bound by a Code of Business Conduct and Ethics that complies with Item 406 of Regulation S-B of the Exchange Act. The Code of Business Conduct and Ethics is posted on our Internet website (*www.reedsgingerbrew.com*) under the Corporate Governance page (this website address is not intended to function as a hyperlink, and the information contained on our website is not intended to be a part of this Report).

The Board has determined that three members of our board of directors, Mr. Harris, Dr. Mufoletto and Mr. Fischman Board are independent under the revised listing standards of The Nasdaq Stock Market, Inc. We intend to maintain at least two independent directors on our board of directors in the future

Executive Compensation

The following table sets forth certain information concerning compensation of certain of our executive officers, including our Chief Executive Officer and all other executive officers, or the Named Executives, whose total annual salary and bonus exceeded $100,000, for the years ended December 31, 2005, 2004 and 2003:

	Annual Compensation				Long-term Compensation	All Other Compensation
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation**	**Securities Underlying Options**	
Christopher J. Reed.	2005	$150,000	0	0	0	0
Chief Executive Officer and	2004	150,000	0	0	0	0
President	2003	150,000	0	0	0	0

None of our other employees received total compensation in excess of $100,000 during the years ended December 31, 2003-2005.

Director Compensation

We do not pay any compensation to our non-employee directors for their attendance at board meetings. We have not adopted any retirement, pension, profit sharing, or other similar programs.

Committee Interlocks and Insider Participation

No interlocking relationship exists between any member of our board of directors and any member of the board of directors or compensation committee of any other companies, nor has such interlocking relationship existed in the past.

Option/SAR Grants and Exercises

No options were granted to or exercised by employees during 2004. In 2005, we granted options to purchase up to 218,500 shares of our common stock at $4.00 per share to nine of our employees, all of which have vested.

Employment Agreements

There are no written employment agreements with any of our officers or key employees, including Christopher J. Reed. We do not have any agreements which provide for severance upon termination of employment, whether in context of a change of control or not.

2001 Stock Option Plan

Pursuant to our 2001 Stock Option Plan, we are authorized to issue options to purchase up to 500,000 shares of common stock. As of the date of this prospectus, 291,000 options have been issued under the plan, all of which have vested. On August 28, 2001, our board of directors adopted the plan and the plan was approved by our stockholders.

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

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

The exercise price of an option granted under the plan cannot be less than 100% of the fair market value per share of common stock on the date of the grant of the option. The exercise price of an incentive stock option granted to a person owning more than 10% of the total combined voting power of the common stock must be at least 110% of the fair market value per share of common stock on the date of the grant. Options may not be granted under the plan on or after the tenth anniversary of the adoption of the plan. Incentive stock options granted to a person owning more than 10% of the combined voting power of the Common Stock cannot be exercisable for more than five years.

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

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

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

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

Indemnification of Directors and Officers

Our amended certificate of incorporation provides that, to the fullest extent permitted by Delaware law, as it may be amended from time to time, none of our directors will be personally liable to us or our stockholders for monetary damages resulting from a breach of fiduciary duty as a director.

Our amended certificate of incorporation also provides discretionary indemnification for the benefit of our directors, officers, and employees, to the fullest extent permitted by Delaware law, as it may be amended from time to time. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors or officers, or persons controlling us, pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Pursuant to our amended bylaws, we are required to indemnify our directors, officers, employees and agents, and we have the discretion to advance his or her related expenses, to the fullest extent permitted by law.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We have three loans payable to Robert T. Reed, Sr., the father of our founder, President and Chief Executive Officer, Christopher J. Reed. At March 31, 2006, the aggregate outstanding principal balance of the loans was $252,358 and the aggregate accrued and unpaid interest was $94,207. Mr. Reed has suspended payments due him from time to time under each of these loans. His current agreement suspends our payment obligation on each of these loans until October 1, 2007.

The first loan was made to us in May 1991 to provide $94,000 in working capital. This loan bears interest at 10% per annum. As of March 31, 2006, the outstanding principal balance of the loan was $24,648 and accrued and unpaid interest was $8,001.

The second loan from Mr. Reed was made to us in June 1999 to provide $250,000 for the acquisition of Virgil's Root Beer. This loan bears interest at 8% per annum. As of March 31, 2006, the outstanding principal balance of the loan was $177,710 and accrued and unpaid interest was $76,420. So long as the debt is outstanding, Mr. Reed has the right to convert the principal, and accrued and unpaid interest of this loan into shares of our common stock at a rate of one share of common stock for every $2.00 owed to Mr. Reed. As of March 31, 2006, the loan was convertible into 127,065 shares of common stock.

The third loan from Mr. Reed was made to us in October 2003 to provide $50,000 for working capital. This loan bears interest at 8% per annum. As of March 31, 2006, the outstanding principal balance of the loan was $50,000 and accrued and unpaid interest was $9,786.

We had issued warrants to Mr. Reed to purchase up to 262,500 shares at $0.02 for his work in 1991 in helping the start up of our company. The original term of the warrants was until December 31, 1997. We extended the term of these warrants twice, once to December 31, 2000 and again to June 1, 2005. These extensions were granted in consideration of the extensions Mr. Reed had granted us on the repayment of his various loans made to us. These warrants were exercised in full on May 31, 2005.

In September 2004, Robert T. Reed Jr., our Vice President and National Sales Manager - Mainstream and a brother of Christopher J. Reed, pledged certain securities (which do not include any of our securities which are owned by Mr. Reed) in his personal securities account on deposit with Merrill Lynch as collateral for repayment of the line of credit. The amount of the line of credit is based on a percentage value of such securities. At March 31, 2006, the outstanding balance on the line of credit was $642,209, and there was $47,140 available under the line of credit. The line of credit bears interest at a rate of rate of 3.785% per annum plus LIBOR (8.695% as of March 31, 2006). In consideration for Mr. Reed's pledging his stock account at Merrill Lynch as collateral, we have agreed to pay Mr. Reed 5% per annum of the amount we borrow from Merrill Lynch, as a loan fee. During the years ended December 31, 2005 and 2004, we paid Mr. Reed $15,250 and $3,125, respectively, under this agreement. In addition, Christopher J. Reed has pledged all of his shares of common stock to Robert T. Reed, Jr. as collateral for the shares pledged by Robert T. Reed, Jr.

In July 2001, Mark Reed, a brother of Christopher J. Reed, converted a loan he made to us into 8,889 shares of common stock. The original loan was for $5,000 and was made in June of 1991. The loan was part of a private offering of convertible debt.