

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

PRE-EFFECTIVE AMENDMENT NO. 1 TO
FORM SB-2/A
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Reed's, Inc.

(Name of small business issuer in its charter)

Delaware
(State or jurisdiction of
incorporation or organization)

2086
(Primary Standard Industrial
Classification Code Number)

95-4348325
(I.R.S. Employer
Identification Number)

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

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

With copies to:

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12100 Wilshire Boulevard
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Los Angeles, California 90025-7120
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

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

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

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

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

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

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 July 31, 2006

333,156 Shares of Common Stock

Reed's, Inc.

RESCISSION OFFER

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

On May 13, 2005, a registration statement relating to our initial public offering of common stock was declared effective by the Securities and Exchange Commission. As a result, through the date of this prospectus, 333,156 shares of common stock were sold to the public for \$4.00 per share

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, our stockholders 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 rescission offer and our public offering, if we are able to qualify for such markets, and if not, we anticipate that US EURO Securities, Inc., one of our underwriters in the public offering, will apply for quotation of our common stock on the Over the Counter Bulletin Board ("OTCBB"). However, we cannot assure you when or if a market for our common stock will be established.

The Rescission Offer

- We are offering to repurchase 333,156 shares of our common stock from persons who are or were residents of California, Colorado, Connecticut, Hawaii, Illinois, Indiana, Louisiana, Massachusetts, Missouri, Montana, New York, Oregon, South Carolina, Utah, Vermont, Virginia and Washington and the country of Israel. These persons purchased shares of our common stock in our initial public offering. If our rescission offer is accepted by all offerees, we will be required to make an aggregate payment to the holders of these shares of up to approximately \$1,332,624, plus statutory interest.
- The repurchase price for the shares of our common stock subject to the rescission offer will be \$4.00 per share, which is equal to the price paid by those persons who purchased these shares. If you accept our rescission offer and surrender your shares, you will receive interest, based on the repurchase price noted above and calculated from the date you purchased the shares through the date that the rescission offer expires at the interest rate based on your state of residence.
- Federal law does not provide a specific interest rate to be used in the calculation of the consideration to be received in connection with the repurchases of securities by an issuer in a rescission offer. We intend to use the legal rates of interest for the repurchase of shares based on the state of residence of the stockholder.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 8 to read about factors you should consider before accepting or rejecting the rescission offer.

The rescission offer will expire on _____, 2006.

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.

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 repurchase shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is complete and accurate only as of the date of the front cover regardless of the time of delivery of this prospectus or of any sale of shares. Except where the context requires otherwise, in this prospectus, the “Company,” “Reed’s,” “we,” “us” and “our” refer to Reed’s, Inc., a Delaware corporation.

QUESTIONS AND ANSWERS ABOUT THE RESCISSION OFFER

General

Q: Why are we making the rescission offer?

A: 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 (333-120451). The shares we issued in connection with the initial public offering were not 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 were not issued pursuant to an effective registration statement and there was no 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 intend to make and complete this rescission offer prior to the effective date of the registration statement relating to the public offering to all holders of any outstanding shares who we believe may be entitled to argue for rescission. Pursuant to this rescission offer, we will offer to repurchase these shares then outstanding from the holders. We will be making this rescission offer to 167 persons who are or were residents of California, Colorado, Connecticut, Hawaii, Illinois, Indiana, Louisiana, Massachusetts, Missouri, Montana, New York, Oregon, South Carolina, Utah, Vermont, Virginia and Washington, and in the country of Israel. If our rescission offer is accepted by all offerees, we could be required to make an aggregate payment to the holders of these shares of up to approximately \$1,332,624, plus statutory interest.

The rescission offer is not an unanticipated development. Rather, our intent to make this rescission offer and the details of the rescission offer were disclosed in our Annual Report on Form 10-KSB for the year ended December 31, 2005. The rescission offer process is proceeding as disclosed in our public filings and as we expect. We intend to commence the rescission offer on _____, 2006. The filing of the registration statement relating to the rescission offer is a normal part of the rescission offer process.

Q: Which shares of common stock are included in the rescission offer?

A: We are offering, upon the terms and conditions described in this prospectus, to rescind the sale of 333,156 shares of common stock issued in connection with our initial public offering.

Q: When does the rescission offer expire?

A: Our rescission offer will expire on _____, 2006.

Q: What will I receive if I accept the rescission offer?

A: If you accept our rescission offer with respect to the common stock you purchased in the initial public offering, we will repurchase the shares you hold that are subject to the rescission offer at the price per share you paid, plus interest at the current statutory rate per year, from the date of purchase through the date the rescission offer expires.

The legal rates of interest for the repurchase of shares will be based on the state of residence of the stockholder. These interest rates are as follows:

State	Interest Rate	State	Interest Rate
California	7%	Montana	10%
Colorado	8%	New York *	7%
Connecticut	6%	Oregon	9%
Hawaii	10%	South Carolina	11.25%
Illinois	10%	Utah	12%
Indiana	8%	Vermont	12%
Louisiana	8%	Virginia	6%
Massachusetts	6%	Washington	8%
Missouri	8%	Israel *	7%

* New York and Israeli law do not provide a specific interest rate. For purposes of the rescission offer, we are applying the rate of interest of California (our principal place of business) to calculate the consideration to be received by New York and Israeli residents who may be entitled to rescission rights.

Q: Can you give me an example of what I will receive if I accept the rescission offer?

A: We will repurchase outstanding shares of common stock subject to the rescission offer at the price per share you paid, plus interest at the current statutory rate per year, from the date of purchase of your shares through the date that the rescission offer expires. If you are a resident of California and hold 1,000 shares of our common stock that you purchased in connection with the public offering at a per share price of \$4.00 and you accept our rescission offer, you would receive:

- The original purchase price = 1,000 X \$4.00 = \$4,000.
- Plus simple interest at 7% per year for 10 months = \$233.33.
- For a total of \$4,233.33.

You will not have any right, title or interest to the shares of common stock you will be surrendering upon the closing of the rescission offer, and you will only be entitled to receive the proceeds from our repurchase of the common stock.

Q: How will the rescission offer be funded?

A: We have entered into an agreement 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. We would assign 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. As currently contemplated, the initial \$250,000 of rescission shares would be purchased by Mark Reed. If the number of rescission shares tendered for rescission exceeds \$250,000 of shares, Robert T. Reed, Jr. would purchase the balance of the rescission shares tendered for rescission to us. Each of the designated purchasers is a brother of Christopher J. Reed, our Chief Executive Officer, Chief Financial Officer and the Chairman of the Board of Directors. Robert T. Reed, Jr. also is our Vice President and National Sales Manager - Mainstream and a beneficial owner of approximately 7.13% of our common stock.

Q: Have any officers, directors or 5% stockholders advised us whether they will participate in the rescission offer?

A: None of our officers, directors or 5% stockholders purchased shares in our initial public offering and are not eligible to participate in this rescission offer for purposes of tendering their shares for rescission. However, we have entered into an agreement with Mark Reed and Robert T. Reed, Jr. that they would irrevocably commit to purchase up to all of the shares in the rescission offer that are tendered to us for rescission. Robert T. Reed, Jr. is a beneficial owner of approximately 7.13% of our common stock. If Robert T. Reed, Jr. purchases shares in this rescission offer, he would increase his ownership interest in us.

Q: Am I required to accept the rescission offer?

A: The rescission offer is merely an offer to repurchase shares. No stockholder is required to accept our rescission offer.

Q: If I do not accept the offer now, can I sell my shares?

A: If you do not accept the rescission offer, you can sell the shares of common stock that were subject to the rescission offer without limitation as to the number or manner of sale. However, our common stock is not publicly traded, and there can be no assurances if or when such a market will develop.

Q: What do I need to do now to accept or reject the rescission offer?

A: To accept or reject the rescission offer, you must complete and sign the accompanying election form and return it in the enclosed return envelope to us, to the attention of Christopher J. Reed, 13000 South Spring Street, Los Angeles, California 90061, as soon as practical but in no event later than _____, 2006. If you are accepting the rescission offer, please also include in your return envelope, with respect to any shares of common stock that you want us to repurchase,

- a completed and signed election form (see [Appendix A](#)), and
- a stock power representing the shares you are surrendering for repurchase (see [Appendix B](#)).

Q: Can I accept the rescission offer in part?

A: If you accept the rescission offer, then you must accept the rescission offer with respect to all of the shares of common stock issued to you in connection with our initial public offering.

Q: What happens if I do not return my rescission offer election form?

A: If you do not return a properly completed election form before the expiration date of our rescission offer, you will be deemed to have rejected our offer.

Q: What remedies or rights do I have now that I will not have after the rescission offer?

A: It is unclear whether or not you will have a right of rescission under federal securities laws after the rescission offer. The staff of the Securities and Exchange Commission, or SEC, is of the opinion that a person's right of rescission created under the Securities Act may survive the rescission offer. Generally, the federal statute of limitations for noncompliance with the requirement to register securities under the Securities Act is one year from the date of the violation upon which the action to enforce liability is based.

The state remedies and statutes of limitations vary and depend upon the state in which you purchased the shares. For a more detailed description of the various state laws governing rescission rights in the respective states, see “Rescission Offer - Effect of Rescission Offer.”

We believe that your acceptance of the rescission offer will preclude you from later seeking similar relief. Regardless of whether you accept the rescission offer, we believe that any remedies you may have after the rescission offer expires would not be greater than an amount you would receive in the rescission offer.

Q: Can I change my mind after I have mailed my signed election form?

A: Yes. You can change your decision about accepting or rejecting our rescission offer at any time before the expiration date. You can do this by completing and submitting a new election form. Any new election forms must be received by us prior to the expiration date in order to be valid. We will not accept any election forms after the expiration date.

Q: Who can help answer my questions?

A: You can call Christopher J. Reed at Reed’s, at (310) 217-9400, with questions about the rescission offer.

Q: Where can I get more information about Reed’s?

A: You can obtain more information about Reed’s from the filings we make from time to time with the SEC. These filings are available on the SEC’s website at www.sec.gov.

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 our public 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.

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 intend to make and complete the rescission offer to the holders of these shares prior to the effective date of the registration statement relating to the public offering.

We have entered into an agreement 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. We would assign 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. As currently contemplated, the initial \$250,000 of rescission shares would be purchased by Mark Reed. If the number of rescission shares tendered for rescission exceeds \$250,000 of shares, Robert T. Reed, Jr. would purchase the balance of the rescission shares tendered for rescission to us. Each of the designated purchasers is a brother of Christopher J. Reed, our Chief Executive Officer, Chief Financial Officer and the Chairman of the Board of Directors. Robert T. Reed, Jr. also is our Vice President and National Sales Manager - Mainstream and a beneficial owner of approximately 7.13% of our common stock. Each of the designated purchasers may also participate in the purchase of shares of common stock to be distributed in the public offering. Since up to all of the rescission shares would be purchased by the designated purchasers, none of the rescission shares would be purchased directly by us and would not deplete proceeds from our public offering or other of our then current cash balances. The rescission shares, which may be purchased by the designated purchasers in the rescission offer, would be deemed to be registered shares for the benefit of the designated purchasers pursuant to a registration statement to be filed by us relating to the rescission offer under the Securities Act, effective as of the commencement date of the rescission offer without any further action on the part of the designated purchasers. If we are required to pay the obligation which may be created under the rescission offer, such a refund would materially and adversely effect our financial position.

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 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.

When the rescission offer expires, any person who did not accept the rescission offer will have freely tradable stock, subject to restrictions that may be placed on shares held by our affiliates.

There is no current market for our shares and there can be no assurance that a public market for our shares will ever develop. Further, there can be no assurance that in the event a public market for our shares were to develop that this market would be sustained over an extended period of time or that it would be of sufficient trading volume to allow ready liquidity to all investors in our shares. We intend to apply for listing of our common stock on the Nasdaq Capital Market or the American Stock Exchange following the completion of this rescission offer and our public 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 ("OTCBB"). However, we cannot assure you when or if a market for our common stock will be established.

We cannot give any assurances as to the number of stockholders who will accept the rescission offer. It is our intention that if any of the shares are tendered for rescission, the shares will be purchased by others and not from our funds. If we are required to pay the obligation which may be created under the rescission offer, such a refund would materially and adversely effect our financial position.

Our Public Offering

We have filed a registration statement for our initial public offering and intend to continue the process of selling our shares in our public offering. We are offering to sell, on a best efforts basis, up to 2,000,000 newly issued shares of our common stock at a price of \$4.00 per share. As of the date of this prospectus, we have sold 333,156 shares resulting in gross proceeds to us of \$1,332,624, which are the subject of this rescission offer. However, whether or not these shares are repurchased under the rescission offer, the maximum number of shares which may be sold from the date of this prospectus will be reduced by the number of shares sold to the date of this prospectus.

The offering is a best efforts offering through our underwriters, US EURO Securities, Inc. and Brookstreet Securities Corporation and certain selected broker-dealers. We intend to complete this rescission offer before we recommence our public offering. We cannot give you assurances as to the number of shares which will be sold in the public offering or the price at which the common stock will trade in the future, if at all.

No minimum number of shares is required to be sold and as a result, we may only sell a nominal amount of additional shares under the offering. We will not escrow any of the proceeds received from the sale of shares before the offering terminates. Upon acceptance of a share purchase order, the proceeds from that order will be immediately available for our use.

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	2005	2005	2004
	(Unaudited)	(Unaudited)		
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 with the public 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 to achieve profitable operations at some point in the future, we eventually may have insufficient working capital to maintain our operations as we presently intend to conduct them or to fund our expansion and marketing and product development plans. In addition, our losses may increase in the future as we expand our manufacturing capabilities and fund our marketing plans and product development. These losses, among other things, have had and will continue to have an adverse effect on our working capital, total assets and stockholders' equity. If we are unable to achieve profitability, the market value of our common stock will decline and there would be a material adverse effect on our financial condition.

Our public 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 the public offering. We currently believe that our available cash resources and cash flow from operations, without any additional net proceeds from the public 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 the public offering. If we do not receive the maximum proceeds from the public 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.

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 our public 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.

We have operated without independent directors in the past.

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

Risks Related to This Rescission Offer and Our Securities

We may continue to have potential liability even after this rescission offer is made.

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 are making this rescission offer to the holders of these shares sold in connection with our public offering.

If this rescission offer is accepted, we could be required to make aggregate payments to the holders of these shares up to \$1,332,624, plus statutory interest. This exposure is calculated by reference to the acquisition price of \$4.00 per share for the common stock in connection with the initial public offering, plus accrued interest at the applicable statutory rate. It is our intention that if any of the shares are tendered for rescission, the shares will be purchased by others and not from our funds. If we are required to pay the obligation which may be created under the rescission offer, such a refund would materially and adversely effect our financial position.

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.

Your federal right of rescission may not survive if you affirmatively reject or fail to accept the rescission offer.

If you affirmatively reject or fail to accept the rescission offer, it is unclear whether or not you will have a right of rescission under federal securities laws after the expiration of the rescission offer. The staff of the SEC is of the opinion that a person's right of rescission created under the Securities Act may survive the rescission offer.

We cannot predict whether the amounts you would receive in the rescission offer would be greater than the fair market value of our securities.

The amount you would receive in the rescission offer is fixed and is not tied to the fair market value of our common stock at the time the rescission offer closes. As a result, if you accept the rescission offer, you may receive less than the fair market value of the securities you would be tendering to us.

If you do not accept the rescission offer, your shares and the shares you receive from the exercise of your options, although freely tradeable, may still remain subject to limitation on resales.

If you affirmatively reject the rescission offer or fail to accept the rescission offer before the expiration of the rescission offer, your shares will be registered under the Securities Act and will be fully tradeable, subject to any applicable limitations set forth in Rule 144 under the Securities Act. However, you will also remain subject to any applicable terms and conditions of any agreement under which your shares were issued or otherwise relating to your shares. In addition, you will remain subject to any market standoff agreements, lockup arrangements and any other transfer restrictions entered into with respect to your shares.

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.

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 rescission offer and the public offering, if we are able to qualify for such markets, and if not, we anticipate that US EURO Securities, Inc., one of our underwriters in the public offering, will apply for quotation of our common stock on the Over the Counter Bulletin Board ("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 in our public offering 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 our public offering, our existing lines of credit, and revenues from sales, future loans or otherwise. If we sell less than all the shares in the public offering, our ability to implement our expansion plans described in this prospectus could be delayed, depending on the amount of other funds available to us for such purposes.

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 our public 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 our public offering, approximately 60% of our outstanding voting stock. If all the shares in our public offering are sold, Mr. Reed will own approximately 46% of our outstanding voting stock. If 1,000,000 shares in our public 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 our public 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 our public offering, we will have 6,994,953 shares of common stock outstanding if all 2,000,000 shares in the offering are sold and 5,994,953 shares of common stock outstanding if 1,000,000 shares in the offering (50%) are sold. All the shares of common stock sold in the public 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. 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
- 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.

RESCISSION OFFER

Background

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 (333-120451). The shares we issued in connection with the initial public offering were not 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 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 were not issued pursuant to an effective registration statement and there was no 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 are making this rescission offer to all holders of any outstanding shares who we believe may be entitled to argue for rescission. Pursuant to this rescission offer, we will offer to repurchase these shares then outstanding from the holders. We will be making this rescission offer to 167 persons who are or were residents of California, Colorado, Connecticut, Hawaii, Illinois, Indiana, Louisiana, Massachusetts, Missouri, Montana, New York, Oregon, South Carolina, Utah, Vermont, Virginia and Washington, and the country of Israel. If our rescission offer is accepted by all offerees, we could be required to make an aggregate payment to the holders of these shares of up to approximately \$1,332,624, plus statutory interest.

Our anticipated rescission offer will cover an aggregate of 333,156 shares of common stock issued in connection with our initial public offering. These securities represent all of the shares issued in connection with the initial public offering. We intend to make and complete the rescission offer to the holders of these shares prior to the effective date of the registration statement relating to the public offering. The rescission offer will be kept open for at least 30 days and will be registered under the Securities Act and qualified in each state where such qualification is required under applicable state securities laws.

We will offer to rescind prior purchases of our common stock that are 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.

The rescission offer will be kept open for 30 days until _____, 2006 and will be registered under the Securities Act and qualified in each state where such qualification is required under applicable state securities laws.

If all holders of shares of our common stock subject to the rescission offer elected to accept our rescission offer, we would be required to make an aggregate payment of approximately \$1,332,624, plus statutory interest, to these holders. We believe this amount represents our aggregate exposure under federal and state securities laws for not seeking to register or qualify these shares or options under these laws. Our anticipated rescission offers to be made in the various states in which we may not have complied with applicable securities laws will cover an aggregate of 333,156 shares of common stock.

Our making this rescission offer may not terminate a purchaser's right to rescind a sale of securities that was not registered or qualified under the Securities Act or applicable state securities laws and was not otherwise exempt from registration or qualification. Accordingly, should the rescission offer be rejected by any or all offerees, we may continue to be contingently liable under the Securities Act and applicable state securities laws for the purchase price of these shares up to an aggregate amount of approximately \$1,332,624, plus statutory interest. If a court were to impose a greater remedy, our exposure as a result of the rescission offer could be higher. In addition, 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 understand that the SEC and certain state regulators, including California, have requested additional information relating to the rescission offer.

We have filed a registration statement for our initial public offering and intend to continue the process of selling our shares in our public offering at a purchase price of \$4.00 per share. The public offering is a best efforts offering through our underwriters, US EURO Securities, Inc. and Brookstreet Securities Corporation and certain selected broker-dealers. We intend to complete this rescission offer before we recommence our public offering. We cannot give you assurances as to the number of shares which will be sold in the public offering or the price at which the common stock will trade in the future, if at all.

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, holders of our common stock 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 rescission offer and our public 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 ("OTCBB"). However, we cannot assure you when or if a market for our common stock will be established.

Rescission Offer and Price

We are offering to rescind the issuance of 333,156 shares of common stock which we issued in our initial public offering. By making this rescission offer, we are not waiving any applicable statutes of limitations.

We will be making this rescission offer to 167 persons who are or were residents of California, Colorado, Connecticut, Hawaii, Illinois, Indiana, Louisiana, Massachusetts, Missouri, Montana, New York, Oregon, South Carolina, Utah, Vermont, Virginia and Washington, and the country of Israel.

If you accept our rescission offer and you hold shares of our common stock, we will repurchase the shares you hold that are subject to the rescission offer at the price per share paid (\$4.00), plus interest at the current statutory rate per year mandated by your state of residence, from the date of purchase through the date that the rescission offer expires.

If you accept our rescission offer, you will be entitled to receive interest at the applicable statutory interest rate per year in accordance with your state of residence. You will not, however, be entitled to any payments for interest or otherwise unless you affirmatively elect to participate in the offer. We intend to use the legal rates of interest for the repurchase of the shares and options based on the state of residence of the stockholder. These interest rates are as follows:

State	Interest Rate	State	Interest Rate
California	7%	Montana	10%
Colorado	8%	New York *	7%
Connecticut	6%	Oregon	9%
Hawaii	10%	South Carolina	11.25%
Illinois	10%	Utah	12%
Indiana	8%	Vermont	12%
Louisiana	8%	Virginia	6%
Massachusetts	6%	Washington	8%
Missouri	8%	Israel *	7%

* New York and Israeli law do not provide a specific interest rate. For purposes of the rescission offer, we are applying the rate of interest of California (our principal place of business) to calculate the consideration to be received by New York and Israeli residents who may be entitled to rescission rights.

Acceptance

You may accept the rescission offer by completing and signing the enclosed election form indicating the shares and options to be repurchased and delivering a stock power representing the shares you are surrendering for repurchase, on or before the close of business on _____, 2006, which date and time we refer to in this document as the expiration date. All acceptances of the rescission offer will be deemed to be effective on the expiration date and the right to accept the rescission offer will terminate on the expiration date. Acceptances or rejections may be revoked in a written notice to us, to the attention of Christopher J. Reed, 13000 South Spring Street, Los Angeles, California 90061, which is received prior to the expiration date. Within 15 business days after the expiration date, we will pay for any securities as to which the rescission offer has been validly accepted.

The rescission offer will expire at 5:00 p.m., Pacific Time, on _____, 2006. If you submit an election form after the expiration time, regardless of whether your form is otherwise complete, your election will not be accepted, and you will be deemed to have rejected our rescission offer.

Neither we nor our officers and directors make any recommendations to you with respect to the rescission offer contained herein. You are urged to read the rescission offer carefully and to make an independent evaluation with respect to its terms.

IF PERSONS DESIRING TO ACCEPT THE RESCISSION OFFER INTEND TO MAKE USE OF THE MAIL TO RETURN THEIR STOCK POWERS, INSURED REGISTERED MAIL, RETURN RECEIPT REQUESTED, IS RECOMMENDED.

Rejection or Failure to Affirmatively Accept

If you fail to accept, or if you affirmatively reject the rescission offer by so indicating on the enclosed election form, you will retain ownership of the shares which you purchased in connection with our initial public offering and you will not receive any cash for those securities in connection with the rescission offer. Your shares will be registered and fully tradeable under the Securities Act, unless you are one of our affiliates within the meaning of Rule 144. Your shares will remain subject to any applicable terms and conditions of the original agreement under which they were issued and any subsequent agreement relating to such shares and any other transfer restrictions entered into with respect to your shares.

Solicitation

We have not retained, nor do we intend to retain, any person to make solicitations or recommendations to you in connection with the rescission offer.

Effect of Rescission Offer

It is unclear whether the rescission offer will terminate our liability, if any, for failure to register or qualify the issuance of the securities under either federal or state securities laws. Accordingly, should the rescission offer be rejected by any or all offerees, we may continue to be contingently liable under the Securities Act of 1933 and applicable state securities laws for the purchase price of these shares and the value of the options up to an aggregate amount of approximately \$1,332,624, plus statutory interest. If you are a stockholder who acquired shares of our common stock in connection with our initial public offering that are subject to the rescission offer, it is possible that you may continue to have rights under common law or fraud in the state in which the potential securities violation with respect to your shares occurred. If a court were to impose a greater remedy, our liability as a result of the potential securities violations would be higher.

Regardless of whether you accept the rescission offer, we believe that any remedies you may have after the rescission offer expires would not be greater than an amount you would receive in the rescission offer.

Below is a discussion of our contingent liability in those states where we may have potential securities laws violations resulting from our issuance of the shares, which are covered by the rescission offer. Each state has different laws with respect to rights under common law and fraud and the following discussion of state law does not relate to the antifraud provisions of applicable securities laws or rights under common law or equity:

California

None of the shares sold in the state of California may have been issued pursuant to an effective registration statement or an applicable exemption from the qualification requirements set forth in the Corporate Securities Law of 1968 of California.

Under California law, an issuer is civilly liable to a purchaser of its securities sold in violation of the registration or qualification requirements of the California Corporate Securities Law of 1968. The purchaser may sue to recover the consideration paid for such securities with interest at 7% per year, less the amount of any income received from ownership of the securities, upon the tender of such securities at any time prior to the earlier of the two year anniversary of the noncompliance with the registration or qualification requirements or the one year anniversary of the discovery by the purchaser of the facts constituting such noncompliance.

However, we may terminate the rights of the purchasers to seek additional remedies under the California Corporate Securities Law of 1968 by making a written rescission offer before suit is commenced by the purchaser, approved as to form by the California Commissioner of Corporations where the offer:

- states the respect in which liability under the registration or qualification requirements may have arisen,
- offers to repurchase the securities for a cash price payable upon delivery of the securities, or offers to pay the purchaser an amount in cash equal in either case to the amount recoverable by the purchaser, or offers to rescind the transaction by putting the parties back in the same position as before the transaction,
- provides that such offer may be accepted by the purchaser at any time within a specified period of not less than 30 days after the date of receipt of the offer unless rejected earlier during such periods by the purchaser,
- sets forth the provisions of the rescission offer requirements under the California Corporate Securities Law of 1968, and
- contains such other information as the California Commissioner of Corporations may require by rule or order.

If the purchaser fails to accept such offer in writing within the specified time period of not less than 30 days after the date of receipt of the offer, that purchaser will no longer have any right of rescission under California law.

We must also file with the California Commissioner of Corporations, in such form as the California Commissioner of Corporations prescribes by rule, an irrevocable consent appointing the Commissioner of Corporations or its successor in office to be our attorney to receive services for any lawful process in any noncriminal suit, action or proceeding against us or our successor, which arises under California law after the consent has been filed with all the same force and validity as if served personally on us.

We believe this rescission offer complies in all material respects with the rescission offer requirements of the California Corporate Securities Law of 1968.

Colorado

None of the shares sold in the state of Colorado may have been issued pursuant to an effective registration statement or an applicable exemption from the registration requirements set forth in the Colorado Securities Act.

Under Colorado law, an issuer is civilly liable to a purchaser who buys securities sold by the issuer in violation of the registration requirements of the Colorado Securities Act. The issuer is liable to the purchaser for the consideration paid for the security, plus interest at 8% per year, costs and reasonable attorney fees, less the amount of any income received on the security, upon tender of the security. If the purchaser no longer owns the security, the issuer is liable to such purchaser for damages. The purchaser must bring the action within two years after the contract of sale.

However, we may terminate the rights of the purchasers to seek additional remedies under the Colorado Securities Act by making a written rescission offer, before suit, to repurchase the security for cash, payable on delivery of the security, in an amount equal to the consideration paid plus interest at 8% per year, less the amount of any income received on the security, or for damages, if the purchaser no longer owns the security. The offer must be accepted by the purchaser within 30 days after the offer is mailed by the issuer. The purchaser will no longer have a right of rescission under Colorado law if the purchaser fails to accept such offer within the period of time specified.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Colorado Securities Act.

Connecticut

None of the shares sold in the state of Connecticut may have been issued pursuant to an effective registration statement or an applicable exemption from the qualification requirements set forth in the Securities and Business Investments Law of Connecticut.

Under the Securities and Business Investments Law of Connecticut, a person that offers or sells securities in violation of the registration requirements of the Securities and Business Investments Law of Connecticut is civilly liable to the purchaser of the security. The purchaser may sue to recover the consideration paid for the security, together with interest at 8% per year, costs and reasonable attorneys' fees, less the amount of any income received on the security, upon the tender of the security. If the purchaser no longer owns the security, the purchaser may sue for damages. The purchaser must bring the action for violation of the registration requirements within two years after the date of the contract of sale.

However, we may terminate the rights of the purchasers to seek additional remedies under the Securities and Business Investments Law of Connecticut by making a written rescission offer, before suit and at a time when the purchaser still owned the security, to refund the consideration, paid together with interest at 6% per year, less the amount of any income received on the security, and he failed to accept the offer within thirty days of its receipt. The purchaser also may not bring such an action if the purchaser received such an offer before bringing a cause of action and at a time when the purchaser did not own the security, unless the purchaser rejected the offer in writing within thirty days of its receipt.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Securities and Business Investments Law of Connecticut.

Hawaii

None of the shares sold in the state of Hawaii may have been issued pursuant to an effective registration statement or an applicable exemption from the registration requirements set forth in the Hawaii Uniform Securities Act.

Under Hawaii law, an issuer is civilly liable to purchasers of securities sold by the issuer in violation of the Hawaii Uniform Securities Act upon tender of the securities sold or of the contract made. The issuer is liable for the full amount paid by the purchaser, with interest at 10% per year, plus all taxable court costs and reasonable attorney's fees. The purchaser must bring an action to recover the purchase price within five years from the date of the sale or within two years from the discovery of facts constituting the violation, but in any event no later than seven years from the date of sale.

However, we may terminate the rights of the purchasers to seek additional remedies under the Hawaii Uniform Securities Act by making a written rescission offer, before suit, to take back the security in question and refund the full amount paid by the purchaser, plus interest at 10% per year, less the amount of any income received by the purchaser from the securities, and the purchaser refuses or fails to accept such offer within 30 days. The purchaser will no longer have a right of rescission under Hawaii law if the purchaser fails to accept such offer within the period of time specified.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Hawaii Uniform Securities Act.

Illinois

None of the shares sold in the state of Illinois may have been issued pursuant to an effective registration statement or an applicable exemption from the registration requirements set forth in the Illinois Securities Law of 1953.

Under the Illinois Securities Law, an issuer who sells securities in violation of the Illinois Securities Law of 1953 is civilly liable to purchasers of such securities for the full amount paid, plus interest at 10% per year, less any income or other amounts received by the purchaser on the securities, upon offer to tender the securities sold. If the purchaser no longer owns the securities, the issuer is liable for the above amount less any amounts received by the purchaser for or on account of the disposition of the securities. The purchaser must bring an action for relief within three years from the date of sale.

However, we may terminate the rights of the purchasers to seek additional remedies under the Illinois Securities Law of 1953 by making a written rescission offer, before suit, to repurchase the securities, and the purchaser fails to accept the offer within 15 days from the date the offer is received. The offer must be an offer to repurchase the securities for a price equal to the full amount paid, plus interest at 10% per year, less any income thereon. The offer must advise the purchaser of his or her rights, state the period of time in which the offer may be accepted, and contain such further information, if any, as the Secretary of State may prescribe. The purchaser will no longer have a right of rescission under Illinois law if the purchaser fails to accept such offer within the period of time specified.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Illinois Securities Law of 1953.

Indiana

None of the shares sold in the state of Indiana may have been issued pursuant to an effective registration statement or an applicable exemption from the registration requirements of the Indiana Securities Act.

A person who offers or sells a security in violation of the registration requirements of the Indiana Securities Act is civilly liable to the purchaser of the security. The purchaser may sue to recover the consideration paid, together with interest at 8% per year, plus costs, and reasonable attorneys' fees. If the purchaser no longer owns the security, the amount of cash or other property received on the security upon the sale of the security should be deducted, or the purchaser may bring an action for damages. The purchaser must bring the action for violation of the registration requirements within three years after discovery of the violation by the person bringing the action.

However, we may terminate the rights of the purchasers to seek additional remedies under the Indiana Securities Act by making a written rescission offer, before suit, and at a time when the purchaser owned the security, to refund the consideration paid together with interest at 8% per year, less the amount of any income received on the security, and the purchaser failed to accept the offer within 30 days of its receipt. If the purchaser did not own the security, the purchaser may not commence such an action unless the purchaser rejected the offer within 30 days of receipt.

In order to conduct a rescission offer, unless otherwise ordered by the Securities Commissioner of Indiana in a particular case the issuer of the security must adhere to the following:

- The offer must be in writing and the exact text must be submitted to and approved by the Securities Commissioner in advance.
- The offer must be worded so that the subscriber must answer affirmatively that the subscriber either accepts or rejects the rescission offer.
- The offer must be mailed to the address of the subscriber which appears on the books of the transfer agent.
- The subscriber shall have 30 days from the date of receipt to accept the offer (acceptance period). Acceptance or rejection shall be effective upon mailing by the subscriber.
- If a subscriber fails to respond, the investment will be deemed rescinded.
- During the acceptance period no other communications other than reminders that the rescission letter be returned may be initiated by the issuer or its agents with any subscribers to whom the rescission offer is being made.
- At the close of the acceptance period, the issuer shall file with the Securities Commissioner a report indicating the date the acceptance period ended, the number of subscribers to whom the offer was made, and the number of subscribers who accepted the rescission offer and number of shares rescinded.
- Resumption of offers and/or sales shall not take place until the Securities Commissioner so orders.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Indiana Securities Act.

Louisiana

None of the shares sold in the state of Louisiana may have been issued pursuant to an effective registration statement or an applicable exemption from the registration requirements set forth in the Louisiana Securities Law.

Under Louisiana law, an issuer is civilly liable to a purchaser of securities sold in violation of the registration requirements of the Louisiana Securities Law. The purchaser may sue to recover the consideration paid in cash, plus interest at 8% per year, less the amount of any income received thereon, together with all taxable court costs and reasonable attorney's fees, upon the tender of the security at any time before the entry of judgment, or for damages, if the purchaser no longer owns the security. The purchaser must bring suit within two years from the date of the sale.

However, we may terminate the rights of the purchasers to seek additional remedies under the Louisiana Securities Law by making a written rescission offer, before suit and at a time when the purchaser owned the security, to repay in cash or by certified or official bank check, within 30 days from the date of acceptance of such offer in exchange for the securities, the fair value of the consideration paid, plus interest at 8% per year, less the amount of any income received on the security, and the purchaser fails to accept the offer within 30 days of receiving it. If the written offer is provided to the purchaser at a time when the purchaser no longer owns the security, then the repayment amount is equal to the difference between the fair value of the consideration the purchaser gave for the security and the fair value of the security at the time the purchaser disposed of it, plus interest at 8% per year, less the amount of any income received on the security. No such written offer will be effective unless, if it were an offer to sell securities, it would be exempt under Section 51:709 of the Louisiana Securities Law, or, if registration would have been required, such rescission offer has been registered and effected under the Louisiana Securities Law. The purchaser will no longer have a right of rescission under the Louisiana law if the purchaser fails to accept such offer within the period of time specified.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Louisiana Securities Law.

Massachusetts

None of the shares sold in the state of Massachusetts may have been issued pursuant to an effective registration statement or an applicable exemption from the registration requirements set forth in the Massachusetts Uniform Securities Act.

Under Massachusetts law, an issuer is civilly liable to a purchaser of its securities sold in violation of the registration requirements. The purchaser may sue to recover the consideration paid, plus interest at 6% per year, costs and reasonable attorneys' fees, less the amount of any income received on the security, upon the tender of the security, or for damages if the purchaser no longer owns the security. The purchaser must bring suit within four years after the purchaser discovers the violation in question.

However, we may terminate the rights of the purchasers to seek additional remedies under the Massachusetts Uniform Securities Act by making a written rescission offer, before suit and at a time when the purchaser owned the security, to refund the consideration paid with interest at 6% per year, less the amount of any income received on the security, and the purchaser fails to accept the offer within 30 days of receiving it, or if the purchaser receives such an offer before suit and at a time when the purchaser did not own the security, unless the purchaser rejects the offer in writing within 30 days of receiving it. The purchaser will no longer have a right of rescission under Massachusetts law if the purchaser fails to accept such offer within the period of time specified.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Massachusetts Uniform Securities Act.

Missouri

None of the shares sold in the state of Missouri may have been issued pursuant to an effective registration statement or an applicable exemption from the registration requirements set forth in the Missouri Securities Act of 2003.

Under Missouri law, an issuer is civilly liable to persons who purchase securities sold by the issuer in violation of the registration requirements. The purchaser may sue to recover the consideration paid for the security, less the amount of any income received on the security, and interest at 8% per year, costs and reasonable attorneys' fees, upon the tender of the security, or for actual damages. The purchaser must bring the action within one year after the violation occurs.

However, we may terminate the rights of the purchasers to seek additional remedies under the Missouri Securities Act of 2003 by making a written rescission offer, before suit, which states the respect in which liability may have arisen, fairly advises the purchaser of the purchaser's rights in connection with the offer and provides any financial or other information necessary to correct all material misrepresentations or omissions in the information that was required to be furnished to the purchaser at the time of the purchase. The offer must present an offer to repurchase the security for cash, payable on delivery of the security, equal to the consideration paid, plus interest at 8% per year, less the amount of any income received on the security, or for damages if the purchaser no longer owns the security. The offer must be accepted by the purchaser within 30 days after the date it is received. The purchaser will no longer have a right of rescission under Missouri law if the purchaser fails to accept such offer within the period of time specified.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Missouri Securities Act of 2003.

Montana

None of the shares sold in the state of Montana may have been issued pursuant to an effective registration statement or an applicable exemption from the qualification requirements set forth in the Securities Act of Montana.

Under Montana law, a person who offers or sells securities in violation of the registration requirements is civilly liable to the person buying the security. The purchaser may sue to recover the consideration paid for the security, together with interest at 10% per year, costs, and reasonable attorneys' fees less the amount of any income received on the security, upon the tender of the security. The purchaser may also sue for damages if he no longer owns the security. The purchaser must bring the action for violation of the registration requirements within two years after the violation occurs.

However, we may terminate the rights of the purchasers to seek additional remedies under the Securities Act of Montana by making a written rescission offer, before suit and at a time when he owned the security, to refund the consideration paid, together with interest at 10% per year, less the amount of any income received on the security and the purchaser failed to accept the offer within 30 days of its receipt. If the purchaser no longer owns the security, the purchaser may not commence such an action if he received a written offer in the amount that would be recoverable if the purchaser did own the security upon a tender, less the value of the security when the purchaser disposed of it, plus interest at 10% per year.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Securities Act of Montana.

New York

Under New York law, there is no requirement to register or qualify securities, and there is no provision for rescission offers. We applied for an exemption under New York law from the broker-dealer registration and securities issuance requirements with the State of New York to issue the shares to you in the public offering without registration or qualification. Because we applied for such an exemption, we believe that the shares of common stock issued by us in the state of New York were issued pursuant to an exemption from registration or qualification under New York law.

If shares were issued to you in New York, you do not have a right of rescission under New York law. Accordingly, the rescission offer is being made with respect to individuals who purchased shares of our common stock in New York, pursuant only to federal rights of rescission. The acceptance or non-acceptance of the rescission offer by these individuals will have no effect under New York law.

Oregon

None of the shares sold in the state of Oregon may have been issued pursuant to an effective registration statement or an applicable exemption from the qualification requirements set forth in the Oregon Securities Law.

Under Oregon law, a person who offers or sells securities in violation of the registration requirements is civilly liable to the person buying the security. If the purchaser still owns the security, the purchaser may sue to recover, upon tender of the security, the consideration paid for the security, plus interest at 9% per year, less any amount received on the security. If the purchaser no longer owns the security, the purchaser may sue to recover damages in the amount that would be recoverable upon a tender, less the value of the security when the purchaser disposed of it, and less interest on such value from the date of disposition. The purchaser must bring the action for violation of the registration requirements within three years after the sale of the security.

However, we may terminate the rights of the purchasers to seek additional remedies under the Oregon Securities Law by making a written rescission offer, before suit, containing both (i) an offer to pay the purchaser the consideration paid for the security, interest at 9% per year, less any amount received on the security, and (ii) a statement of the effect on the purchaser's rights of failure to respond. An action for violation of the registration requirements may be commenced after receipt of a notice, if the purchaser owned the security when the notice was received, accepted the payment offer within 30 days after its receipt, and has not been paid the full amount offered; or if the purchaser did not own the security when the notice was received, and within 30 days after receipt, gave written notice of inability to tender back the security.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Oregon Securities Law.

South Carolina

None of the shares sold in the state of South Carolina may have been issued pursuant to an effective registration statement or an applicable exemption from the qualification requirements of the South Carolina Uniform Securities Act of 2005.

Under South Carolina law, a person who offers or sells securities in violation of the registration requirements is civilly liable to the person buying the security. The purchaser may sue to recover the consideration paid for the security, less the amount of any income received on the security, and interest at 11.25% per year, costs and reasonable attorneys' fees determined by the court, upon the tender of the security. If the purchaser no longer owns the security, the purchaser may sue for actual damages that would be recoverable upon a tender less the value of the security when the purchaser disposed of it, plus interest at 11.25% per year, costs and reasonable attorneys' fees determined by the court. Tender may be made at any time before entry of judgment. Tender requires only notice in a record of ownership of the security and willingness to exchange the security for the amount specified. The legal rate of interest payable under South Carolina law is based on the prime rate as listed in the first edition of the Wall Street Journal published for each calendar year for which the damages are awarded, plus four percentage points, compounded annually. For purposes of the rescission offer, the rate of interest applicable to the rescission offer will be based on the prime interest rate (7.25%) listed in the first edition of the Wall Street Journal published in calendar year 2006. A person must bring an action for violation of the registration requirements within three years after the violation occurred.

However, we may terminate the rights of the purchasers to seek additional remedies under South Carolina Uniform Securities Act of 2005 by making a written rescission offer, before suit stating the respect in which liability may have arisen, and fairly advising the purchaser their rights in connection with the offer, and any financial or other information that was required to be furnished to that person at the time of the purchase of the securities. The rescission must include an offer to repurchase the security for cash, payable upon delivery of the security, equal to the consideration paid, including all commissions and fees, plus interest at 11.25% per year, less the amount of any income received on the security. If the purchaser no longer owns the security, the offer may be to pay the purchaser upon acceptance of the offer, damages in an amount that would be recoverable upon a tender, less the value of the security when the purchaser disposed of it, plus interest at 11.25% per year. The offer must be accepted by the purchaser within 30 days after the date of its receipt by the purchaser. The offeror must have the present ability to pay the amount offered or to tender the security. Finally, the offer must be delivered to the purchaser, or sent in a manner that ensures receipt by the purchaser, and the purchaser must accept the offer and be paid in accordance with the terms of the offer.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the South Carolina Uniform Securities Act of 2005.

Utah

None of the shares sold in the state of Utah may have been issued pursuant to an effective registration statement or an applicable exemption from the qualification requirements set forth in the Utah Uniform Securities Act.

Under Utah law, a person who offers or sells securities in violation of the registration requirements is civilly liable to the person buying the security. The purchaser may sue to recover the consideration paid for the security, together with interest at 12% per year, costs and reasonable attorney's fees, less the amount of any income received on the security, upon the tender of the security, or for damages if he no longer owns the security. Damages are the amount that would be recoverable upon a tender less the value of the security when the buyer disposed of it, and interest at 12% per year. If the purchaser can show that the violation was reckless or intentional, the purchaser may bring suit for three times the consideration paid for the security, together with interest, costs and attorney's fees. The purchaser must bring the action for violation of the registration requirements within four years after the act or transaction constituting the violation, or within two years after the discovery by the purchaser of the facts constituting the violation, whichever expires first.

However, we may terminate the rights of the purchasers to seek additional remedies under the Utah Uniform Securities Act by making a written rescission offer, before suit and at a time when he owned the security, to refund the consideration paid together with interest at 12% per year, less the amount of any income received on the security, and he failed to accept the offer within 30 days of receipt. If the purchaser no longer owns the security, he may not commence such an action if he received a written offer before suit, unless he rejected the offer in writing within 30 days of its receipt.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Utah Uniform Securities Act.

Vermont

None of the shares sold in the state of Vermont may have been issued pursuant to an effective registration statement or an applicable exemption from the qualification requirements set forth in the Vermont Uniform Securities Act.

Under Vermont law, a person who offers or sells securities in violation of the registration requirements is civilly liable to the person buying the security. The purchaser of the security may sue to recover the consideration paid for the security, together with interest at 12% per year, costs and reasonable attorneys' fees, less the amount of any income received on the security, upon the tender of the security, or for damages plus costs and reasonable attorneys' fees if the purchaser no longer owns the securities. Damages are the amount that would be recoverable upon a tender, less the value of the security when the purchaser disposed of it, and interest at 12% per year. Tender shall require only notice of willingness to exchange the security for the amount specified. The purchaser must bring the action for violation of the registration requirements within three years after the act, omission or transaction constituting the violation, or within two years after the violation is or reasonably should have been discovered, whichever occurs later, but not later than six years after the act, omission or transaction constituting the violation.

Under Vermont law, effective as of July 1, 2006, an action may not be maintained if before the action is instituted, the purchaser receives an offer stating the respect in which the civil liability may have arisen and fairly advising the purchaser of that person's rights in connection with the offer, and any financial or other information necessary to correct all material misrepresentations or omissions in the information that was required by this chapter to be furnished to that person at the time of the purchase. The offer must be to repurchase the security for cash, payable on delivery of the security, equal to the consideration paid, together with interest at the rate of 12% per year, less the amount of any income received on the security, or, if the purchaser no longer owns the security, an offer to pay the purchaser upon acceptance of the offer damages in an amount that would be recoverable upon a tender, less the value of the security when the purchaser disposed of it, together with interest at the rate of 12% per year. The offer must be accepted by the purchaser within 30 days of its receipt, the offeror must have the present ability to pay the amount offered or to tender the security, the offer must be delivered to the purchaser in a manner that ensures receipt by the purchaser and the purchaser must be paid in accordance with the terms of the offer.

Virginia

None of the shares sold in the state of Virginia may have been issued pursuant to an effective registration statement or an applicable exemption from the qualification requirements set forth in the Virginia Securities Act.

Under Virginia law, a person who offers or sells securities in violation of the registration requirements is civilly liable to the person buying the security. The purchaser may sue to recover the consideration paid for the security, together with interest at 6% per year, costs, and reasonable attorneys' fees, less the amount of any income received on the security, upon the tender of such security, or for the substantial equivalent in damages if he no longer owns the security. Any tender may be made at any time before entry of judgment. The purchaser must bring the action for violation of the registration requirements within two years after the transaction upon which the action is based.

However, we may terminate the rights of the purchasers to seek additional remedies under the Virginia Securities Act by making a written rescission offer, before suit, to refund the consideration paid, together with interest at 6% per year, less the amount of any income received on the security, or to pay damages if the purchaser no longer owns the security, and the purchaser refuses or fails to accept such offer within 30 days of its receipt.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Virginia Securities Act.

Washington

None of the shares sold in the state of Washington may have been issued pursuant to an effective registration statement or an applicable exemption from the qualification requirements set forth in the Securities Act of Washington.

Under Washington law, a person who offers or sells securities in violation of the registration requirements is civilly liable to the person buying the security. The purchaser may sue to recover the consideration paid for the security, together with interest at 8% per year, costs and reasonable attorneys' fees, less the amount of any income received on the security, upon the tender of the security, or for damages if the purchaser no longer owns the security. Damages are the amount that would be recoverable upon a tender less (i) the value of the security when the purchaser disposed of it, and (ii) interest at 8% per year from the date. The purchaser must bring the action for violation of the registration requirements within three years after the contract of sale.

However, we may terminate the rights of the purchasers to seek additional remedies under the Securities Act of Washington by making a written rescission offer, before suit, which has been passed upon by the director before suit, and at a time when the purchaser owned the security, to refund the consideration paid together with interest at 8% per year, less the amount of any income received on the security.

We believe that this rescission offer complies in all material respects with the rescission offer requirements of the Securities Act of Washington.

Israel

Israel's securities law, known as The Securities Law, 5728-1968, prohibits the offering of securities to the public, other than under a prospectus, the publication of which has been permitted by the Israel Securities Authority. The regulations promulgated under The Securities Law provide for an exemption to this general prohibition when the number of investors in Israel to whom the offeror sells the offered securities in an offering, combined with the number of investors in Israel to whom the offeror sold securities during the twelve month preceding the offer, is less than 35 investors. Because we have sold our securities to fewer than 35 investors in Israel at any time, we believe that the shares of common stock issued by us in Israel in the public offering were issued pursuant to an exemption from the prospectus publication requirements under Israeli law.

If shares were issued to you in Israel, you do not have a right of rescission under Israeli law. Accordingly, the rescission offer is being made with respect to individuals who purchased shares of our common stock in Israel, pursuant only to United States federal rights of rescission. The acceptance or non-acceptance of the rescission offer by these individuals will have no effect under Israeli law.

Funding the Rescission Offer

We have entered into an agreement 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. We would assign 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. As currently contemplated, the initial \$250,000 of rescission shares would be purchased by Mark Reed. If the number of rescission shares tendered for rescission exceeds \$250,000 of shares, Robert T. Reed, Jr. would purchase the balance of the rescission shares tendered for rescission to us. Each of the designated purchasers is a brother of Christopher J. Reed, our Chief Executive Officer, Chief Financial Officer and the Chairman of the Board of Directors. Robert T. Reed, Jr. also is our Vice President and National Sales Manager - Mainstream and a beneficial owner of approximately 7.13% of our common stock. Each of the designated purchasers may also participate in the purchase of shares of common stock to be distributed in the public offering. Since up to all of the rescission shares would be purchased by the designated purchasers, none of the rescission shares would be purchased directly by us and would not deplete proceeds from our public offering or other of our then current cash balances. The rescission shares, which may be purchased by the designated purchasers in the rescission offer, would be deemed to be registered shares for the benefit of the designated purchasers pursuant to a registration statement to be filed by us relating to the rescission offer under the Securities Act, effective as of the commencement date of the rescission offer without any further action on the part of the designated purchasers. If we are required to pay the obligation which may be created under the rescission offer, such a refund would materially and adversely effect our financial position.

Directors, Officers and Major Stockholders

None of our officers, directors or 5% stockholders purchased shares in our initial public offering and are not eligible to participate in this rescission offer for purposes of tendering their shares for rescission. However, we have entered into an agreement 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. Robert T. Reed, Jr. is a beneficial owner of approximately 7.13% of our common stock. If Robert T. Reed, Jr. purchases shares in this rescission offer, he would increase his ownership interest in us.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

Tax Consequences of the Rescission Offer

The following discussion summarizes the material federal income tax considerations relevant to our stockholders who hold shares that are subject to the rescission offer. We do not discuss all income tax considerations that may be relevant to particular stockholders in light of their individual circumstances, such as stockholders who are non-U.S. persons, stockholders who are not individuals, or stockholders subject to the alternative minimum tax provisions of the Internal Revenue Code of 1986, as amended, or the Code. In addition, we do not address the tax consequences of the rescission offer to persons who hold shares that are subject to hedging, conversion, or constructive sale transactions, or whose tax year is other than a calendar year. Finally, we do not address any foreign, state or local tax considerations. ACCORDINGLY, STOCKHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES OF THE RESCISSION OFFER, INCLUDING THE APPLICABLE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE RESCISSION OFFER.

General

The repurchase of shares from our stockholders may be treated by the Internal Revenue Service, or the Service, as, among other things, (i) a redemption of equity securities by us, or (ii) a purchase of securities by a third party. Because we cannot determine in advance how the Service may characterize these transactions, we have described below the treatment under the two most likely characterizations.

We have entered into an agreement 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. We would assign 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. Each designated person will buy the rescission shares for his own account and with his own funds. There is no plan or intention by us to redeem the shares to be acquired by the designated purchaser.

Treatment as Repurchase of Shares

We intend to treat the rescission transaction as one strictly between the stockholder and the designated purchaser. A sale to the designated purchaser for an amount of cash equal to the original purchase price, plus applicable accrued interest, would be treated as a sale or exchange, and assuming that such stockholder holds the rescission shares as a capital asset, the sale would be treated as a capital gain or loss (within the meaning of Section 1221 of the Code and administrative and case law thereunder). The amount of the gain would be the amount received by the stockholder (including the accrued interest amount) less the amount originally paid for the rescission shares. In this analysis, we have assumed that the Service will not assert that the designated purchasers are in any way acting as our agent in making the purchase of the rescission shares. If the Service were to assert that the designated purchasers are acting as our agent in making the purchase of the rescission shares, then the tax treatment would more likely be similar to that described in the subparagraph below entitled “Treatment as Redemption of Shares.”

Treatment as Redemption of Shares

The Service may take the position that the rescission will constitute a taxable redemption of the rescission shares for cash, with the redemption price equal to the amount paid for such shares (and include in the redemption price the interest on the original purchase price of such rescission shares). A redemption for an amount of cash equal to the original purchase price (plus accrued interest) could be treated as a redemption governed by the rules of Section 302 and related sections of the Code. However, the federal tax law governing this proposed transaction is unclear, at best, and we have not received a ruling from the Service regarding such tax consequences. For example, the Service could characterize the rescission offer as the return of the original purchase price, which would ordinarily be nontaxable, plus the payment of interest, which would be taxable as ordinary income.

If this tax position as a redemption is sustained, any rescission transaction would be treated as a sale or exchange, and, assuming that such stockholder holds his shares as a capital asset (within the meaning of Section 1221 of the Code and administrative and case law thereunder), the character of any gain or loss to the stockholder would be treated as a capital gain or loss, if:

- It results in a “complete redemption” of the stockholder’s interest in us under Section 302(b)(3) of the Code, which would be the case if either (i) all of the shares actually and constructively owned by the stockholder are sold pursuant to the rescission offer, or (ii) all of the shares actually owned by the stockholder are sold pursuant to the rescission offer and the stockholder is eligible to waive, and effectively waives, constructive ownership of the shares under procedures described in Section 302(c) of the Code;

- It is “substantially disproportionate” with respect to the stockholder under Section 302(b)(2) of the Code, which would occur if (i) the percentage of our voting stock owned by the stockholder immediately after the repurchase, taking into account all shares purchased from the stockholder pursuant to the rescission offer, equals less than 80% of the percentage of our voting stock owned by the stockholder immediately before the repurchase, and (ii) the stockholder, after the repurchase, owns less than 50% of the total combined voting power of all classes of our stock entitled to vote; or
- It is not “essentially equivalent to a dividend” with respect to the stockholder, under Section 302(b)(1) of the Code, which would occur if, in light of the stockholder's individual circumstances, including his relative interest in us, his sale of shares pursuant to the rescission offer results in a “meaningful reduction” of his interest in us.

In determining whether any of the above redemption tests are satisfied, a stockholder must take into account not only shares that are actually owned by him, but also shares that are constructively owned by him within the meaning of Section 318 of the Code. Section 318 of the Code provides that a stockholder may constructively own shares actually owned, and in some cases, constructively owned by certain related individuals and shares that he has the right to acquire by the exercise of an option, warrant, or a conversion right. Contemporaneous or related transactions in our capital stock or capital stock rights also may affect the redemption tests.

If the rules of Section 302 were to apply and the rescission fails to qualify as a redemption, then the gross proceeds of such transaction would be characterized as a dividend distribution, taxable at ordinary income tax rates to the extent of our accumulated and current earnings and profits (if any), and any excess would be treated as a return of capital, to the extent of the stockholder's basis in the rescission shares, and any amount in excess of the basis would be treated as a gain from a sale or exchange of a capital asset.

THE LAW APPLICABLE TO THE RESCISSION OFFER IS UNCLEAR AND WE HAVE NOT RECEIVED AN OPINION OF COUNSEL OR A RULING FROM THE SERVICE TO THAT EFFECT. THUS, THE SERVICE COULD SUCCESSFULLY ASSERT A CONTRARY POSITION, OR OTHERWISE, RECHARACTERIZE THE TRANSACTION IN WHOLE OR IN PART.

THE PRECEDING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN UNITED STATES INCOME TAX CONSEQUENCES OF THE RESCISSION OFFER AND DOES NOT PURPORT TO BE A COMPLETE ANALYSIS OR DISCUSSION OF ALL POTENTIAL TAX EFFECTS RELEVANT THERETO. STOCKHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE RESCISSION OFFER, INCLUDING TAX RETURN REPORTING REQUIREMENTS, THE APPLICABILITY AND EFFECT OF FOREIGN, FEDERAL, STATE, LOCAL, AND OTHER APPLICABLE TAX LAWS AND THE EFFECT OF ANY PROPOSED CHANGES IN THE TAX LAWS.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- Changes in product category consumption,
- 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.

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.”

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,
- 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 United 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 have 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 a 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 our public 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 our public 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 items increased 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%).

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 the public 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 the public 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 ends 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 the public 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 the public 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 the public 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 the public 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 the public 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 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 \$1,400,000, 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 4.0%, and the interest rate at March 31, 2006 was 10.5%. The line of credit expires on June 30, 2007 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.

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 of \$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 the public offering in the quarter ended March 31, 2006. We increased borrowings on our line of credit in the amount of \$93,993 in the quarter ended March 31, 2006, as compared to our making payments on our line of credit in the amount of \$194 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 the public 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 the public 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 the public 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 \$1,315,156 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 an underwriter to assist us in continuing the process of raising capital through a public offering of our common stock which we commenced in 2005. We believe that we will be successful in raising additional funds from the public offering. However, we cannot predict the exact amount which will be raised. We intend to resume the offering upon completion of this rescission offer to persons who have purchased shares in the offering to date. We expect the public offering to commence during the summer of 2006. Until the commencement of the 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 the 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 the 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.

We have entered into an agreement 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. We would assign 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. As currently contemplated, the initial \$250,000 of rescission shares would be purchased by Mark Reed. If the number of rescission shares tendered for rescission exceeds \$250,000 of shares, Robert T. Reed, Jr. would purchase the balance of the rescission shares tendered for rescission to us. Each of the designated purchasers is a brother of Christopher J. Reed, our Chief Executive Officer, Chief Financial Officer and the Chairman of the Board of Directors. Robert T. Reed, Jr. also is our Vice President and National Sales Manager - Mainstream and a beneficial owner of approximately 7.13% of our common stock. Each of the designated purchasers may also participate in the purchase of shares of common stock to be distributed in the public offering. Since up to all of the rescission shares would be purchased by the designated purchasers, none of the rescission shares would be purchased directly by us and would not deplete proceeds from our public offering or other of our then current cash balances. The rescission shares, which may be purchased by the designated purchasers in the rescission offer, would be deemed to be registered shares for the benefit of the designated purchasers pursuant to a registration statement to be filed by us relating to the rescission offer under the Securities Act, effective as of the commencement date of the rescission offer without any further action on the part of the designated purchasers. If we are required to pay the obligation which may be created under the rescission offer, such a refund would materially and adversely effect our financial position.

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

We are conducting the public 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 the public 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, the public 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 thereby. Accordingly, if we cannot receive adequate proceeds from the public 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 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 the public 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 the public offering. If we do not receive the maximum proceeds from the public 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 Financial Accounting Standards Board, or 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 FASB 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 FASB 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 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.

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 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 the public 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, 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 the public offering. If all or most of the shares being offered in our public offering 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 in our public offering 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. The International Ice Cream Association 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 Ginger 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 Ginger 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 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 lime juice 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 Brews, 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 Spiced and 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 have 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."

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 the public 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 the public 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 managers 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 managers 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, Mystic, 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 the public 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 intend to make this rescission offer to the holders of these shares prior to the effective date of the registration statement relating to the public offering.

If this rescission offer is accepted, we could be required to make aggregate payments to the holders of these shares up to \$1,332,624, plus statutory interest. This exposure is calculated by reference to the acquisition price of \$4.00 per share for the common stock in connection with the initial public offering, plus accrued interest at the applicable statutory rate. It is our intention that if any of the shares are tendered for rescission, the shares will be purchased by others and not from our funds. If we are required to pay the obligation which may be created under the rescission offer, such a refund would materially and adversely effect our financial position.

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 relationships 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 stockholder 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 stockholders. 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 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 Ethics that complies with Item 406 of Regulation S-B of the Exchange Act.

The Board has determined that three members of our board of directors, Mr. Harris, Dr. Mufoletto and Mr. Fischman 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:

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

We have entered into an agreement 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. We would assign 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. As currently contemplated, the initial \$250,000 of rescission shares would be purchased by Mark Reed. If the number of rescission shares tendered for rescission exceeds \$250,000 of shares, Robert T. Reed, Jr. would purchase the balance of the rescission shares tendered for rescission to us. Each of the designated purchasers is a brother of Christopher J. Reed, our Chief Executive Officer, Chief Financial Officer and the Chairman of the Board of Directors. Robert T. Reed, Jr. also is our Vice President and National Sales Manager - Mainstream and a beneficial owner of approximately 7.13% of our common stock. Each of the designated purchasers may also participate in the purchase of shares of common stock to be distributed in the public offering. Since up to all of the rescission shares would be purchased by the designated purchasers, none of the rescission shares would be purchased directly by us and would not deplete proceeds from our public offering or other of our then current cash balances. The rescission shares, which may be purchased by the designated purchasers in the rescission offer, would be deemed to be registered shares for the benefit of the designated purchasers pursuant to a registration statement to be filed by us relating to the rescission offer under the Securities Act, effective as of the commencement date of the rescission offer without any further action on the part of the designated purchasers. If we are required to pay the obligation which may be created under the rescission offer, such a refund would materially and adversely effect our financial position.

We believe that the terms of each of the foregoing transactions were as favorable to us as the terms that would have been available to us from unaffiliated parties.

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 ends 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 the public 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 the public offering.

At the time of each of the transactions listed above, except for the loan in October 2003 from Robert T. Reed, Sr., we did not have any independent directors to ratify such transactions.

In 2005, we added three independent directors to our board. The Board of Directors, inclusive of the independent directors, resolved to reauthorize all material ongoing and past transactions, arrangements and relationships listed. In addition, we intend that any transactions with officers, directors and 5% or greater stockholders will be on terms no less favorable to us than could be obtained from independent third parties and will be approved by a majority of our independent, disinterested directors and will comply with the Sarbanes-Oxley Act and other securities laws and regulations.

PRINCIPAL STOCKHOLDERS

The following table reflects, as of the date of this prospectus, the beneficial common stock ownership of: (a) each of our directors, (b) each named executive officer, (c) each person known by us to be a beneficial holder of 5% or more of our common stock, and (d) all of our executive officers and directors as a group.

Except as otherwise indicated below, the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them. Unless otherwise indicated, the principal address of each listed executive officer and director is 13000 South Spring Street, Los Angeles, California 90061.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned ⁽¹⁾	
		Before this Offering	After this Offering
Directors and Named Executive Officers			
Christopher J. Reed ⁽²⁾	3,200,000	60.06%	45.75%
Judy Holloway Reed ⁽²⁾	3,200,000	60.06%	45.75%
Mark Harris ⁽³⁾	4,000	*	*
Dr. Daniel S.J. Muffoletto, N.D.	0	0	0
Michael Fischman	0	0	0
Robert T. Reed, Jr. ⁽⁴⁾	387,500	7.13%	5.45%
Directors and executive officers as a group (8 persons) ⁽⁵⁾	3,727,000	66.83%	51.45%
5% or greater stockholders			
Joseph Grace ⁽⁶⁾	500,000	9.38%	7.15%
Robert T. Reed, Sr. ⁽⁷⁾	389,565	7.14%	5.47%

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the SEC. Shares of common stock subject to options or warrants currently exercisable or exercisable within 60 days of the date of this prospectus, are deemed outstanding for computing the percentage ownership of the stockholder holding the options or warrants, but are not deemed outstanding for computing the percentage ownership of any other stockholder. Unless otherwise indicated in the footnotes to this table, we believe stockholders named in the table have sole voting and sole investment power with respect to the shares set forth opposite such stockholder's name. Unless otherwise indicated, the officers, directors and stockholders can be reached at our principal offices. Percentage of ownership is based on 5,328,109 shares of common stock outstanding as of the date of this prospectus, and gives effect to the sale of 333,156 shares pursuant to the public offering as of the date of this prospectus. Percentage of share ownership after the offering assumes the sale of all 2,000,000 shares in the public offering.

(2) Christopher J. Reed and Judy Holloway Reed are husband and wife. The same number of shares of common stock is shown for each of them, as they may each be deemed to be the beneficial owner of all of such shares. These shares have been pledged as collateral to Robert T. Reed, Jr. to secure a pledge of Mr. Reed of his shares as collateral for a line of credit extended to us.

(3) Consists of 4,000 shares of common stock, which can be converted at any time from 1,000 shares of Series A preferred stock. The address for Mr. Harris is 160 Barranca Road, Newbury Park, California 91320.

(4) Consists of (i) 277,500 shares of common stock, (ii) options exercisable into 50,000 shares of common stock, and (iii) 60,000 shares of common stock, which can be converted at any time from 15,000 shares of Series A preferred stock. Does not give effect to the agreement of Mr. Reed to purchase shares of our common stock in connection with the rescission offer.

(5) Includes three other executive officers (including Robert T. Reed, Jr., our Executive Vice-President and National Sales Manager - Mainstream (see footnote 4 above), Robert Lyon, our Vice President Sales - Special Projects (options to purchase up to 60,000 shares) and Eric Scheffer, our Vice President and National Sales Manager - Natural Foods (500 shares and options to purchase up to 75,000 shares) who beneficially own in the aggregate of 523,000 shares of common stock.

(6) The address for Mr. Grace is 1900 West Nickerson Street, Suite 116, PMB 158, Seattle, Washington 98119.

(7) Consists of (i) 262,500 shares of common stock, and (ii) 127,065 shares of common stock, which can be converted from principal and accrued interest on certain convertible promissory notes at March 31, 2006.

DESCRIPTION OF OUR SECURITIES

We have the authority to issue 12,000,000 shares of capital stock, consisting of 11,500,000 shares of common stock, \$.0001 par value per share, and 500,000 of preferred stock, \$10.00 par value per share, which can be issued from time to time by our board of directors on such terms and conditions as they may determine.

As of the date of this prospectus, there were 5,328,109 shares of common stock outstanding, and 58,940 shares of Series A preferred stock issued and outstanding. Assuming the sale of the maximum number of shares in connection with the public offering and that no shares in the rescission offer will be repurchased by us, upon completion of the public offering, we will have outstanding 6,994,953 shares of common stock issued and outstanding.

We will not offer preferred stock to promoters, except on the same terms as it is offered to all other existing stockholders or to new stockholders. We will not authorize the issuance of preferred stock unless such issuance is approved by a majority of our independent directors who do not have an interest in the transaction and who have access, at our expense, to our legal counsel or their independent legal counsel.

The following description of our capital stock does not purport to be complete and is subject to, and is qualified by, our certificate of incorporation and by-laws, which are filed as exhibits to the registration statement of which this prospectus is a part, and by the applicable provisions of Delaware law.

Common Stock

Holders of our common stock are entitled to one vote per share on all matters requiring a vote of stockholders, including the election of directors.

We are a Delaware corporation and our certificate of incorporation does not provide for cumulative voting. However, we may be subject to section 2115 of the California Corporations Code. Section 2115 provides that, regardless of a company's legal domicile, specified provisions of California corporations law will apply to that company if the company meets requirements relating to its property, payroll and sales in California and if more than one-half of its outstanding voting securities are held of record by persons having addresses in California, and such company is not listed on certain national securities exchanges or on the Nasdaq National Market. Among other things, section 2115 may limit our ability to elect a classified board of directors and requires cumulative voting in the election of directors. Cumulative voting is a voting scheme which allows minority stockholders a greater opportunity to have board representation by allowing those stockholders to have a number of votes equal to the number of directors to be elected multiplied by the number of votes to which the stockholder's shares are entitled and to "cumulate" those votes for one or more director nominees. Generally, cumulative voting allows minority stockholders the possibility of board representation on a percentage basis equal to their stock holding, where under straight voting those stockholders may receive less or no board representation. The Supreme Court of Delaware has recently ruled, on an issue unrelated to voting for directors, that section 2115 is an unconstitutional exception to the "internal affairs doctrine" that requires the law of the incorporating state to govern disputes involving a corporation's internal affairs, and is therefore inapplicable to Delaware corporations. The California Supreme Court has not definitively ruled on section 2115, although certain lower courts of appeal have upheld section 2115. As a result, there is a conflict as to whether section 2115 applies to Delaware corporations. Pending the resolution of these conflicts, we will not elect directors by cumulative voting.

Christopher J. Reed, our President and Chief Executive officer, holds a majority of our outstanding common stock and may continue to hold a majority of our outstanding common shares if less than all the shares being offered in the public offering are sold. Consequently, Mr. Reed, as our principal stockholder, has the power, and may continue to have the power, to have significant control over the outcome of any such vote or any other matter, on which the stockholders may vote.

Holders of our common stock are entitled to receive dividends only if we have funds legally available and the Board of Directors declares a dividend.

Holders of our common stock do not have any rights to purchase additional shares. This right is sometimes referred to as a preemptive right.

Upon a liquidation or dissolution, whether in bankruptcy or otherwise, holders of common stock rank behind our secured and unsecured debt holders, and behind any holder of any series of our preferred stock.

There is no public market for our common stock.

Series A Preferred Stock

Holders of our Series A preferred stock are entitled to receive out of assets legally available, a 5% pro-rata annual non-cumulative dividend, payable in cash or shares, on June 30th of each year commencing on June 30, 2005. The dividend can be paid in cash or, in the sole and absolute discretion of our board of directors, in shares of common stock based on its then fair market value. We cannot declare or pay any dividend on shares of our securities ranking junior to the preferred stock until the holders of our preferred stock have received the full non-cumulative dividend to which they are entitled. In addition, the holders of our preferred stock are entitled to receive pro rata distributions of dividends on an "as converted" basis with the holders of our common stock.

As of June 30, 2005, we issued 7,362 shares of our common stock as a dividend to the holders of our Series A preferred stock based on a \$29,470 accrued annual dividend payable.

In the event of any liquidation, dissolution or winding up of our operations, or if there is a change of control event, then, subject to the rights of the holders of our more senior securities, if any, the holders of our Series A preferred stock are entitled to receive, prior to the holders of any of our junior securities, \$10.00 per share plus all accrued and unpaid dividends. Thereafter, all remaining assets shall be distributed pro rata among all of our security holders.

At any time after June 30, 2007, we have the right, but not the obligation, to redeem all or any portion of the Series A preferred stock by paying the holders thereof the sum of the original purchase price per share, which was \$10.00, plus all accrued and unpaid dividends.

The Series A preferred stock may be converted, at the option of the holder, at any time after issuance and prior to the date upon which such stock is redeemed, into four shares of common stock, subject to adjustment in the event of stock splits, reverse stock splits, stock dividends, recapitalization, reclassification, and similar transactions. We are obligated to reserve out of our authorized but unissued shares of common stock a sufficient number of such shares to effect the conversion of all outstanding shares of Series A preferred stock.

Except as provided by law, the holders of our Series A preferred stock do not have the right to vote on any matters, including, without limitation, the election of directors. However, so long as any shares of Series A preferred stock are outstanding, we shall not, without first obtaining the approval of at least a majority of the holders of the Series A preferred stock:

- amend our certificate of incorporation or bylaws in any manner which adversely affects the rights of the Series A preferred stock, or
- authorize or issue any equity security having a preference over the Series A preferred stock with respect to equity security other than any senior preferred stock.

There is no public market for our Series A preferred stock and we do not intend to register such stock with the SEC or seek to establish a public market for the Series A preferred stock.

Options and Warrants

As of the date of this prospectus, we had outstanding options and warrants to purchase an aggregate of 904,241 shares of our common stock, with a range of exercise prices from \$2.00 to \$6.00. The options and warrants expire at various dates between 2006 and 2010. We have outstanding options to purchase up to 291,000 shares of common stock at a weighted average exercise price of \$3.80 per share, all of which were granted pursuant to our 2001 Stock Option Plan. We have outstanding warrants to purchase up to 613,241 shares of common stock at a weighted average exercise price of \$2.80 per share.

Convertible Debt

We have a loan payable to Robert T. Reed, Sr. which 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 \$76,240. 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.

We also have a loan payable to Barry and Leslie Sandler pursuant to a promissory note, dated September 26, 1995, in the principal amount of \$9,000. The loan bears interest at the rate of 10% per annum. So long as the debt is outstanding, the Sandlers have 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 \$2.40 owed to them.

As of March 31, 2006, these loans were convertible into an aggregate of 136,158 shares of common stock.

Underwriters' Warrants

We have agreed to issue to our underwriters a five-year warrant, to purchase a number of shares of common stock equal to 10% of the shares sold in the public offering, at an assumed purchase price of \$6.60 per share. The warrants have a purchase price of \$0.001 per warrant. As of the date of this prospectus, we have agreed to issue warrants to purchase up to an aggregate of 33,316 shares of common stock based on the sale of 333,156 shares in the public offering to date. If the maximum number of shares are issued in the public offering, we will issue warrants to purchase up to an aggregate of 200,000 shares of common stock based on the sale of a maximum of 2,000,000 shares which may be sold in the public offering.

Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation

Certain provisions of Delaware law and our certificate of incorporation could make more difficult the acquisition of us by means of a tender offer, a proxy contest, or otherwise, and the removal of incumbent officers and directors. These provisions are expected to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us.

Our Certificate of Incorporation includes provisions that:

- allow the Board of Directors to issue, without further action by the stockholders, up to 500,000 shares of undesignated preferred stock.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging under certain circumstances, in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder.
- upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (1) shares owned by persons who are directors and also officers and (2) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer.

- on or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66²/₃% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of a corporation's outstanding voting securities. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board of directors does not approve in advance. We also anticipate that Section 203 may also discourage attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

These provisions of Delaware law and our certificate of incorporation could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

Certain Historical Information Regarding Securities Issuances

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 issuances 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 stockholder)	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 stockholder)	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 stockholder)	C	3,750	4.00	2001
Employee bonus grants	C	1,500	3.333	2003
Exempt private placement (existing stockholder)	C	3,000	3.50	2003
Exempt private placement (existing stockholders)	‡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 our public 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 stock at \$10 par value convertible to 4 common shares

* Type of share issued C=Common, Pr=Preferred

SHARES ELIGIBLE FOR FUTURE SALE

There has been no public market for our stock. We cannot predict the effect, if any, that market sales of shares or the availability of shares for sale will have on the market price prevailing from time to time, if a market is established for our common stock. Sales of our common stock in the public market after the restrictions lapse as described below, or the perception that those sales may occur, could cause the prevailing market price to decrease or to be lower than it might be in the absence of those sales or perceptions.

Sale of Restricted Shares

As of the date of this prospectus, there were 5,328,109 shares of common stock outstanding. Upon completion of the public offering, we will have outstanding a maximum of 6,994,953 shares of common stock. The shares of common stock being sold in the public offering will be freely tradable, other than by any of our "affiliates" as defined in Rule 144(a) under the Securities Act, without restriction or registration under the Securities Act. All remaining shares, and all shares subject to outstanding options and warrants, were issued and sold by us in private transactions and are eligible for public sale if registered under the Securities Act or sold in accordance with Rule 144 or Rule 701 under the Securities Act. These remaining shares are "restricted securities" within the meaning of Rule 144 under the Securities Act. Of the shares of our common stock currently outstanding, 4,240,500 shares are "restricted securities" under the Securities Act.

Lock-In Arrangements

Our officers, directors and 5% or greater stockholders have entered into a written lock-in agreement placing restrictions on each such person from selling any of the shares of our common stock, warrants, options, convertible securities or rights which may be converted into or exercised to purchase shares of our common stock, or promotional shares, which they own or possess during the 24-month period following the date of completion of the public offering. These lock-in agreements have been entered by these persons in order to satisfy the requirements of certain state securities laws and regulations in connection with this registration statement. Notwithstanding these lock-in arrangements, the rescission shares that may be acquired by Robert T. Reed, Jr. may be excepted from the scope of the lock-in agreements.

Rule 144

In general, under Rule 144, as currently in effect, a person who owns shares that were acquired from us or an affiliate of us at least one year prior to the proposed sale is entitled to sell upon expiration of the selling restrictions described above, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately 53,281 as of the date of this prospectus, or 69,950 shares immediately after the public offering, assuming the sale of the maximum number of shares offered thereby, or
- The average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us. Rule 144 also provides that our affiliates who sell shares of our common stock that are not restricted shares must nonetheless comply with the same restrictions applicable to restricted shares with the exception of the holding period requirement.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years, including the holding period of any prior owner other than our affiliates, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, "144(k) shares" may be sold immediately upon the completion of the public offering.

Stock Options

We intend to file a registration statement on Form S-8 under the Securities Act for shares of our common stock subject to options outstanding or reserved for issuance under our stock plans and shares of our common stock issued upon the exercise of options by employees. We expect to file this registration statement as soon as practicable after the public offering. However, any of the shares registered on Form S-8 which are subject to selling restriction agreements will not be eligible for resale until the expiration of such selling restriction agreements.

Transfer Agent

We have engaged Transfer On-Line, Inc., Portland, Oregon, to act as our registrar and transfer agent.

OUR PUBLIC OFFERING

General

We have filed a registration statement for our initial public offering and intend to continue the process of selling our shares in our public offering. We are offering to sell, on a best efforts basis, up to 2,000,000 newly issued shares of our common stock at a price of \$4.00 per share. As of the date of this prospectus, we have sold 333,156 shares resulting in gross proceeds to us of \$1,332,624, which are the subject of this rescission offer. However, whether or not these shares are repurchased under the rescission offer, the maximum number of shares which may be sold from the date of this prospectus will be reduced by the number of shares sold to the date of this prospectus.

The public offering is a best efforts offering through our underwriters, US EURO Securities, Inc., or US EURO, and Brookstreet Securities Corporation, or Brookstreet, and certain selected broker-dealers. We intend to complete this rescission offer before we recommence our public offering. We cannot give you assurances as to the number of shares which will be sold in the public offering or the price at which the common stock will trade in the future, if at all.

No minimum number of shares is required to be sold and as a result, we may only sell a nominal amount of additional shares under the public offering. We will not escrow any of the proceeds received from the sale of shares before the offering terminates. Upon acceptance of a share purchase order, the proceeds from that order will be immediately available for our use.

There is no current market for our shares and there can be no assurance that a public market for our shares will ever develop. Further, there can be no assurance that in the event a public market for our shares were to develop that this market would be sustained over an extended period of time or that it would be of sufficient trading volume to allow ready liquidity to all investors in our shares.

US EURO and Brookstreet are members of the National Association of Securities Dealers, or NASD, and are the underwriters for the public offering. For serving as underwriters of the public offering, we will pay the underwriters a selling commission equal to 6% of the aggregate purchase price of the common stock sold in the public offering. We will also pay the underwriters a 1% lead underwriter's concession and a non-accountable expense allowance equal to 3% of the aggregate purchase price of the common stock sold in the public offering. In addition, we paid Brookstreet a non-refundable fee of \$25,000, for legal and due diligence expenses.

Peter Sharma, one of our former directors until his resignation on January 27, 2006, also was a registered representative of Brookstreet until May 4, 2006. Mr. Sharma had served as one of our directors and as a registered representative of Brookstreet during the period in which all of the prior sales in the public offering were made. Under his agreement with Brookstreet, Mr. Sharma received 90% of all commissions generated in sales initiated by him as well as 50% of the underwriter's concession and 50% of the non-accountable expense allowance in the case of all sales in the public offering. In all sales initiated by the general membership of Brookstreet, such representatives received 83% of commission generated by their sales with Mr. Sharma receiving 7% of those commissions as the allocation agent for Brookstreet in the public offering. Mr. Sharma received compensation of approximately \$28,000 through his former relationship with Brookstreet. Mr. Sharma will not make any future offers or sales on our behalf, or, as represented to us by the underwriters, on behalf of the underwriters.

The underwriters acknowledge their supervisory responsibility over independent contractor registered representatives. Brookstreet has been the managing dealer of approximately 12 private offerings and the lead underwriter of one public offering.

The underwriting agreement also includes the following terms:

- we agree to use our best efforts to have the shares sold in the public offering listed on a national stock exchange as soon as practicable following the offering,

- the underwriting agreement provides for reciprocal indemnification between us and the underwriters against certain liabilities in connection with the registration statement, including liabilities under the Securities Act, and
- for a period of five years following the public offering, US EURO will have the right to designate an observer to our board of directors and each of its committees.

At the closing of the public offering, we will sell to the representative or its designees at a purchase price of \$0.001 per warrant, underwriters' warrants to purchase up to 10% of the shares sold at an exercise price of \$6.60 per unit (165% of the public offering price per share). The underwriters' warrants are exercisable for a period of five years commencing on the final closing date of the public offering. The underwriters' warrants contain provisions that protect their holders against dilution by adjustment of the exercise price and number of shares issuable upon exercise on the occurrence of specific events, including stock dividends or other changes in the number of our outstanding shares. No holder of the underwriters' warrants will possess any rights as a stockholder unless the warrant is exercised. During the exercise period, the holders of the underwriters' warrants will have the opportunity to profit from a rise in the market price of the common stock, which will dilute the interests of our stockholders. We expect that the underwriters' warrants will be exercised when we would, in all likelihood, be able to obtain any capital needed on terms more favorable than those provided by the underwriters' warrants. Any profit realized by the representative on the sale of the underwriters' warrants or the underlying shares of common stock may be deemed additional underwriting compensation.

Our underwriters may enter into selected dealers agreements with certain NASD licensed brokers to participate in the public offering providing concessions from the compensation payable to the underwriters. Participating broker-dealers, other than our underwriters, will receive (and underwriter's compensation will accordingly be reduced) 6% of gross sales plus underwriter warrants in an amount equal to 6% of the shares issued from investors identified by the participating broker-dealer, under the public offering.

Under our agreement with our underwriters, we may terminate the public offering at any time, for any reason, after the declared effective date of this Registration Statement.

In compliance with NASD rules, neither the warrants granted to our underwriters or any participating broker-dealer nor the shares issuable upon their exercise may be sold, transferred, assigned, pledged, or hypothecated by any person, for a period of 180 days following the effective date of the public offering. The warrants and shares issuable upon their exercise may be transferred to any NASD member participating in the public offering and the bona fide officers or partners thereof, and securities which are convertible into other types of securities or which may be exercised for the purchase of other securities may be so transferred, converted or exercised if all securities so transferred or received remain subject to the restrictions specified above for the remainder of the initially applicable time period. All certificates or similar instruments representing securities restricted pursuant to the foregoing shall bear an appropriate legend describing the restriction and stating the time period for which the restriction is operative. Securities received by a member of the NASD as underwriting compensation shall only be issued to a member participating in the offering and the bona fide officers or partners thereof. Notwithstanding NASD rules, pursuant to Section III.C.7. CR-EQUITY policy, such underwriter warrants are not transferable for the life of the warrant (five years) and no such transfer in violation of Section III.C.7. shall occur.

US EURO and Brookstreet are general securities broker/ dealers registered with the SEC and are NASD members. We may deem compensation we pay our underwriters as underwriting commission. All compensation payable to participating NASD member broker-dealers may also be deemed underwriter compensation.

We are obligated to pay the expenses of the public offering.

We filed a registration statement on Form SB-2 offering 3,000,000 shares at \$6.00 through Blue Bay Capital Corp., which was declared effective by the SEC on December 31, 2002. We withdrew that Registration Statement in March 2003 in response to our analysis of capital market conditions in the lead-up to the Iraq War; we returned all monies collected. There is no guarantee that similar or other circumstances will not arise that would cause us to reconsider this effort.

Market for Common Equity

We intend to apply for listing of our common stock on the Nasdaq Capital Market or the American Stock Exchange following the completion of the public offering, if we are able to qualify for such markets, and if not, we anticipate that US EURO will apply for quotation of our common stock on the Over the Counter Bulletin Board (“OTCBB”). The OTCBB is not a national securities exchange, and many companies have experienced limited liquidity when traded through this quotation system. We anticipate that US EURO will be one of the listed market makers for our application to the Nasdaq Capital Market or the American Stock Exchange. We will not make any application to have our common stock listed on any public market until we complete our rescission offer. The table below demonstrates the listing requirements for the NASDAQ Capital Market and the OTCBB:

Listing Requirement	NASDAQ Capital Market	OTCBB
Market value of publicly held shares	\$ 5,000,000	N/A
Number of publicly held shares	1,000,000	N/A
Number of public stockholders	300	N/A
Bid price of listed securities	\$ 4.00	No minimum
Stockholders' equity	\$ 5,000,000	No minimum
Corporate governance requirements	Yes	No
Market makers	3	1

There is no public market for our common stock. Consequently, the offering price for the shares was determined by negotiation between us and the underwriters. Among the factors considered in determining the initial public offering price were our record of operations, our current financial condition, our future prospects, the markets in which we operate, the economic conditions in and future prospects for the industry in which we compete, our management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly traded companies considered comparable to our company. The prices at which the shares will sell in the public market after the public offering may be lower than the initial public offering price. Furthermore, an active trading market in our common stock may not develop or continue after the public offering.

In connection with the public offering, the underwriters may purchase and sell shares of common stock in the open market, if such a market is established following the public offering. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Transactions to close out the covered syndicate short position involve either purchases of the common stock in the open market after the distribution has been completed. The underwriters also may make "naked" short sales of shares. The underwriters must close out any naked short position by purchasing shares of common stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the public offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the public offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when an underwriter repurchases shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the common stock. They may also cause the price of the common stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the open market. If the underwriters commence any of these transactions, they may discontinue them at any time.

Promotional Securities Lock-In Agreements

All of our directors, executive officers and 5% or-greater stockholders, have signed a written lock-in agreement placing restrictions on each such person from selling any of the shares of our common stock, warrants, options, convertible securities or rights which may be converted into or exercised to purchase shares of our common stock, or promotional shares, which they own or possess during the 24-month period following the date of completion of the public offering (with the exception of Joseph Grace who has agreed to lock-in 50% of his shares). These lock-in agreements have been entered by these persons who may be deemed to be our promoters in order to satisfy the requirements of certain state securities laws and regulations in connection with this registration statement. Notwithstanding these lock-in arrangements, the rescission shares that may be acquired by Robert T. Reed, Jr. may be excepted from the scope of the lock-in agreements.

Generally, each such person has agreed not to sell, pledge, hypothecate, assign, grant any option for the sale of, or otherwise transfer or dispose of, whether or not for consideration, directly or indirectly, any of the promotional shares, and all certificates representing stock dividends, stock splits, recapitalizations and the like that are granted to, or received by, each such person with respect to the promotional shares, while such promotional shares are subject to such agreements. The lock-in agreements provide exceptions for:

- transfers by will, the laws of descent and distribution, operation of law or by court order,
- hypothecations of a deceased security holder to pay expenses of the deceased security holder's estate (provided that the hypothecated security would remain subject to the lock-in agreement), and
- transfers by gift to family members (provided that the gifted security would remain subject to the lock-in agreement).

Beginning one year from the completion or termination of the public offering, 2.5% of the promotional shares subject to the lock-in agreements would be released each quarter on a pro-rata basis among all of the persons such to the lock-in agreements. All remaining promotional shares would be released from lock-in agreements on the second anniversary of the completion or termination of the public offering. Shares released from the promotional shares lock-in agreements would no longer be considered "promotional shares" and the holders of such released shares consequently could participate in any distributions with respect to such released shares. The lock-in agreements would terminate if the purchase price for all shares sold were returned to the investors.

In the event of a dissolution, liquidation, merger, consolidation, reorganization, sale or exchange of our assets or securities (including by way of a tender offer) or any other transaction or proceeding with a person who is not a promoter, which results in the distribution of our assets or securities,

- the holders of the promotional shares initially would not share in any such distribution until the persons who purchased shares of common stock in the public offering have received an amount equal to the purchase price for their shares (\$4.00) multiplied by the number of shares of common stock that they purchased in the public offering and which they still held at the time of such distribution (adjusted for stock splits, stock dividends, recapitalizations and the like), and thereafter, and
- all holders of our equity securities participate on an equal, per share basis multiplied by the number of shares of equity securities that they hold at the time of such distribution (subject to such adjustments).

These restrictions could be waived by the vote of holders of a majority of our outstanding common stock, other than the persons subject to these agreements, and our officers, directors, promoters or their associates of affiliates. However, the voting rights of the common stock subject to the escrow are not affected.

In the event of a dissolution, liquidation, merger, consolidation, reorganization, sale of exchange of our assets or securities (including by way of a tender offer) or any other transaction or proceeding with a person who is a promoter, which results in the distribution of our assets or securities, the shares would remain subject to the lock-in agreements.

Holders of the securities subject to the lock-in agreements will generally have the same voting rights as similar equity securities not subject to such agreements.

These lock-in agreements are in addition to and supplement the 12-month lock-up agreements that any of these persons have signed with our underwriters.

The promotional shares lock-in agreements relate to the following individuals and securities owned or possessed by such persons as of the date of this prospectus:

Security Holder	Quantity	Type of Security
Christopher J. Reed and Judy Holloway Reed	3,200,000	shares
Robert T. Reed, Jr. ⁽¹⁾	387,500	shares and option shares
Robert T. Reed, Sr. ⁽²⁾	389,565	shares and note shares
Peter Sharma III	137,539	warrant shares
Joseph Grace	250,000	shares
Eric Scheffer	75,500	shares and options
Mark Harris	4,000	shares
Total	4,444,104	

(1) Robert T. Reed, Jr. also may purchase shares of common stock in connection with the rescission offer. Notwithstanding these lock-in arrangements, the rescission shares that may be acquired by Mr. Reed may be excepted from the scope of the lock-in agreements.

(2) Includes 127,065 shares of common stock, which can be converted from principal and accrued interest on certain convertible promissory notes at March 31, 2006

LEGAL MATTERS

The validity of the shares of common stock we are offering to purchase hereby will be passed upon for us by Jenkens & Gilchrist, LLP, Los Angeles, California.

EXPERTS

Weinberg & Company, P.A., independent registered public accounting firm, have audited our financial statements (and schedule) at December 31, 2005, and for each of the two years in the period ended December 31, 2005, as set forth in their report. We have included our financial statements (and schedule) in the prospectus and elsewhere in the registration statement in reliance on Weinberg & Company, P.A.'s report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form SB-2 under the Securities Act with respect to the shares of common stock we are offering to purchase hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules filed therewith. For further information about us and the common stock we are offering to purchase hereby, reference is made to the registration statement and the exhibits and schedules filed therewith. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement.

A copy of the registration statement and the exhibits and schedules filed therewith may be inspected without charge at the public reference room maintained by the SEC, located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, and copies of all or any part of the registration statement may be obtained from such offices upon the payment of the fees prescribed by the SEC. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. We also file annual, quarterly and current reports, proxy statements and other information with the SEC. The SEC also maintains an Internet web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the site is www.sec.gov.

We are subject to the information and periodic reporting requirements of the Exchange Act, and, in accordance therewith, will file periodic reports, proxy statements and other information with the SEC. Such periodic reports, proxy statements and other information will be available for inspection and copying at the public reference room and the SEC's web site of referred to above.

This prospectus includes statistical data obtained from industry publications. These industry publications generally indicate that the authors of these publications have obtained information from sources believed to be reliable but do not guarantee the accuracy and completeness of their information. While we believe these industry publications to be reliable, we have not independently verified their data.

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Report of Independent Registered Accounting Firm

We have audited the accompanying balance sheet of Reed's, Inc. as of December 31, 2005 and the related statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Reed's, Inc. as of December 31, 2005 and the results of its operations and its cash flows for the years ended December 31, 2005 and 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. However, the Company incurred a loss of \$825,955 and used \$42,610 of cash in operating activities during the year ended December 31, 2005, and had a working capital deficiency of \$1,594,758 as of December 31, 2005. These factors, among others, as discussed in Note 1 to the financial statements, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ WEINBERG & COMPANY, P.A.

Weinberg & Company, P.A.

Los Angeles, California
April 7, 2006

REED'S, INC.

BALANCE SHEETS

ASSETS

	March 31, 2006 (Unaudited)	December 31, 2005
CURRENT ASSETS		
Cash	\$ 195,457	\$ 27,744
Inventory	1,420,692	1,208,019
Trade accounts receivable, net of allowance for doubtful accounts and returns and discounts of \$82,000 at March 31, 2006 and \$70,000 at December 31, 2005	742,009	534,906
Receivable from sale of common stock	48,629	—
Other receivables	9,363	10,563
Prepaid expenses	37,976	74,279
Total Current Assets	<u>2,454,126</u>	<u>1,855,511</u>
Property and equipment, net of accumulated depreciation of \$542,867 at March 31, 2006 and \$508,136 at December 31, 2005	1,869,893	1,885,354
OTHER ASSETS		
Brand names	800,201	800,201
Other intangibles, net of accumulated amortization of \$3,909 at March 31, 2006 and \$3,723 at December 31, 2005	14,705	14,891
Deferred stock offering costs	—	356,238
Total Other Assets	<u>814,906</u>	<u>1,171,330</u>
TOTAL ASSETS	<u>\$ 5,138,925</u>	<u>\$ 4,912,195</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,843,631	\$ 1,644,491
Lines of credit	1,539,946	1,445,953
Current portion of long term debt	168,877	169,381
Accrued interest	142,648	136,240
Accrued expenses	74,180	54,204
Total Current Liabilities	<u>3,769,282</u>	<u>3,450,269</u>
Notes payable, related party	252,358	252,358
Long term debt, less current portion	<u>1,032,374</u>	<u>1,060,573</u>
Total Liabilities	<u>5,054,014</u>	<u>4,763,200</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, \$10.00 par value, 500,000 shares authorized, 58,940 shares issued and outstanding	589,402	589,402
Common stock, \$.0001 par value, 11,500,000 shares authorized, 5,281,247 and 5,042,197 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively	528	503
Common stock to be issued (7,362 shares)	29,470	29,470
Additional paid in capital	3,094,171	2,788,683
Accumulated deficit	<u>(3,628,660)</u>	<u>(3,259,063)</u>
Total stockholders' equity	<u>84,911</u>	<u>148,995</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 5,138,925</u>	<u>\$ 4,912,195</u>

The accompanying notes are an integral part of these financial statements

REED'S, INC.

STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		Year Ended December 31,	
	2006 (Unaudited)	2005 (Unaudited)	2005	2004
SALES	\$ 1,979,272	\$ 1,817,336	\$ 9,470,285	\$ 8,978,365
COST OF SALES	1,688,876	1,486,287	7,745,499	7,103,037
GROSS PROFIT	<u>290,396</u>	<u>331,049</u>	<u>1,724,786</u>	<u>1,875,328</u>
OPERATING EXPENSES				
Selling	287,158	287,145	1,124,705	791,975
General & Administrative	262,660	211,954	955,764	1,074,536
Provision for amounts due from director	—	—	124,210	—
Legal Fees	9,568	2,126	36,558	80,156
	<u>559,386</u>	<u>501,225</u>	<u>2,241,237</u>	<u>1,946,667</u>
LOSS FROM OPERATIONS	(268,990)	(170,176)	(516,451)	(71,339)
OTHER EXPENSES				
Interest Expense	(100,607)	(71,210)	(309,504)	(255,032)
Loss on extinguishment of debt	—	—	—	(153,000)
NET LOSS	(369,597)	(241,386)	(825,955)	(479,371)
Preferred stock dividend	—	—	(29,470)	—
Net Loss Attributable to Common Stockholders	<u>\$ (369,597)</u>	<u>\$ (241,386)</u>	<u>\$ (855,425)</u>	<u>\$ (479,371)</u>
LOSS PER SHARE Available to common stockholders — Basic and Fully Diluted	<u>\$ (.07)</u>	<u>\$ (0.05)</u>	<u>\$ (0.18)</u>	<u>\$ (.10)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING, Basic and Fully Diluted	<u>5,157,077</u>	<u>4,726,091</u>	<u>4,885,151</u>	<u>4,726,091</u>

The accompanying notes are an integral part of these financial statements

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2005 and 2004,

and the Three Months Ended March 31, 2006 (Unaudited)

	<u>Common Stock</u>				<u>Preferred Stock</u>			Total
	Shares	Amount	Common Stock to be Issued	Additional Paid In Capital	Shares	Amount	Accumulated Deficit	
Balance, January 1, 2004	4,726,091	\$ 472	\$ —	\$ 2,429,824	—	\$ —	\$ (1,723,627)	\$ 706,669
Issuance of preferred stock	—	—	—	—	33,440	334,400	—	334,400
Conversion of debt to preferred stock	—	—	—	—	25,500	255,002	—	255,002
Recognition of beneficial conversion feature on issuance of preferred stock	—	—	—	353,640	—	—	(200,640)	153,000
Net loss for year ended 2004	—	—	—	—	—	—	(479,371)	(479,371)
Balance, December 31, 2004	4,726,091	472	—	2,783,464	58,940	589,402	(2,403,638)	969,700
Exercise of warrants	262,500	26	—	5,224	—	—	—	5,250
Preferred Stock Dividend	—	—	29,470	—	—	—	(29,470)	—
Common stock issued for cash	53,606	5	—	196,570	—	—	—	196,575
Deferred stock offering costs charged to additional paid in capital	—	—	—	(196,575)	—	—	—	(196,575)
Net loss for year ended December 31, 2005	—	—	—	—	—	—	(825,955)	(825,955)
Balance, December 31, 2005	5,042,197	503	29,470	2,788,683	58,940	589,402	(3,259,063)	148,995
Common stock issued for cash and receivable from common stock	239,050	25	—	860,559	—	—	—	860,584
Deferred stock offering costs charged to additional paid in capital	—	—	—	(555,071)	—	—	—	(555,071)
Net loss for the three months ended March 31, 2006	—	—	—	—	—	—	(369,597)	(369,597)
Balance, March 31, 2006 (Unaudited)	5,281,247	\$ 528	\$ 29,470	\$ 3,094,171	58,940	\$ 589,402	\$ (3,628,660)	\$ 84,911

The accompanying notes are an integral part of these financial statements

REED'S, INC.

STATEMENTS OF CASH FLOWS

	For The Three Months Ended March 31,		For The Year Ended December 31,	
	2006 (Unaudited)	2005 (Unaudited)	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Loss	\$ (369,597)	\$ (241,386)	\$ (825,955)	\$ (479,371)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	34,918	21,429	118,517	97,329
Provision for amounts due from director	—	—	124,210	—
Loss on extinguishment of debt	—	—	—	153,000
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:				
Accounts receivable	(207,103)	141,480	262,708	(231,557)
Inventory	(212,673)	6,584	93,006	(3,665)
Prepaid expenses	36,303	(41,267)	(68,627)	11,730
Other receivables	1,200	(2,209)	(7,400)	7,589
Accounts payable	199,140	197,752	232,367	233,447
Accrued expenses	19,976	47,587	2,655	(9,755)
Accrued interest	6,408	5,495	25,909	45,233
Net cash (used in) provided by operating activities	(491,428)	135,465	(42,610)	(176,020)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	(19,271)	(24,188)	(181,654)	(204,147)
Due from director	—	(12,813)	(33,013)	(44,040)
Net cash used in investing activities	(19,271)	(37,001)	(214,667)	(248,187)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments for deferred offering costs	(198,833)	(63,062)	(332,858)	(219,955)
Principal payments on debt	(28,703)	(44,536)	(263,815)	(208,852)
Proceeds from issuance of common stock	811,955	—	196,575	—
Proceeds received from issuance of preferred stock	—	—	—	334,400
Proceeds from borrowings	—	—	295,900	208,464
Net borrowings (payments) on lines of credit	93,993	(194)	367,731	339,708
Proceeds on debt to related parties	—	—	(21,000)	—
Net cash provided by (used in) financing activities	678,412	(107,792)	242,533	453,765
NET INCREASE (DECREASE) IN CASH	167,713	(9,328)	(14,744)	29,558
CASH — Beginning of period	27,744	42,488	42,488	12,930
CASH — End of period	\$ 195,457	\$ 33,160	\$ 27,744	\$ 42,488
Supplemental Disclosures of Cash Flow Information				
Cash paid during the period for:				
Interest	\$ 94,199	\$ 66,314	\$ 283,595	\$ 227,669
Taxes	\$ —	\$ —	\$ —	\$ —
Non cash Investing and Financing Activities				
Notes payable converted to preferred stock	\$ —	\$ —	\$ —	\$ 224,000
Accrued interest converted to preferred stock	—	—	—	31,002
Beneficial conversion feature	—	—	—	353,640
Common stock issued in settlement of accrued interest on related party debt upon exercise of warrants	—	—	5,250	—
Common stock to be issued in settlement of preferred stock dividend (7,362 shares)	—	—	29,740	—
Conversion of a line of credit to term loan	—	—	50,000	—

The accompanying notes are an integral part of these financial statements.

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS

(1) Operations and Summary of Significant Accounting Policies

A) Nature of Operations

Reed's, Inc. (the "Company") was organized under the laws of the state of Florida in January 1991. In 2001, the Company changed its name from Original Beverage Corporation to Reed's, Inc. and changed its state of incorporation from Florida to Delaware. The Company is engaged primarily in the business of developing, manufacturing and marketing natural non-alcoholic beverages, as well as candies and ice creams. The Company currently offers 14 beverages, two candies, and three ice creams.

The Company sells its products primarily in upscale gourmet and natural food stores and supermarket chains in the United States and, to a lesser degree, in Canada.

B) Going Concern

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. However, the Company had a net loss of \$825,955 and utilized cash of \$42,610 in operating activities during the year ended December 31, 2005, and had a working capital deficiency of \$1,564,758 at December 31, 2005. In addition, from August 3, 2005 through April 17, 2006, the Company issued 333,156 shares of its common stock in connection with its initial public offering pursuant to a Registration Statement on Form SB-2. The shares issued in connection with its 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, the Company will make a rescission offer to the holders of these shares. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty. The Company plans to continue its initial public offering after it concludes its rescission offer.

C) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D) Accounts Receivable

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

The allowance for doubtful accounts and returns and discounts is established through a provision for returns and discounts charged against sales. Receivables are charged off against the allowance when payments are received or products returned. The allowance for doubtful accounts and returns and discounts as of December 31, 2005 was \$70,000 and was \$82,000 (Unaudited) at March 31, 2006.

E) Property and Equipment and Related Depreciation

Property and equipment is stated at cost. Depreciation is calculated using accelerated and straight-line methods over the estimated useful lives of the assets as follows:

Property and Equipment Type	Years of Depreciation
Building	39 years
Machinery and equipment	7-12 years
Computer	3-5 years
Automobile	5 years
Office equipment	7 years

Management regularly reviews property, equipment and other long-lived assets 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, 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. Management believes that the accounting estimate related to impairment of its property and equipment 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 are expected to continue to do so.

F) Intangible Assets

The Company records intangible assets in accordance with Statement of Financial Accounting Standard (SFAS) Number 142, "Goodwill and Other Intangible Assets." Goodwill and other intangible assets deemed to have indefinite lives are not subject to annual amortization. The Company reviews, at least quarterly, its investment in brand names and other intangible assets for impairment and if impairment is deemed to have occurred the impairment is charged to expense. Intangible assets which have finite lives are amortized on a straight line basis over their remaining useful life; they are also subject to annual impairment reviews. See Note 4.

Management applies the impairment tests contained in SFAS number 142 to determine if an impairment has occurred. Accordingly, management compares the carrying value of the asset to its fair value in determining the amount of the impairment. No impairments were identified for the years ended December 31, 2005 and 2004 or for the three months ended March 31, 2006 and 2005 (Unaudited).

Management believes that the accounting estimate related to impairment of its intangible assets, 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 are expected to continue to do so.

G) Concentrations

The Company's cash balances on deposit with banks are guaranteed by the Federal Deposit Insurance Corporation up to \$100,000. The Company may be exposed to risk for the amounts of funds held in one bank in excess of the insurance limit. In assessing the risk, the Company's policy is to maintain cash balances with high quality financial institutions. The Company had cash balances in excess of the \$100,000 guarantee during the year ended December 31, 2005 and the three months ended March 31, 2006 (Unaudited).

During the years ended December 31, 2005 and 2004 the Company had two customers, which accounted for approximately 39% and 15% and 39% and 14% of sales, respectively. During the three months ended March 31, 2006 and 2005 (Unaudited), those two customers accounted for approximately 45% and 18.7% and 40% and 15.7% of sales, respectively. No other customer accounted for more than 10% of sales in either year. As of December 31, 2005, the Company had approximately \$181,580 and \$38,000, respectively, of accounts receivable due from these customers. As of March 31, 2006, the Company had approximately \$375,600 (Unaudited) and \$38,000 (unaudited) of accounts receivable from those customers.

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

The Company currently relies on a single contract packer for a majority of its production and bottling of beverage products. The Company has different packers for their non-beverage products. Although there are other packers and the Company is in the process of outfitting their own brewery and bottling plant, a change in packers may cause a delay in the production process, which could ultimately affect operating results.

H) Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments including cash, accounts and other receivables, accounts payable, accrued interest and accrued expenses approximate their fair value as of December 31, 2005 and March 31, 2006 (Unaudited) due to their short maturities. The carrying amount of lines of credit, loans payable, related party and long term debt approximate fair value because the related effective interest rates on these instruments approximate the rates currently available to the Company.

I) Cost of sales

The Company, with one exception, classifies shipping and handling costs of the sale of its products as a component of cost of sales. The one exception regards shipping and handling costs associated with local sales and local distribution. Since these activities are integrated, those costs are combined and are included as selling expenses in the year ended 2005 and general and administrative expenses in the year ended 2004. For the years ended December 31, 2005 and 2004 those costs were approximately \$88,000 and \$63,000, respectively. For the three months ended March 31, 2006 and 2005 those costs approximated \$36,000 (Unaudited) and \$19,000 (Unaudited), respectively.

In addition, the Company classifies purchasing and receiving costs, inspection costs, warehousing costs, freight costs, internal transfer costs and other costs associated with product distribution as costs of sales. Certain of these costs become a component of the inventory cost and are expensed to costs of sales when the product to which the cost has been allocated is sold.

Expenses not related to the production of our products are classified as operating expenses.

J) 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. The Company considers future taxable income and ongoing, prudent and feasible tax planning strategies, in assessing the value of its deferred tax assets. If the Company determines that it is more likely than not that these assets will not be realized, the Company 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 the Company's judgment. If the Company 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.

K) Deferred Stock Offering Costs

The Company capitalizes costs incurred related to an initial public offering and future issuance of common stock until such time as the stock is issued, or the stock offering is abandoned by the Company. These costs include attorney's fees, accountant's fees, SEC filing fees, state filing fees, and other specific incremental costs directly related to the initial public offering and related issuance of common stock. At December 31, 2005, deferred offering costs were \$356,238. At March 31, 2006, there were no remaining deferred offering costs (Unaudited). The offering associated with these costs is continuing. As proceeds are received from the offering the deferred offering costs are charged to additional paid in capital. During the year ended December 31, 2005, \$196,575 of deferred offering costs were charged to additional paid in capital. No such charge was made to additional paid in capital during 2004, as the offering had not commenced until 2005. During the three months ended March 31, 2006 and 2005 \$555,071 (Unaudited) and \$-0- (Unaudited), respectively, of deferred offering costs were charged to additional paid in capital.

L) Stock Options

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), establishes a fair value method of accounting for stock-based compensation plans and for transactions in which an entity acquires goods or services from non-employees in exchange for equity instruments. SFAS No. 123 also encourages, but does not require, companies to record compensation cost for stock-based employee compensation. SFAS No. 123 was amended by SFAS No. 148, which now requires companies to disclose in interim financial statements the pro forma effect on net income (loss) and net income (loss) per common share of the estimated fair market value of stock options or warrants issued to employees. The Company has chosen to continue to account for stock-based compensation issued to employees utilizing the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", with pro forma disclosures of net income (loss) as if the fair value method had been applied. Accordingly, compensation cost for stock options is measured as the excess, if any, of the fair market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock.

For the year ended December 31, 2005, 218,500 options were issued that immediately vested. The pro forma disclosure related to the issuance and vesting of these options is as follows:

Net loss as reported	\$	(825,955)
Stock based compensation		<u>(530,955)</u>
Pro forma loss	\$	<u>(1,356,910)</u>
Primary and fully diluted loss per share, as reported	\$	(0.18)
Proforma fully and diluted loss per share	\$	(0.28)

No options were granted during 2004, or for the three months ended March 31, 2006 and 2005, (Unaudited) therefore, pro forma disclosure of the fair value method is not applicable and is not presented. The assumptions used in calculating the fair value of the options granted during 2005, using the Black-Scholes option pricing model, were: risk free interest rate, 4.05%, expected life, 5 years, expected volatility, 70%, and no expected dividends.

M) 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.

N) Net Loss Per Share

Loss per share calculations are made in accordance with SFAS No. 128, "Earnings Per Share." Basic loss per share is calculated by dividing net loss by weighted average number of common shares outstanding for the year. Diluted loss per share is computed by dividing net loss by the weighted average number of common shares outstanding plus the dilutive effect of outstanding common stock warrants and convertible debentures.

For the years ended December 31, 2005 and 2004 and for the three months ended March 31, 2006 and 2005 the calculations of basic and diluted loss per share are the same because potential dilutive securities would have an anti-dilutive effect.

The potentially dilutive securities consisted of the following as of December 31, 2005 and March 31, 2006 (Unaudited):

	December 31, 2005	March 31, 2006 (Unaudited)
Warrants	613,241	613,241
Convertible notes	133,954	136,158
Preferred Stock	235,760	235,760
Options	291,000	291,000
Total	<u>1,273,955</u>	<u>1,276,159</u>

O) Advertising Costs

The Company accounts for advertising production costs by expensing such production costs the first time the related advertising is run.

Advertising costs are expensed as incurred and are included in selling expense in the amount of \$90,176 and \$42,828 for the years ended December 31, 2005 and 2004, respectively. Advertising costs for the three months ended March 31, 2006 and 2005 were \$22,339 (Unaudited) and \$14,533 (Unaudited), respectively.

The Company accounts for certain sales incentives, including slotting fees, as a reduction of gross sales, in accordance with Emerging Issues Task Force on Issue 01-9 "Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products." These sales incentives for the years ended December 31, 2005 and 2004 approximated \$292,000 and \$400,000, respectively. The sales incentives for the three months ended March 31, 2006 and 2005 approximated \$139,000 (Unaudited) and \$92,000 (Unaudited), respectively.

P) Reporting Segment of the Company

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131) requires certain disclosures of operating segments, as defined in SFAS No. 131. Management has determined that the Company has only one operating segment and therefore is not required to disclose operating segment information. The Company does not account for the net sales of its various products separately, and the disclosure required by SFAS No. 131 of product revenue is not presented because it would be impracticable to do so.

Q) Comprehensive Income

A statement of comprehensive income is not presented in our financial statements since we did not have any of the items of other comprehensive income in any period presented.

R) 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. The Company has evaluated the impact of the adoption of SFAS 151, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No.153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions." The amendments made by Statement 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary 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 nonmonetary 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 nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this Statement shall be applied prospectively. The Company has evaluated the impact of the adoption of SFAS 153, and does not believe the impact will be significant to the Company's 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 and small business issuers will be required to adopt for reporting periods beginning after December 15, 2005. The Company has evaluated the impact of the adoption of SFAS 123(R), and does not believe the impact will be significant to the Company's 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. The Company has evaluated the impact of SFAS 154 and does not believe the impact will be significant to the Company's overall results of operations or financial position.

The Company does not believe that the adoption of the above recent pronouncements will have a material effect on the Company's financial position or results of operations.

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REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

(2) Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market, and is comprised of the following as of December 31, 2005 and March 31, 2006 (Unaudited):

	December 31, 2005	March 31, 2006 (unaudited)
Raw Materials	\$ 678,343	\$ 845,326
Finished Goods	529,676	575,366
	<u>\$ 1,208,019</u>	<u>\$ 1,420,692</u>

(3) Fixed Assets

Fixed assets are comprised of the following as of December 31, 2005 and March 31, 2006 (Unaudited):

	December 31, 2005	March 31, 2006 (unaudited)
Land	\$ 409,546	\$ 409,546
Building	915,932	916,738
Vehicles	223,867	223,867
Machinery and equipment	734,886	746,485
Office equipment	109,259	116,124
	2,393,490	2,412,760
Accumulated depreciation	<u>(508,136)</u>	<u>(542,867)</u>
	<u>\$ 1,885,354</u>	<u>\$ 1,869,893</u>

Depreciation expense for the years ended December 31, 2005 and 2004 was \$117,773 and \$96,585, respectively. Depreciation expense for the three months ended March 31, 2006 and 2005 was, \$34,731(unaudited) and \$21,451 (unaudited), respectively.

(4) Intangible Assets

Brand Names

Brand Names consist of two (2) trademarks for natural beverages which the Company acquired in previous years. As long as the Company continues to renew its trademarks, these intangible assets will have an indefinite life. Accordingly, they are not subject to amortization. The Company determines fair value for Brand Names by reviewing the net sales of the associated beverage and applying industry multiples for which similar beverages are sold. As of March 31, 2006 (Unaudited) and December 31, 2005, carrying amounts for Brand Names were \$800,201.

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

Other Intangible Assets

Other Intangible Assets as of December 31, 2005 consist of:

Asset	Gross Amount	Accumulated Amortization	Current Year Amortization	Useful Life
Building Loan Fees	\$ 18,614	\$ 3,723	\$ 745	300 months

Other Intangible Assets as of March 31, 2006 (Unaudited) consist of:

Asset	Gross Amount	Accumulated Amortization	Current Period Amortization	Useful Life
Building Loan Fees	\$ 18,614	\$ 3,909	\$ 186	300 months

The estimated aggregate amortization as of December 31, 2005 for each of the next five years is:

Year	Amount
2006	\$ 745
2007	745
2008	745
2009	745
2010	745

(5) Lines of Credit

The Company had outstanding borrowings of \$1,539,946 (Unaudited) and \$1,445,953 as of March 31, 2006 and December 31, 2005, respectively, under the following line of credit agreements:

The Company has an unsecured \$50,000 line of credit with a bank. Interest is payable monthly at the prime rate, as published in the Wall Street Journal, plus 12% per annum. The Company's outstanding balance was \$26,646 (Unaudited) and \$27,321 at March 31, 2006 and December 31, 2005, respectively. The interest rate in effect at December 31, 2005 was 19.25%. The line of credit expires in December 2009.

The Company has a line of credit in the amount of \$642,209 (Unaudited) and \$482,264 at March 31, 2006 and December 31, 2005, respectively, with Merrill Lynch. The loan was co-signed by Robert T. Reed, Jr., the Company's Vice President and National Sales Manager — Mainstream and a brother of the Company's founder and CEO, Christopher J. Reed. Robert Reed also pledged his personal stock account on deposit with Merrill Lynch as collateral. The line of credit bears interest at a rate of 3.785% per annum plus LIBOR (8.255% as of December 31, 2005). In consideration for Mr. Reed's pledging his stock account at Merrill Lynch as collateral, the Company pays Mr. Reed 5% per annum of the amount the Company borrows from Merrill Lynch as a loan fee. During the years ended December 31, 2005 and 2004, the Company paid Mr. Reed \$15,250 and \$3,125, respectively, under this agreement. During the three months ended March 31, 2006 and 2005 the interest paid to Mr. Reed was \$ 5,875(Unaudited) and \$3,125 (Unaudited), respectively.

The Company has a line of credit with a finance company. This line of credit allows the Company 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 and December 31, 2005, the amounts borrowed on this line of credit were \$871,091(Unaudited) and \$ 936,368, respectively. The interest rate on this line of credit is Prime plus 2.75%, making the interest rate at December 31, 2005 10%. The line of credit expires in June 2006 and is guaranteed by Chris and Judy Reed, the principal stockholders of the Company. This revolving line of credit is secured by all Company assets, including accounts receivable, inventory, trademarks and other intellectual property, building and equipment. As of December 31, 2005, the Company had approximately \$10,000 of availability on this line of credit. At March 31, 2006 the Company had approximately \$257,000 (Unaudited) of availability.

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

(6) Notes Payable to Related Parties

The Company has three unsecured loans payable to Robert T. Reed, Sr., the father of the Company's founder Christopher J. Reed, in an amount of \$252,358 as of March 31, 2006 (Unaudited) and December 31, 2005.

The first loan bears interest at 10% per annum and matures in October 2007. The outstanding principal balance of the loan as of March 31, 2006 (Unaudited) and December 31, 2005 was \$24,648.

The second loan bears interest at 8% per annum and matures in October 2007. The outstanding principal balance of this loan as of March 31, 2006 (Unaudited) and December 31, 2005 was \$177,710. As long as the debt is outstanding, Mr. Reed has the right to convert this loan and accrued interest 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 December 31, 2005, the loan was convertible into 125,313 shares of common stock. As of March 31, 2006 the loan was convertible into 127,065 shares (Unaudited) of common stock.

The third loan bears interest at 8% per annum and matures in October 2007. The outstanding principal balance of this loan as of March 31, 2006 (Unaudited) and December 31, 2005 was \$50,000.

(7) Long-term Debt

Long-term debt consists of the following:

	December 31, 2005	March 31 2006 (Unaudited)
Note payable to SBA in the original amount of \$748,000 with interest at the Wall Street Journal prime rate plus 1% per annum, adjusted monthly with no cap or floor. The combined monthly principal and interest payments are \$5,851, subject to annual adjustments. The interest rate in effect at December 31, 2005 was 8%. The note is secured by land and building and guaranteed by the majority stockholder. The note matures November 2025.	\$674,582	\$670,942
Notes payable, unsecured, with interest at 10% per annum. Principal and accrued interest are payable in full at the end of the note term. Theses notes were issued with warrants, exercisable at issuance. The warrants have an exercise price of \$3 and a term of 5 years. Principal and any unpaid interest are due in June 2006.	50,000	50,000
Building improvement loan with a maximum draw of \$168,000. The interest rate is at the Wall Street Journal prime rate plus 1%, adjusted monthly with no cap or floor. The combined monthly principal and interest payments are \$1,186; subject to annual adjustments. The rate in effect at December 31, 2005 was 8% per annum. The note is secured by land and building and guaranteed by the majority stockholder and matures November 2025.	142,119	141,346

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

Notes payable, due on demand, unsecured, with interest at 10% per annum. The note is convertible to common stock at 60% of the initial public offering price or 100% of a private offering price.

9,000 9,000

Note payable to a bank, unsecured, interest rate is prime plus 3.25%. The interest rate in effect at December 31, 2005 was 10.5%. The note matures in December 2009.

50,000 46,563

Notes payable to GMAC, secured by automobiles, payable in monthly installments of \$758 including interest at 0.0%, with maturity in 2008.

18,204 15,931

Notes payable to Chrysler Financial Corp., secured by automobiles, payable in monthly installments of \$658, including interest at 1.9% per annum, with maturity in 2008.

21,151 19,272

Equipment line of credit up to a maximum of \$150,000, secured by certain plant equipment. Payable in ratable monthly installments of principal and applicable interest. This loan bears interest at prime plus 2.75% per annum. The interest rate in effect at December 31, 2005 was 10.00%. This loan matures in May 2009.

93,900 86,700

Installment loan secured by certain plant equipment. Payable in monthly installments of \$3,167 plus interest. This loan bears interest at prime plus 2.75% per annum. The interest rate in effect at December 31, 2005 was 10.00%. This loan matures in June 2010.

170,998 161,497

Total

1,229,954 1,201,251

Less current portion

169,381 168,877
\$1,060,573 \$1,032,374

The aggregate maturities of long-term debt for each of the next five years and thereafter are as follows as of December 31, 2005:

2006	\$	169,381
2007		111,321
2008		102,654
2009		87,348
2010		38,090
Thereafter		721,160
Total	\$	<u>1,229,954</u>

(8) Stockholders' Equity

Common stock consists of \$.0001 par value, 11,500,000 shares authorized, 5,281,247 (Unaudited) and 5,042,197 shares issued and outstanding as of March 31, 2006 and December 31, 2005, respectively.

Preferred stock consists of 500,000 shares authorized to Series A, \$10.00 par value, 5% non-cumulative, participating, preferred stock. As of March 31, 2005 (Unaudited) and December 31, 2005 there were 58,940 shares issued and outstanding, with a liquidation preference of \$10.00.

These preferred shares have a 5% pro-rata annual non-cumulative dividend. The dividend can be paid in cash or, in the sole and absolute discretion of our board of directors, in shares of common stock based on its then fair market value. We cannot declare or pay any dividend on shares of our securities ranking junior to the preferred stock until the holders of our preferred stock have received the full non-cumulative dividend to which they are entitled. In addition, the holders of our preferred stock are entitled to receive pro rata distributions of dividends on an "as converted" basis with the holders of our common stock.

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

In the event of any liquidation, dissolution or winding up of the Company, or if there is a change of control event, then, subject to the rights of the holders of our more senior securities, if any, the holders of our Series A preferred stock are entitled to receive, prior to the holders of any of our junior securities, \$10.00 per share plus all accrued and unpaid dividends. Thereafter, all remaining assets shall be distributed pro rata among all of our security holders.

At any time after June 30, 2007, we have the right, but not the obligation, to redeem all or any portion of the Series A preferred stock by paying the holders thereof the sum of the original purchase price per share, which was \$10.00, plus all accrued and unpaid dividends.

The Series A preferred stock may be converted, at the option of the holder, at any time after issuance and prior to the date such stock is redeemed, into four shares of common stock, subject to adjustment in the event of stock splits, reverse stock splits, stock dividends, recapitalization, reclassification and similar transactions. We are obligated to reserve out of our authorized but unissued shares of common stock a sufficient number of such shares to effect the conversion of all outstanding shares of Series A preferred stock.

Except as provided by law, the holders of our Series A preferred stock do not have the right to vote on any matters, including, without limitation, the election of directors. However, so long as any shares of Series A preferred stock are outstanding, we shall not, without first obtaining the approval of at least a majority of the holders of the Series A preferred stock authorize or issue any equity security having a preference over the Series A preferred stock with respect to dividends, liquidation, redemption or voting, including any other security convertible into or exercisable for any equity security other than any senior preferred stock.

During 2004, the Company sold its preferred stock in a private placement. 33,440 shares were issued in connection with this offering and \$334,400 of proceeds were received. The Company recorded a beneficial conversion feature (BCF) in accordance with Emerging Issues Task Force (EITF) 98-5. The BCF arises from the conversion price of the preferred stock being less than the fair market value of the common stock at the commitment date of the offering. The fair market value of the stock has been determined to be \$4.00 per share, based on the initial public offering price which is expected to be \$4.00. The excess of the fair market price of the underlying common stock over the conversion price is \$1.50. Since the conversion feature of this offering allows for the conversion of preferred stock into 4 shares of common stock for each share of preferred stock, 133,760 shares of common stock could be issued if fully converted. Accordingly, the BCF recorded was \$200,640 and was reflected as a charge to accumulated deficit during the year ended December 31, 2004.

In addition, during 2004 the Company negotiated with certain of its debt holders to convert debt and accrued interest to preferred stock. In connection with this conversion \$224,000 of debt principal and \$31,002 of accrued interest were converted in exchange for 25,500 shares of Series A Convertible 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 as described above, resulted in a loss on extinguishment of debt of \$153,000. In connection with this transaction, the Company recorded a BCF of \$153,000, since the conversion of all of the preferred stock associated with this transaction could be converted into 102,000 shares of common stock at \$1.50 per share based on the excess of the fair market price of the conversion price as described above.

During the year ended December 31, 2005, the Company accrued a \$29,740 dividend payable to the preferred shareholders, which management has elected to pay in shares of common stock. As such, common stock to be issued as of December 31, 2005 represents the preferred stock dividend to be paid with the issuance of common stock.

For the three months ended March 31, 2006, the Company issued 239,050 (Unaudited) shares of its common stock in connection with its initial public offering. From April 1, 2006 to April 7, 2006 the Company issued 39,500 (Unaudited) shares of its common stock in connection with its initial public offering. The Company received net proceeds of \$860,584 (Unaudited) and \$142,196 (Unaudited), respectively, during the two time periods.

From August 3, 2005 through April 7 2005, the Company issued 333,156 shares of its common stock in connection with its 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, the Company will make a rescission offer to the holders of these shares. The Company will offer to rescind the holders of these shares the price paid for these 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 the rescission offer is accepted by all the offerees, the Company 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. The Company has made arrangements for related parties to purchase any of the shares tendered in connection with this rescission, thereby avoiding the expenditure of Company funds.

(9) Stock Options and Warrants

A) Stock Options

The Company has granted certain employees and other individuals stock options to purchase the Company's common stock under employment agreements. The options generally vest immediately or when services are performed and have a maximum term of five (5) years.

In 2001, the Company adopted the Original Beverage Corporation 2001 Stock Option Plan. The options shall be granted from time to time by the Compensation Committee. Individuals eligible to receive options include employees of the Company, consultants to the Company and directors of the Company. The options shall have a fixed price, which will not be less than 100% of the fair market value per share on the grant date. Options granted to employees are accounted for according to APB 25. The following table summarizes the stock option activity for the years ended December 31, 2005 and 2004:

	<u>Options</u>
Balance January 1, 2004	72,500
Options granted in 2004	—
Options exercised in 2004	—
Balance December 31, 2004	72,500
Options granted in 2005	218,500
Options exercised in 2005	---
Balance December 31, 2005	<u>291,000</u>

No option activity occurred during the three months ended March 31, 2006 (Unaudited)

Exercise Price Range	Weighted Average Remaining Number	Weighted Average Remaining Contractual Life
\$2.00	37,500	44 months
\$3.00	17,500	42 months
\$4.00	218,500	60 months
\$6.00	17,500	42 months
Total options	<u>291,000</u>	56 months

All options are vested and exercisable as of December 31, 2005.

B) Warrants

A summary of the warrants outstanding and exercisable at December 31, 2005 is as follows:

Exercise Price Range	Weighted Average Remaining Number	Weighted Average Remaining Contractual Life
\$2.00	119,876	42 months
\$3.00	493,365	42 months
	<u>613,241</u>	

The warrants expire at various dates in 2009 and all are fully exercisable.

No warrant activity occurred during the three months ended March 31, 2006 (Unaudited)

REED'S, INC.
NOTES TO FINANCIAL STATEMENTS — (Continued)

(10) Income Taxes

At December 31, 2005, the Company had available Federal and state net operating loss carryforwards to reduce future taxable income. The amounts available were approximately \$2,745,000 for Federal purposes and \$1,284,000 for state purposes. The Federal carryforward expires in 2025 and the state carryforward expires in 2010. Given the Company's history of net operating losses, management has determined that it is more likely than not the Company will not be able to realize the tax benefit of the carryforwards.

Accordingly, the Company has not recognized a deferred tax asset for this benefit. Upon the attainment of taxable income by the Company, management will assess the likelihood of realizing the tax benefit associated with the use of the carryforwards and will recognize a deferred tax asset at that time.

Significant components of the Company's deferred income tax assets as of December 31, 2005 are as follows:

Deferred income tax asset:	
Net operating loss carry forward	\$ 1,061,000
Valuation allowance	(1,061,000)
Net deferred income tax asset	<u>\$ —</u>

Reconciliation of the effective income tax rate to the U.S. statutory rate is as follows:

	Year Ended December 31,	
	2005	2004
Tax expense at the U.S. statutory income tax	(34.00)%	(34.00)%
Increase in the valuation allowance	34.00%	34.00%
Effective tax rate	<u>—</u>	<u>—</u>

(11) Commitments and Contingencies

Lease Commitments

The Company leases machinery under non-cancelable operating leases. Rental expense for the years ended December 31, 2005 and 2004 was \$67,816 and \$55,157, respectively. Rental expense for the three months ended March 31, 2006 and 2005 was \$17,157 (Unaudited) and \$17,093 (Unaudited), respectively.

Future payments under these leases as of December 31, 2005 are as follows:

<u>Year Ending December 31,</u>		
2006	\$	58,433
2007		20,968
2008		10,905
2009		4,173
Total	<u>\$</u>	<u>94,479</u>

(12) Legal Proceedings

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. The Company is not currently a party to any lawsuit or proceeding which, in the opinion of its management, is likely to have a material adverse effect on it.

During 2005 and 2004 the Company incurred \$30,901 and \$80,156, respectively, of legal costs associated with a lawsuit which the Company has won. For the three months ended March 31, 2006 and 2005 those costs were \$9,568 (Unaudited) and \$2,126 (Unaudited), respectively. The Plaintiff has appealed. The judgment in favor of the Company is to have the Plaintiff reimburse the Company for its legal defense costs. If the Company is successful in the appeals process, it will record income from the judgment when the monies are collected.

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. We contend that Consac was responsible for the soda's condition by providing a defective formula which had not been adequately tested. Management has filed a motion to dismiss. We believe that we will successfully defend Consac's claims and the case is without merit. Some of the allegations made against the company are covered by insurance and some allegations are not covered by insurance. While there is no assurance, we believe that the Consac litigation will have no material adverse effect upon our operations.

(13) Related Party Activity

The Company has notes payable to related parties. See Note 6.

As of December 31, 2005, the Company was owed \$124,210 from Peter Sharma, a former director. For financial reporting purposes, Company Management has decided to reserve 100% of this receivable as of December 31, 2005. The collection of the receivable was deemed by management to be impaired. Management is pursuing collection efforts. In January 2006, the director, Peter Sharma, resigned from the Board of Directors.

In June 2005, Robert T. Reed, Sr. converted 262,500 of warrants to 262,500 shares of common stock. In lieu of receiving cash, the Company reduced the amount of accrued interest it owed on debt payable to Robert T Reed, Sr. The amount of the exercise price and the corresponding reduction in accrued interest was \$5,250.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 24. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law (the "DGCL"), as the same exists or may hereafter be amended, provides that a Delaware corporation may indemnify any persons who were, or are threatened to be made, parties to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person is or was an officer, director, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation's best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was illegal. A Delaware corporation may indemnify any persons who are, were or are threatened to be made, a party to any threatened, pending or completed action or suit by or in the right of the corporation by reason of the fact that such person was a director, officer, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit, provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation's best interests, provided that no indemnification is permitted without judicial approval if the officer, director, employee or agent is adjudged to be liable to the corporation. Where an officer, director, employee, or agent is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him or her against the expenses which such officer or director has actually and reasonably incurred.

Section 145 of the DGCL further authorizes a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against any liability asserted against him or her and incurred by him or her in any such capacity, arising out of his or her status as such, whether or not the corporation would otherwise have the power to indemnify him or her under Section 145 of the DGCL.

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 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.

We do not currently provide liability insurance coverage for our directors and officers. However, we intend to use a portion of the proceeds of the public offering to obtain such coverage for our directors and officers. We also intend to enter into separate indemnification agreements with each of our directors and executive officers that provide the maximum indemnity allowed to directors and executive officers by Section 145 of the DGCL and which allow for certain additional procedural protections.

These indemnification provisions and the indemnification agreements which we may enter into with our officers and directors may be sufficiently broad to permit indemnification of our officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

Item 25. Other Expenses of Issuance and Distribution

The following is a schedule of the estimated expenses (all of which will be borne by us) incurred in connection with the rescission offer:

Description	Amount to Be Paid	
SEC registration fee	\$ 143	
Postage and printing expenses	\$ 5,000	*
Legal Fees	\$ 250,000	*
Accounting fees	\$ 10,000	*
Blue sky fees and expenses	\$ 5,000	*
TOTAL	\$ 270,143	

Item 26. Recent Sales of Unregistered Securities

The following sets forth information regarding securities sold by us since January 1, 2003:

In January 2003, we issued 1,500 shares of common stock as a year-end bonus to our employees. We recognized \$4,500 of compensation expense. We believe the securities were issued in reliance from exemptions from registration pursuant to Section 4(2) under the Securities Act.

In July 2003, we sold 3,000 shares of common stock at \$3.50 per share to an existing stockholder who was at the time one of our affiliates. We believe the securities were issued in reliance from exemptions from registration pursuant to Section 4(2) under the Securities Act.

From March 2004 through October 2004, we conducted a private placement and raised \$334,400 from the sale of 33,440 shares of Series A preferred stock at a price of \$10.00 per share. The sales were made to existing stockholders and other persons who were familiar with our company. We believe the securities were issued in reliance from exemptions from registration pursuant to Section 4(2) or Regulation D under the Securities Act.

Also, in October 2004, 12 holders of our debt converted a total of \$255,002 of debt into 25,500 shares of Series A preferred stock at a price of \$10.00 per share. We believe the securities were issued in reliance from exemptions from registration pursuant to Section 4(2) or Regulation D under the Securities Act.

On May 31, 2005, Robert T. Reed, Sr., the father of our Chief Executive Officer, Christopher J. Reed, converted warrants previously granted in 1991 into 262,500 shares of common stock. The exercise price was \$0.02 per share. We believe the securities were issued in reliance from exemptions from registration pursuant to Section 4(2) or Regulation D under the Securities Act.

In December 2005, we issued options to purchase up to 218,500 shares of common stock to nine of our employees pursuant to our 2001 stock option plan. The exercise price of these options is \$4.00 and the options expire in December 2010. In accordance with the Company's policy for accounting for stock options, no compensation expense was recorded. We believe the securities were issued in reliance from exemptions from registration pursuant to Section 4(2) or Regulation D under the Securities Act.

In September 2005, we declared a dividend of 7,362 shares of our common stock as a dividend to the holders of our Series A preferred stock based on a \$29,470 accrued annual dividend payable. We issued the stock dividend in May 2006. The Series A preferred stock bears a 5% annual, non-cumulative dividend that may be in cash or in shares of our common stock based on its then fair market value. We believe the securities were issued in reliance from exemptions from registration pursuant to Section 4(2) or Regulation D under the Securities Act.

From August 3, 2005 through April 7, 2006, we issued 333,156 shares of common stock in connection with the public offering. The shares may have been issued in violation of federal or state securities laws, or both, and may be subject to rescission. In order to address this issue, we are making a rescission offer to the holders of these shares in connection with this registration statement. If our rescission offer is accepted by all offerees, we will be required to make an aggregate payment to the holders of these shares of up to approximately \$1,332,624, plus statutory interest. We have entered into an agreement 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. We would assign 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. As currently contemplated, the initial \$250,000 of rescission shares would be purchased by Mark Reed. If the number of rescission shares tendered for rescission exceeds \$250,000 of shares, Robert T. Reed, Jr. would purchase the balance of the rescission shares tendered for rescission to us. Each of the designated purchasers is a brother of Christopher J. Reed, our Chief Executive Officer, Chief Financial Officer and the Chairman of the Board of Directors. Robert T. Reed, Jr. also is our Vice President and National Sales Manager - Mainstream and a beneficial owner of approximately 7.13% of our common stock.

Item 27. Exhibits

The following exhibits are included herein or incorporated herein by reference:

- 1.1 Underwriting Agreement - US EURO Securities, Inc. *
- 1.2 Subscription Agreement *
- 1.3 Underwriters’ Warrant *
- 3.1 Certificate of Incorporation *
- 3.2 Amendment to Certificate of Incorporation *
- 3.3 Certificate of Designations *
- 3.4 Certificate of Correction to Certificate of Designations *
- 3.5 Bylaws, as amended *
- 4.1 Form of common stock certificate *
- 4.2 Form of Series A preferred stock certificate *
- 4.3 2001 Employee Stock Option Plan *
- 4.4 Convertible promissory notes issued to investors *
- 4.5 Amendment to Promissory Note *
- 5.1 Legal opinion of Jenkins & Gilchrist, LLP
- 10.1 Purchase Agreement for Virgil’s Root Beer *
- 10.2 Brewing Agreement dated as of May 15, 2001 between the Company and The Lion Brewery, Inc. *
- 10.3 Loan Agreement with U.S. Bank National Association for purchase of the Brewery *
- 10.4 Loan Agreement with U.S. Bank National Association for improvements at the Brewery *
- 10.5 Loan Agreement with Bay Business Credit *
- 10.6 Credit Agreement with Merrill Lynch *
- 10.7 Form of Promotional Share Lock-In Agreement *
- 10.7(a) Promotional Share Lock-In Agreement For Christopher J. Reed *
- 10.7(b) Promotional Share Lock-In Agreement For Robert T. Reed, Jr. *
- 10.7(c) Promotional Share Lock-In Agreement For Robert T. Reed, Sr. *
- 10.7(d) Promotional Share Lock-In Agreement For Peter Sharma, III *
- 10.7(e) Promotional Share Lock-In Agreement For Joseph Grace *
- 10.7(f) Promotional Share Lock-In Agreement for Judy Holloway Reed *
- 10.7(g) Promotional Share Lock-In Agreement for Eric Scheffer *
- 10.7(h) Promotional Share Lock-In Agreement for Mark Harris #
- 10.8 Loan Agreement dated September 28, 2004 with Bay Business Credit *
- 10.9 Sirius/Pureprophet, Ltd. Vendor’s Credit Line Agreement with Original Beverage Corp. *
- 10.10 Terms Of Amortization for Peter Sharma III for Sirius/Pureprophet, Ltd. -
Vendor’s Credit Line Agreement with Original Beverage Corp. *
- 10.11 Co-Sign Agreement *

10.12	Loan Agreement with Robert T. Reed, Sr. *
10.13	Loan Agreement with William Holiman *
10.14	Loan Agreement with Bay Business Credit *
10.15	Loan Agreement with Robert T. Reed, Sr. *
10.16	Loan Agreement with Robert T. Reed, Sr. *
10.17	Amendment to Loan Agreement with Bay Business Credit *
10.18	Suspension of Loan Payment Agreement with Robert T. Reed, Sr. *
10.19	Agreement to Assume Repurchase Obligations #
10.20	Loan and Security Agreement with Business Alliance Capital Corporation dated June 3, 2005, and Amendment No. 1 thereto dated June 29, 2006
14.1	Code of Ethics #
23.1	Consent of Weinberg & Co., P.A.
23.2	Consent of Jenkens & Gilchrist, LLP (contained in Exhibit 5.1)
24	Power of Attorney (included in the signature page to the Registration Statement) #

* Previously filed as part of the registrant's Registration Statement on Form SB-2 (File No. 333-120451) and incorporated herein by this reference.

Previously filed as part of this Registration Statement on Form SB-2 (File No. 333-135186).

Item 28. Undertakings

The undersigned registrant will:

(a)(1) File, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement; and notwithstanding the forgoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospects filed with the Commission pursuant to Rule 424(b) (§230.424(b) of this chapter) if, in the aggregate, the changes in the volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) Include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act of 1933, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial *bona fide* offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(4) For determining liability of the undersigned small business issuer under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned small business issuer undertakes that in a primary offering of securities of the undersigned small business issuer pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned small business issuer will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- (i) Any preliminary prospectus or prospectus of the undersigned small business issuer relating to the offering required to be filed pursuant to Rule 424;
- (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned small business issuer or used or referred to by the undersigned small business issuer;
- (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned small business issuer or its securities provided by or on behalf of the undersigned small business issuer; and
- (iv) Any other communication that is an offer in the offering made by the undersigned small business issuer to the purchaser.

(e) Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 24 above, or otherwise, the registrant has been advised that in the opinion of the SEC for matters under the securities laws, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the registrant expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

(g) That, for purposes of determining liability under the Securities Act to any purchaser:

(1) If the small business issuer is relying on Rule 430B:

- (i) Each prospectus filed by the undersigned small business issuer pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement;
- (ii) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof. *Provided, however,* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or

(2) If the small business issuer is subject to Rule 430C, include the following:

Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectus filed in reliance on Rule 430, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. *Provided, however,* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Angeles, State of California, on July 31, 2006.

REED'S, INC.

By: /s/ Christopher J. Reed

Christopher J. Reed
Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Christopher J. Reed and Judy Holloway Reed, jointly and severally, as his attorneys-in-fact, with full power of substitution in each, for him in any and all capacities to sign any amendments to this Registration Statement on Form SB-2, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitutes, may do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, as amended, this Registration Statement was signed by the following persons in the capacities and on the dates stated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Christopher J. Reed</u> Christopher J. Reed	Chief Executive Officer, Chief Financial Officer and Chairman of the Board of Directors (Principal Executive Officer and Principal Accounting Officer)	July 31, 2006
<u>/s/ Judy Holloway Reed</u> Judy Holloway Reed	Director	July 31, 2006
<u>/s/ Mark Harris</u> Mark Harris	Director	July 31, 2006
<u>/s/ Daniel S.J. Muffoletto</u> Daniel S.J. Muffoletto	Director	July 31, 2006
<u>/s/ Michael Fischman</u> Michael Fischman	Director	July 31, 2006

EXHIBIT INDEX

1.1	Underwriting Agreement - US EURO Securities, Inc. *
1.2	Subscription Agreement *
1.3	Underwriters' Warrant *
3.1	Certificate of Incorporation *
3.2	Amendment to Certificate of Incorporation *
3.3	Certificate of Designations *
3.4	Certificate of Correction to Certificate of Designations *
3.5	Bylaws, as amended *
4.1	Form of common stock certificate *
4.2	Form of Series A preferred stock certificate *
4.3	2001 Employee Stock Option Plan *
4.4	Convertible promissory notes issued to investors *
4.5	Amendment to Promissory Note *
5.1	Legal opinion of Jenkins & Gilchrist, LLP
10.1	Purchase Agreement for Virgil's Root Beer *
10.2	Brewing Agreement dated as of May 15, 2001 between the Company and The Lion Brewery, Inc. *
10.3	Loan Agreement with U.S. Bank National Association for purchase of the Brewery *
10.4	Loan Agreement with U.S. Bank National Association for improvements at the Brewery *
10.5	Loan Agreement with Bay Business Credit *
10.6	Credit Agreement with Merrill Lynch *
10.7	Form of Promotional Share Lock-In Agreement *
10.7(a)	Promotional Share Lock-In Agreement For Christopher J. Reed *
10.7(b)	Promotional Share Lock-In Agreement For Robert T. Reed, Jr. *
10.7(c)	Promotional Share Lock-In Agreement For Robert T. Reed, Sr. *
10.7(d)	Promotional Share Lock-In Agreement For Peter Sharma, III *
10.7(e)	Promotional Share Lock-In Agreement For Joseph Grace *
10.7(f)	Promotional Share Lock-In Agreement for Judy Holloway Reed *
10.7(g)	Promotional Share Lock-In Agreement for Eric Scheffer *
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* Previously filed as part of the registrant's Registration Statement on Form SB-2 (File No. 333-120451) and incorporated herein by this reference.

Previously filed as part of this Registration Statement on Form SB-2 (File No. 333-135186).

FORM OF NOTICE OF ELECTION

Reed's, Inc.
13000 South Spring Street
Los Angeles, California 90061
Attn: Christopher J. Reed

Dear Mr. Reed:

I have received the prospectus of Reed's, Inc. ("Reed's") relating to its rescission offer, dated _____, 2006, pursuant to which Reed's has offered to repurchase certain shares of its common stock that may have been issued in violation of federal or state securities laws, or both. I advise Reed's as follows by placing an "X" in the proper spaces provided below (and filling in the appropriate table(s), if applicable):

Shares of Common Stock

- 1. I hereby elect to reject the rescission offer and desire to retain the shares.
I hereby elect to accept the rescission offer and rescind the sale of _____ (fill in number) shares and to receive a full refund for all sums paid therefore together with interest at the applicable statutory rate per year. My Stock Power(s) is/are also enclosed with this Notice of Election
2. of Election

Table with 3 columns: Date of Purchase (The date you were issued stock. If you do not know, leave blank.), Number of Shares Purchased, Certificate Number (If you do not know, leave blank.)

IF PERSONS DESIRING TO ACCEPT THIS RESCISSION OFFER INTEND TO MAKE USE OF THE MAILS TO RETURN THEIR STOCK POWER(S), INSURED REGISTERED MAIL, RETURN RECEIPT REQUESTED, IS RECOMMENDED AND SHOULD ALSO PROVIDE THEIR DOCUMENTATION, INCLUDING THIS NOTICE OF ELECTION, BY FACSIMILE TO CHRISTOPHER J. REED AT THE FOLLOWING FACSIMILE NUMBER: (310) 217-9411.

TO THE EXTENT I HAVE ACCEPTED THE OFFER, I AGREE I WILL NOT HAVE ANY FURTHER RIGHT, TITLE OR INTEREST IN THOSE SHARES OF COMMON STOCK AND ANY SUBSEQUENT APPRECIATION IN THE VALUE OF THE SHARES UNDERLYING THE SHARES OF COMMON STOCK.

For California residents:

THIS OFFER OF REPURCHASE HAS BEEN APPROVED BY THE CALIFORNIA COMMISSIONER OF CORPORATIONS IN ACCORDANCE WITH SECTION 25507(b) OF THE CALIFORNIA CORPORATE SECURITIES LAW OF 1968 ONLY AS TO ITS FORM. SUCH APPROVAL DOES NOT IMPLY A FINDING BY THE COMMISSIONER THAT ANY STATEMENTS MADE HEREIN OR IN ACCOMPANYING DOCUMENTS ARE TRUE OR COMPLETE; NOR DOES IT IMPLY A FINDING THAT THE AMOUNT OFFERED BY REED'S, INC. IS EQUAL TO THE AMOUNT RECOVERABLE BY THE BUYER OF THE SECURITY IN ACCORDANCE WITH SECTION 25503 IN A SUIT AGAINST REED'S, INC., AND THE COMMISSIONER DOES NOT ENDORSE THE OFFER AND MAKES NO RECOMMENDATION AS TO ITS ACCEPTANCE OR REJECTION.

Dated: _____, 2006

Print name of stockholder:

Name of stockholder:

Authorized signature:

Authorized signature (if shares held in more than one name):

Title of authorized signatory (if applicable):

Title of authorized signatory (if applicable):

Address of stockholder:

Phone number of stockholder:

Fax number of stockholder:

Email of stockholder:

**REED'S, INC.
STOCK POWER**

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto Reed's, Inc., a Delaware corporation or its designee, _____ shares of Common Stock of Reed's, Inc., and does hereby irrevocably constitute and appoint Christopher J. Reed and Judy Holloway Reed, and any of them, the undersigned's Attorney to transfer said shares on the books of said corporation with full power of substitution in the premises.

Dated: _____, 2006

SELLING STOCKHOLDER

Print Name(s) of Selling Stockholder(s)

Authorized Signature

Title of Authorized Signatory (if applicable)¹

Authorized Signature (if shares held in more than one name)

Title of Authorized Signatory (if applicable)

Address of Selling Stockholder (Line 1)

Address of Selling Stockholder (Line 2)

Phone

Email

Fax

¹ Trustees, officers and other fiduciaries or agents should indicate their title or capacity and print their names under their signatures.

[JENKENS & GILCHRIST, LLP LETTERHEAD]

July 31, 2006

Reed's, Inc.
13000 South Spring Street
Los Angeles, California 90061

Re: Reed's, Inc.

Gentlemen:

We have acted as counsel for Reed's, Inc., a Delaware corporation (the "Company"), in connection with the preparation and filing with the Securities and Exchange Commission, under the Securities Act of 1933, as amended (the "Securities Act"), of a Registration Statement on Form SB-2 (File No. 333-135186, or the "Registration Statement"). The Registration Statement relates to the Company's offer to rescind the issuance of 333,156 shares (the "Shares") of its common stock held (the "Rescission Offer"). The Rescission Offer is described in the Registration Statement.

In acting as counsel to the Company, we have examined originals or copies, certified to our satisfaction, of such documents, corporate records and other instruments, as we have deemed necessary. In addition, we have examined such books and records of the Company, as in our judgment, is necessary or appropriate to enable us to render the opinions expressed below.

We are opining herein only as to the effect of the federal laws of the United States and the corporate laws of the State of Delaware, and we express no opinion with respect to the applicability thereto, or the effect thereon, of the laws of any other jurisdiction, or in the case of the State of Delaware, any other laws, including without limitation, any matters of municipal law or the laws of any other local agencies within the State of Delaware.

Based upon the foregoing, it is our opinion that the Shares are duly authorized, validly issued, fully paid and non-assessable.

We consent to the use of this opinion as an exhibit to the Registration Statement and the use of our name in the Registration Statement and the prospectus. By giving you this opinion and consent, we do not admit that we are experts with respect to any part of the Registration Statement or the prospectus, within the meaning of the term "expert," as used in Section 11 of the Securities Act, or the rules and regulations promulgated thereunder, nor do we admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act, or the rules and regulations promulgated thereunder.

Very truly yours,

/s/ Jenkens & Gilchrist, LLP

JENKENS & GILCHRIST, LLP

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT is entered into as of June 3, 2005 between BUSINESS ALLIANCE CAPITAL CORP., a Delaware corporation (BACC), with an office located at 800 Wilshire Boulevard, Suite 700, Los Angeles, California 90017 and REED'S, INC., a Delaware corporation (Borrower), with its chief executive office located at 13000 South Spring Street, Los Angeles, CA 90061.

The parties agree as follows

1. DEFINITIONS AND CONSTRUCTION

1.1 Terms. As used in this Agreement, the following terms shall have the following meanings:

Accounts means, in addition to the definition of accounts in the Code, all presently existing and hereafter arising accounts receivable, contract rights, health-care-insurance receivables, and all other forms of obligations owing to Borrower arising out of the sale, lease, license or assignment of goods or other property, or the rendition of services by Borrower, whether or not earned by performance, all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

Advances means all loans, advances and other financial accommodations by BACC to or on account of the Borrower, including those under this Agreement.

Agreement means collectively this Loan and Security Agreement, any concurrent or subsequent rider to this Loan and Security Agreement, and any extensions, supplements, amendments, addenda or modifications to or in connection with this Loan and Security Agreement or any such rider.

Authorized Officer means any officer or other representative of Borrower authorized in a writing delivered to BACC to transact business with BACC.

BACC means Business Alliance Capital Corp., its successors and assigns.

BACC Expenses means all of the following: costs and expenses (whether taxes, assessments, insurance premiums or otherwise) required to be paid by Borrower under any of the Loan Documents which are paid or advanced by BACC; filing, recording, publication, appraisal and search fees paid or incurred by BACC in connection with BACC's transactions with Borrower; costs and expenses incurred by BACC in the disbursement or collection of funds to or from Borrower or its account debtors; charges resulting from the dishonor of checks; costs and expenses incurred by BACC to correct any default or enforce any provision of the Loan Documents, or in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Collateral, or any portion thereof, irrespective of whether a sale is consummated; and costs and expenses incurred by BACC in enforcing or defending the Loan Documents, including, but not limited to, costs and expenses incurred in connection with any proceeding, suit, enforcement of judgment, or appeal; and BACC's reasonable attorneys' fees and expenses, including allocated fees of in-house counsel, incurred in advising, structuring, drafting, reviewing, administering, amending, modifying, terminating, enforcing, defending, or otherwise representing BACC concerning the Loan Documents or the Obligations.

Borrower's Books means all of Borrower's books and records including all of the following: ledgers; records indicating, summarizing, or evidencing Borrower's assets or liabilities, or the Collateral; all information relating to Borrower's business operations or financial condition; and all computer programs, disk or tape files, printouts, runs, or other computer prepared information, and the facilities containing such information.

Business Day means any day which is not a Saturday, Sunday, or other day on which banks in the State of New Jersey are authorized or required to close.

Chattel Paper shall have the same meaning ascribed to such term in the Code.

Code means the California Uniform Commercial Code, as amended or revised from time to time.

Collateral means all assets of the Borrower, whether now owned or existing, or hereafter acquired or arising, and wherever located, including, without limitation, all of the following assets, properties and interests in property of Borrower; all Accounts; all Equipment; all Commercial Tort Claims; all General Intangibles; all Chattel Paper; all Inventory; all Negotiable Collateral; all Investment Property, all Financial Assets, all Letter of Credit Rights, all Supporting Obligations, all Deposit Accounts, all money or any assets of Borrower which hereafter come into the possession, custody, or control of BACC; all proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the foregoing, and any and all tangible or intangible property resulting from the sale, lease, license or other disposition of the foregoing, or any portion thereof or interest therein, and all proceeds thereof, and any other assets of Borrower which may be subject to a lien in favor of BACC.

Commercial Tort Claims shall have the meaning ascribed to such term in the Code.

Daily Balance means the amount of the Obligations owed at the end of a given day.

Deposit Account shall have the meaning ascribed to such term in the Code.

Documents shall have the meaning ascribed to such term in the Code.

Eligible Accounts means those Accounts created by Borrower in the ordinary course of business, which are and at all times shall continue to be acceptable to BACC in all respects; provided, however, that standards of eligibility may be fixed and revised from time to time by BACC in BACC's exclusive judgment. In determining such acceptability and standards of eligibility, BACC may, but need not, rely on agings, reports and schedules of Accounts furnished by Borrower, but reliance by BACC thereon from time to time shall not be deemed to limit BACC's right to revise standards of eligibility at any time as to both Borrower's present and future Accounts. In general, an Account shall not be deemed eligible unless: (1) the Account debtor on such Account is and at all times continues to be acceptable to BACC, and up to credit limits acceptable to BACC, and (2) such Account complies in all respects with the representations, covenants and warranties hereinafter set forth. Except in BACC's sole discretion, Eligible Accounts shall not include any of the following (a) Accounts which the Account debtor has failed to pay within ninety (90) days of invoice date, and all Accounts owed by any Account debtor that has failed to pay twenty-five percent (25%) or more of its Accounts owed to Borrower within ninety (90) days of invoice date; (b) Accounts with respect to which goods are sold on a bill and hold basis or placed on consignment or for a guaranteed sale, or which contain other terms by reason of which payment by the Account debtor may be conditional; (c) Accounts with respect to which the Account debtor is not a resident of the United States unless the Account is supported by foreign credit insurance or a letter of credit, in both instances satisfactory to and assigned to BACC; (d) Accounts with respect to which the Account debtor is the United States or any department, agency or instrumentality of the United States, any State of the United States or any city, town, municipality or division thereof unless all filings have been made under the Federal Assignment of Claims Act or comparable state or other statute; (e) Accounts with respect to which the Account debtor is an officer, employee or agent of, or subsidiary of, related to, affiliated with or has common shareholders, officers or directors with Borrower; (f) Accounts with respect to which Borrower is or may become liable to the Account debtor for goods sold or services rendered by the Account debtor to Borrower; (g) Accounts with respect to an Account debtor whose total obligations to Borrower exceed fifteen percent (15%) of all Accounts or such other percentage as BACC may agree to in writing as to a particular Account debtor (the applicable percentage, the "Concentration Percentage"), to the extent such obligations exceed the applicable Concentration Percentage; (h) Accounts with respect to which the Account debtor disputes liability or makes any claim with respect thereto, or is subject to any insolvency proceeding, or becomes insolvent, fails or goes out of business; (i) the Account arises out of a contract or purchase order for which a surety bond was issued on behalf of Borrower; (j) Accounts in which BACC does not have first priority and exclusive perfected security interest; (k) Accounts where the Account Debtor is in a jurisdiction for which Borrower is required to file a notice of business activities or similar report and Borrower has not filed such report within the time period required by applicable law; (l) any Account as to which an invoice has not been issued to the Account debtor; or (m) any Account which represents a progress billing on a contract which has not been fully completed by Borrower.

Eligible Inventory means Inventory consisting of first quality finished goods held for sale in the ordinary course of Borrower's business and raw materials for such finished goods which are located at Borrower's premises and acceptable to BACC in all respects; provided, however that general criteria for Eligible Inventory may be established and revised from time to time by BACC in BACC's exclusive judgment. In determining such acceptability and standards of eligibility, BACC may, but need not, rely on reports and schedules of Inventory furnished to BACC by Borrower, but reliance thereon by BACC from time to time shall not be deemed to limit BACC's right to revise standards of eligibility at any time. In general, except in BACC's sole discretion, Eligible Inventory shall not include work in process, components which are not part of finished goods, spare parts, packaging and shipping materials, materials used or consumed in Borrower's business, goods returned to, repossessed by, or stopped in transit by Borrower, Inventory which is obsolete or slow moving, Inventory at the premises of third parties or subject to a security interest or lien in favor of any third party, bill and hold goods, Inventory which is not subject to a perfected security interest in favor of BACC, returned and/or defective goods, "seconds" and Inventory purchased on consignment, Inventory which contains any labels, trademarks, trade names or other identifying characteristics which are the properties of third parties unless the use of same by Borrower is under a valid license, royalty or similar agreement with the owner thereof, in form and substance satisfactory to BACC, and which remains in full force and effect, and has not been terminated, and such owner thereof has issued in favor of BACC an agreement, in form and substance satisfactory to BACC, allowing BACC to dispose of said items of Inventory upon the occurrence of an Event of Default. Eligible Inventory shall for the purposes of this Agreement be valued at the lower of cost or wholesale market value.

Equipment means in addition to the definition of equipment in the Code, all of Borrower's present and hereafter acquired equipment, machinery, machine tools, motors, furniture, furnishings, fixtures, motor vehicles, rolling stock, processors, tools, pans, dies, jigs, goods (other than consumer goods or farm products) and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located.

ERISA means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

ERISA Affiliate means each trade or business (whether or not incorporated and whether or not foreign) which is or may hereafter become a member of a group of which Borrower is a member and which is treated as a single employer under ERISA Section 4001(b)(1), or IRC Section 414.

Event of Default means the events specified in Section 8, below.

Financial Assets shall have the meaning ascribed to such term in the Code.

General Intangibles means, in addition to the definition of general intangibles in the Code, all of Borrower's present and future general intangibles and other personal property (including choses or things in action, goodwill, patents, trade names; trademarks, service marks, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, infringement claims, computer programs, computer discs, computer tapes, Borrower's Books, literature, reports, catalogs, deposit accounts, insurance premium rebates, tax refunds, and tax refund claims) other than goods and Accounts.

Guarantor means each person or entity which guarantees the Obligations or issues a validity guaranty relating to the Collateral or pledges any assets to BACC as additional security for the Obligations.

Insolvency Proceeding means any proceeding commenced by or against any person or entity under any provision of the federal Bankruptcy Code, as amended, or under any other state or federal insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, or extensions generally with its creditors.

Instruments shall have the meaning ascribed to such term in the Code.

Inventory means, in addition to the definition of inventory in the Code, all present and future inventory in which Borrower has any interest, including goods held for sale or lease or to be furnished under a contract of service, Borrower's present and future raw materials, work in process, finished goods, tangible property, stock in trade, wares, and materials used in or consumed in Borrower's business, goods which have been returned to, repossessed by, or stopped in transit by Borrower, packing and shipping materials, wherever located, any documents of title representing any of the above, and Borrower's Books relating to any of the foregoing.

Investment Property shall have the meaning ascribed to such term in the Code.

IRC means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

Letter of Credit Rights shall have the meaning ascribed to such term in the Code.

Loan Documents means, collectively, this Agreement, any Note or Notes, any security agreements, pledge agreements, mortgages, deeds of trust or other encumbrances or agreements which secure the Obligations, and any other agreement entered into between Borrower and BACC or by Borrower or a Guarantor in favor of BACC relating to or in connection with this Agreement or the Obligations, as each of same may be amended, modified, renewed, extended or substituted from time to time.

Multiemployer Plan means a multiemployer plan as defined in ERISA Sections 3(37) or 4001(a)(3) or IRC Section 414(f).

Negotiable Collateral means all of Borrower's present and future letters of credit, notes, drafts, Instruments, Documents, leases, and Chattel Paper.

Note means any promissory note made by Borrower to the order of BACC concurrently herewith or at any time hereafter.

Obligations means all loans, Advances, debts, liabilities (including all interest and amounts charged to the Obligations pursuant to any agreement authorizing BACC to charge the Obligations), obligations, lease payments, guaranties, covenants, and duties owing by Borrower to BACC of any kind and description (whether pursuant to or evidenced by the Loan Documents or by any other agreement between BACC and Borrower, and irrespective of whether for the payment of money), whether made or incurred prior to, on, or after the Termination Date, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, including any debt, liability or obligation owing from Borrower to others which BACC may obtain by assignment or otherwise, and all interest thereon and all BACC Expenses.

Plan means any plan described in ERISA Section 3(2) maintained for employees of Borrower or any ERISA Affiliate, other than a Multiemployer Plan.

Prime Rate means that rate designated by Wachovia Bank, National Association, or any successor thereof, from time to time as its prime rate, which shall not necessarily constitute its lowest available rate.

Revolving Credit Facility means the revolving credit facility provided for in Section 2.1 hereof.

Supporting Obligation shall have the same meaning ascribed to such term in the Code.

Term means the period from the date of the execution and delivery by BACC of this Agreement through and including the later of (a) the Termination Date and (b) the payment and performance in full of the Obligations.

Termination Date means (a) June 30, 2006 (the period through such date the "Initial Term"), unless such date is extended pursuant to Sections 3.1 or 9.1 hereof, and if so extended on one or more occasions the last date of the last such extension, or (b) if earlier terminated by BACC pursuant to section 9.1 hereof, the date of such termination.

1.2 Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular and to the singular include the plural. The words *hereof*, *herein*, *hereby*, *hereunder*, and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Section, subsection, clause and exhibit references are to this Agreement unless otherwise specified. Words importing a particular gender mean and include every other gender.

1.3 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles (GAAP) as in effect from time to time. When used herein, the term financial statements shall include the notes and schedules thereto.

1.4 Exhibits. All of the exhibits, addenda or riders attached to this Agreement shall be deemed incorporated herein by reference.

1.5 Code. Any terms used in this Agreement which are defined in the Code shall be construed and defined as set forth in the Code, unless otherwise defined herein.

2. ADVANCES AND TERMS OF PAYMENT

2.1 Revolving Advances; Advance Limit. Upon the request of Borrower, made at any time from and after the date hereof until the Termination Date, and so long as no Event of Default has occurred, BACC may, in its sole and absolute discretion, make Advances in an amount up to (a) eighty percent (80%) of the aggregate outstanding amount of Eligible Accounts, plus (b) the lesser of (1) fifty percent (50%) of the aggregate value of the Eligible Inventory or (2) Six Hundred Thousand Dollars (\$600,000) or (3) sixty percent (60%) of the aggregate outstanding principal amount of Advances under this Section 2.1; provided, however, that in no event shall the aggregate amount of the outstanding Advances under the Revolving Credit Facility be greater than, at any time, the amount of One Million Nine Hundred Ten Thousand Dollars (\$1,910,000) (said dollar limit the *Advance Limit*). BACC may create reserves against, or reduce its advance percentages based on Eligible Accounts and Eligible Inventory without declaring an Event of Default if it determines, in its good faith discretion, that such reserves or reduction is necessary, including, without limitation, to protect its interest in the Collateral and/or against diminution in the value of the Collateral, and/or to insure the prospect of payment or performance by Borrower of its Obligations to BACC are not impaired. Borrower acknowledges it has requested that BACC enter into an indemnification agreement in favor of Bay Business Credit and agrees that any sums paid to Bay Business Credit thereunder shall be deemed to be Advances under this Section 2.1.

2.2 Overadvances. All Advances shall be added to and be deemed part of the Obligations when made. If, at any time and for any reason, the aggregate amount of the outstanding Advances under the Revolving Credit Facility exceeds the dollar or percentage limitations contained in Section 2.1 (an *Overadvance*) then Borrower shall, upon demand by BACC, immediately pay to BACC, in cash, the amount of such Overadvance. Without affecting Borrower's obligation to immediately repay to BACC the amount of each Overadvance, Borrower shall pay BACC a fee (the *Overadvance Fee*) in an amount equal to two percent (2.0%) per month on the Overadvance amount for each day on Overadvance exists, but not less than \$500 per occurrence of an Overadvance, plus interest on the Overadvance amount at the Default Rate set forth below.

2.3 Authorization to Make Advances. BACC is hereby authorized to make the Advances based upon telephonic or other instructions received from anyone purporting to be an Authorized Officer, or, at the discretion of BACC, if such Advances are necessary to satisfy any Obligations. All requests for Advances shall specify the date on which such Advance is to be made (which day shall be a Business Day) and the amount of such Advance. Requests received after 10:30 a.m. Pacific time on any day shall be deemed to have been made as of the opening of business on the immediately following Business Day. All Advances made under this Agreement shall be conclusively presumed to have been made to, at the request of, and for the benefit of Borrower when deposited to the credit of Borrower or otherwise disbursed in accordance with the instructions of Borrower or in accordance with the terms and conditions of this Agreement. Unless otherwise requested by Borrower, all Advances shall be made by a wire transfer to the deposit account of Borrower designated on schedule 2.3 annexed hereto, or such other account as Borrower shall notify BACC in writing. Borrower shall pay to BACC a funds transfer fee of \$25.00 for each Advance. Said fees shall be payable on the first day of each month of the Term for all Advances made during the preceding month.

2.4 Interest.

A. Except where specified to the contrary in the Loan Documents interest shall accrue on the Daily Balance of the Obligations at the per annum rate of two and three quarter percentage points (2.75%) above the Prime Rate, but not less than eight and one-half percentage points (8.5%). The Obligations shall, at the option of BACC, from and after the occurrence of an Event of Default, and without constituting a waiver of any such Event of Default, and if the Obligations are not paid in full by the Termination Date, and without waiving the maturity of the Obligations on the Termination Date, bear interest at the per annum rate of seven and three quarter percentage points (7.75%) above the Prime Rate (the "Default Rate"). All interest payable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed on the Daily Balance. Interest as provided for herein shall continue to accrue until the Obligations are paid in full.

B. The interest rate payable by Borrower under the terms of this Agreement shall be adjusted in accordance with any change in the Prime Rate from time to time on the date of any such change. All interest payable by Borrower shall be due and payable on the first day of each calendar month during the Term. BACC may, at its option, add such interest and all BACC Expenses to the Obligations, and such amount shall thereafter accrue interest at the rate then applicable under this Agreement. Notwithstanding anything to the contrary contained in the Loan Documents, the minimum monthly interest payable by Borrower on the Advances shall be Two Thousand Five Hundred Dollars (\$2,500).

C. In no event shall interest on the Obligations exceed the highest lawful rate in effect from time to time. It is not the intention of the parties hereto to make an agreement which violates any applicable state or federal usury laws. In no event shall Borrower pay or BACC accept or charge any interest which, together with any other charges upon the principal or any portion thereof, exceeds the maximum lawful rate of interest allowable under any applicable state or federal usury laws. Should any provision of this Agreement or any existing or future Notes or Loan Documents between the parties be construed to require the payment of interest or any other fees or charges which could be construed as interest which, together with any other charges upon the principal or any portion thereof and any other fees or charges which could be construed as interest, exceeds the maximum lawful rate of interest, then any such excess shall be applied to the remaining principal balance of the Obligations, if any, and the remainder refunded to Borrower.

D. Notwithstanding the foregoing, for purposes of this Agreement, it is the intention of Borrower and BACC that "interest" shall mean, and be limited to, any payment to BACC which compensates it for extending credit to Borrower, for making available to Borrower a revolving credit facility during the term of this Agreement and for any default or breach by Borrower of a condition upon which credit was extended. Borrower and BACC agree that, for the sole purpose of calculating the "interest" paid by Borrower to BACC, it is the intention of Borrower and BACC that interest shall mean and include, and be expressly limited to, any interest accrued on the aggregate outstanding balance of the Obligations during the term hereof pursuant to Sections 2.4(A) and 2.4(B); and any Overadvance Fee, Facility Fee, Equipment Fee and late fees charged to Borrower during the term hereof. Borrower and BACC further agree that it is their intention that the following fees shall not constitute "interest": any Servicing Fees, any Examination Fees, any attorney fees incurred by BACC, any premiums or commissions attributable to insurance guaranteeing repayment, finders' fees, credit report fees, appraisal fees or fees for document preparation or notarization. To the extent, however, that California law excludes from the calculation of "interest" any fees defined herein as interest, or includes as interest any fees or other sums which are intended not to constitute interest California law shall supersede and prevail and all such interest shall be subject to paragraph 2.4(C) above.

2.5 Collection of Accounts. Upon the occurrence of an Event of Default, BACC or a BACC designee may, at any time, with or without notice to Borrower, notify customers or Account debtors or other obligors that the Accounts or other Collateral have been assigned to BACC, and that BACC has a security interest in them and collect the Accounts and other Collateral directly, and add the collection costs and expenses to the Obligations, but, unless and until BACC does so or gives Borrower other written instructions, Borrower shall receive all payments and other proceeds on Accounts and other Collateral, including, without limitation, collections under credit card sales and cash, in trust for BACC and immediately deliver said payments to BACC in their original form as received from the Account debtor or other obligor, together with any necessary endorsements, and/or at the discretion of BACC deposit said payments into a deposit account designated and in the name of and under the exclusive control of BACC.

2.6 Crediting Payments. The receipt of any item of payment by BACC shall, for the sole purpose of determining availability under the revolving credit facility provided for herein, subject to final payment of such item, be provisionally applied to reduce Obligations on the date of receipt of such item by BACC, but the receipt of such an item of payment shall for all other purposes in determining the Daily Balance, including without limitation for the purpose of calculation of interest on the Obligations and the calculation of the Servicing Fee, not be deemed to have been paid to BACC until four (4) Business Days after the date of BACC's actual receipt of such item of payment. Notwithstanding anything to the contrary contained herein, payments received by BACC after 11:00 a.m. Eastern time shall be deemed to have been received by BACC as of the opening of business on the immediately following Business Day.

2.7 Facility Fee. In consideration of BACC's entering into this Agreement, Borrower shall pay BACC a yearly facility fee (the Facility Fee) in an amount equal to one percent (1.0%) of the sum of the Advance Limit plus the original principal balance of any term loans and Advances other than under the Revolving Credit Facility, for each yearly period commencing from the execution hereof through the initial Termination Date of June 30, 2006, with all such amounts being fully earned upon the execution hereof and payable in advance of each year, unless earlier payable pursuant to the terms hereof. In the event the Termination Date is thereafter extended, on one or more occasions, beyond such initial Termination Date, Borrower shall pay BACC a Facility Fee for each yearly period of any extension in an amount equal to one percent (1.0%) of the sum of Advance Limit (in effect at the time of the extension) plus the then outstanding principal balance of any term loans and Advances other than under the Revolving Credit Facility, with all such amounts being fully earned upon the execution of any extension agreement, and payable in advance of each year, unless earlier payable pursuant to the terms hereof.

2.8 Servicing Fee. Borrower shall pay BACC a fee (the *Servicing Fee*) in an amount equal to fifteen one hundredths of one percent (0.15%) of the daily average outstanding balance of the Advances during each month on or before the first (1st) day of each calendar month in respect of BACC's services for the preceding calendar month, during the Term, including each Renewal Term, or so long as the Obligations are outstanding.

2.9 Field Examination Fee. Borrower shall pay BACC a fee (the *Field Examination Fee*) in an amount equal to Seven Hundred Fifty Dollars (\$750) per day per examiner, plus out-of-pocket expenses for each examination of Borrower's Books or the other Collateral performed by BACC or its designee.

2.10 Late Reporting Fee. Borrower shall pay to BACC a fee in an amount equal to Fifty Dollars (\$50.00) per document per day for each Business Day any report, financial statement or schedule required by this Agreement to be delivered to BACC is past due.

2.11 Monthly Statements. BACC may render monthly statements to Borrower of all Obligations, including statements of all principal, interest and BACC Expenses, and Borrower shall have fully and irrevocably waived all objections to such statements and the contents thereof unless, within thirty (30) days after receipt, Borrower shall deliver to BACC, by registered, certified or overnight mail as set forth in Section 12 hereof, written objection to such statement specifying the error or errors, if any, contained therein.

2.12 Term Loans.

A. Contemporaneous with the execution hereof BACC shall lend to Borrower the principal sum of One Hundred Ninety Thousand Dollars no/100 (\$190,000) which sum, together with interest at the rate set forth below shall be paid in equal consecutive monthly installments of principal of Three Thousand One Sixty Seven and 00/100 Dollars (\$3,167) each beginning on June 1, 2005 and continuing on the same day of each month thereafter until paid in full. Interest, at the rate set forth in Section 2.4 hereof, shall be paid on the first day of each month hereafter and on the maturity date of said term loan. Notwithstanding the foregoing, the entire unpaid principal balance of said term loan, and all accrued and unpaid interest thereon, shall be due and payable in full on the Termination Date. If Borrower prepays, in whole or in part, the term loan other than in connection with a termination subject to subject to Section 3.2 below, contemporaneous with such prepayment Borrower shall pay BACC a prepayment premium equal to five percentage points (5.0%) of the amount so prepaid.

B. Upon the request of Borrower, made at any time prior to March 31, 2006 and so long as (i) no Event of Default has occurred and is continuing, and (ii) provided that BACC has a first priority and only security interest in the Equipment to be financed under the Capital Expenditures Term Loan (as defined below), BACC may, in its sole and absolute discretion, make capital expenditure Advances in a total amount not to exceed the lesser of: (a) eighty-five percent (85%) of the cost of Equipment acquired by Borrower (after subtracting taxes, freight and installation charges) ("Equipment Advance"); and (b) One Hundred Fifty Thousand Dollars (\$150,000) (the *Capital Expenditures Term Loan*); provided, however, each Equipment Advance shall be no less Ten Thousand Dollars (\$10,000). The Capital Expenditures Term Loan shall be further evidenced by a Secured Term Promissory Note (Capital Expenditures).

At the time of each new respective type of Advance hereunder (i.e. Equipment Advance), the aggregate of the then outstanding principal balance of the same type of Advances, if any, shall be added to the new Advance of the same type and the total aggregate balance of both shall be divided by the number of months remaining between the last day of the month in which such new Advance took place and the Applicable Maturity Date (as defined below) that applies to such type of Advances, and the resulting amount of said installments, rounded to the nearest One Hundred Dollars (\$100), shall be payable in consecutive monthly payments (or earlier, as hereinafter referred to) on the first day of each month commencing on the first (1st) full calendar month following such new Advance hereunder and continuing on the first day of each succeeding month until the Applicable Maturity Date. The entire remaining unpaid principal balance of the Capital Expenditures Term Loan, plus any and all accrued and unpaid interest, shall be due and payable on the earlier of: (i) May 1, 2009 (unless an earlier Applicable Maturity Date, applies to all or a portion of the Capital Expenditures Term Loan), or (ii) the date this Agreement terminates by its terms or is terminated by either party in accordance with its terms. If Borrower prepays, in whole or in part, the term loan other than in connection with a termination subject to Section 3.2 below, contemporaneous with such prepayment Borrower shall pay BACC a prepayment premium equal to five percent (5.0%) of the amount so prepaid. Interest, at the rate set forth in Section 2.4 hereof, shall be payable monthly, in addition to the principal payments provided above, commencing on the due date of the first (1st) principal payments hereunder, and continuing on the first day of each succeeding month, with all accrued and unpaid interest due and payable in full on the Termination Date. As used herein, the "Applicable Maturity Date" means May 1, 2009 with respect to Equipment Advances.

As a condition to the Capital Expenditures Term Loan, Borrower agrees to pay a fee (the *Equipment Fee*), which fee shall be immediately due and payable on the day of the Equipment Advance, in an amount equal to one-twelfth of one percent (0.00834%) of the Equipment Advances for the number of months between the date of the Equipment Advance and the Termination Date.

3. TERM

3.1 Term and Renewal Date. This Agreement shall become effective upon execution by BACC and continue in full force through the Initial Term and from year to year thereafter (a "Renewal Term") if BACC, at its option, in writing agrees to extend the Term for one (1) year from the then Termination Date, provided that Borrower has not exercised its termination right in accordance with this Section 3.1. Borrower may terminate the Term on the then Termination Date by giving BACC at least sixty (60) days prior written notice by registered or certified mail, return receipt requested. In addition, BACC shall have the right to terminate this Agreement immediately at any time upon the occurrence of an Event of Default. No such termination shall relieve or discharge Borrower of its duties, Obligations and covenants hereunder until all Obligations have been paid and performed in full, and BACC's continuing security interest in the Collateral shall remain in effect until the Obligations have been fully and irrevocably paid and satisfied in cash or cash equivalent. On the Termination Date of this Agreement, the Obligations shall be immediately due and payable in full. Expressly in addition to all rights and remedies available to BACC, if the term of this Agreement is not renewed and the Obligations are not paid in full by the Termination Date, then Borrower shall also pay to BACC, as part of the Obligations, a fee of two percent (2.0 %) of the Advance Limit plus the then outstanding principal balance of any term loans and Advances other than under the revolving credit facility provided for in Section 2.1 hereof.

3.2 Early Termination Fee. If the Term is terminated by BACC upon the occurrence of an Event of Default, or is terminated by Borrower except as provided in Section 3.1, in view of the impracticability and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of BACC's lost profits as a result thereof, in addition to payment of all principal, interest, fees, expenses and other Obligations, Borrower shall pay BACC upon the effective date of such termination a fee in an amount equal to five percent (5%) of the Advance Limit plus the then outstanding principal balance of any term loans or Advances other than under the Revolving Credit Facility, if such termination occurs at any time including during a Renewal Term. Such fee shall be presumed to be the amount of damages sustained by BACC as the result of termination and Borrower acknowledges that it is reasonable under the circumstances currently existing. The fee provided for in this Section 3.2 shall be deemed included in the Obligations.

4. CREATION OF CONTINUING SECURITY INTEREST

4.1 Grant of Continuing Security Interest. Borrower hereby grants to BACC a continuing security interest in all presently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of the Obligations and in order to secure prompt performance by Borrower of each and all of its covenants and Obligations under the Loan Documents and otherwise. BACC's continuing security interest in the Collateral shall attach to all Collateral without further act on the part of BACC or Borrower.

4.2 Negotiable Collateral. In the event that any Collateral, including proceeds, is evidenced by or consists of Negotiable Collateral, Borrower shall notify BACC and upon the request of BACC, immediately endorse and assign such Negotiable Collateral to BACC and deliver physical possession of such Negotiable Collateral to BACC.

4.3 Delivery of Additional Documentation Required. Borrower shall execute and deliver to BACC concurrently with Borrower's execution and delivery of this Agreement and at any time thereafter at the request of BACC, all financing statements, continuation financing statements, fixture filings, security agreements, chattel mortgages, pledges, assignments, endorsements of certificates of title, applications for title, affidavits, reports, notices, schedules of accounts, letters of authority, and all other documents that BACC may request, in form satisfactory to BACC, to perfect and maintain perfected BACC's continuing security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents and Borrower hereby authorizes BACC to file and/or record such financing statements and other documents as BACC deems necessary to perfect and maintain BACC's continuing security interest in the Collateral, and agrees any such financing statement may contain an "all asset" or "all property" description of the Collateral, and Borrower hereby ratifies any such financing statement or other document heretofore filed by BACC.

4.4 Power of Attorney. Borrower hereby irrevocably makes, constitutes and appoints BACC (and any person designated by BACC) as Borrower's true and lawful attorney-in-fact with power to sign the name of Borrower on any of the above described documents or on any other similar documents to be executed, recorded or filed in order to perfect or continue perfected BACC's continuing security interest in the Collateral. In addition, Borrower hereby appoints BACC (and any person designated by BACC) as Borrower's attorney-in-fact with power to: (a) sign Borrower's name on verifications of Accounts and other Collateral, and on notices to Account debtors; (b) send requests for verification of Accounts and other Collateral; (c) endorse Borrower's name on any checks, notes, acceptances, money orders, drafts or other forms of payment or security that may come into BACC's possession; (d) notify the post office authorities to change the address for delivery of Borrower's mail to an address designated by BACC, to receive and open all mail addressed to Borrower, and to retain all mail relating to the Collateral and forward all other mail to Borrower; (e) make, settle and adjust all claims under Borrower's policies of insurance, endorse the name of Borrower on any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and make all determinations and decisions with respect to such policies of insurance. The appointment of BACC as Borrower's attorney-in-fact and each and every one of BACC's rights and powers, being coupled with an interest, is irrevocable so long as any Accounts in which BACC has a continuing security interest remain unpaid and until all of the Obligations have been fully repaid and performed.

4.5 Right To Inspect. BACC shall have the right at any time or times hereafter during Borrower's usual business hours, or during the usual business hours of any third party having control over Borrower's Books, to inspect Borrower's Books in order to verify the amount or condition of, or any other matter relating to, the Collateral or Borrower's financial condition. BACC also shall have the right at any time or times hereafter during Borrower's usual business hours to inspect, examine and appraise the Inventory, the Equipment and other Collateral and to check and test the same as to quality, quantity, value and condition.

5. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to BACC the following and acknowledges:

5.1 No Prior Encumbrances; Security Interests. Borrower has good and marketable title to the Collateral, free and clear of liens, claims, security interests or encumbrances, except for the security interests to be satisfied from the proceeds of the first Advances hereunder, the continuing security interests granted to BACC by Borrower, and those disclosed on Schedule 5.1 annexed hereto. Other than those expressly permitted by this Agreement, Borrower will not create or permit to be created any security interest, lien, pledge, mortgage or encumbrance on any Collateral or any of its other assets.

5.2 Bona Fide Accounts. All Accounts represent bona fide sales or leases of goods and/or services for which Borrower has an unconditional right to payment and as to which the goods have been delivered to the customer and/or the services rendered, as applicable. None of the Accounts are subject to any rights of offset, counterclaim, cancellation or contractual rights of return.

5.3 Merchantable Inventory. All Inventory is now and at all times hereafter shall be of good and merchantable quality, free from defects.

5.4 Location of Inventory and Equipment. The Inventory and Equipment is not now and shall not at any time or times hereafter be stored with a bailee, warehouseman, processor, or similar party. Borrower shall keep the Inventory and Equipment only at its address set forth on the first page hereof and at the following locations: 1) Valley Distributing & Storage, Co. - 1 Passan Drive, Wilkes-Barre, PA 18702, 2) Dart Advantage Warehousing, Inc. - 2755 Highway 55, Egan MN 55121, 3) Lagrou Des Plaines - 135 S. Lasalle, Dept 2319, Chicago, IL 60674, 4) United Warehouse - 1750 Occidental Avenue, Seattle, WA 98124, 5) The Lion Brewery, Inc. 700 N Pennsylvania Avenue, Wilkes-Barre, PA 18705, 6) Prism Team Services - 33300 Dowe Avenue, Union City, CA 94587, 7) Ronnybrooke Farm Dairy, Inc. - 310 Prospect Hill Rd., Ancramdale, NY 12503, 8) HA Rider & Sons - 2482 Freedom Blvd, Watsonville, CA 95076, 9) Radex Distribution - 1430 S. Eastman Avenue, Los Angeles, CA 90023, 10) LNS Transport Services - 11321 Satellite Blvd, Suite C, Orlando, FL 32837, 11) US Cold Storage - 33400 Dowe Avenue, Union City, CA 94587, and 12) Gamse Lithographing Co., Inc. - 7413 Pulaski Highway, Baltimore, MD 21237.

5.5 Inventory Records. Borrower now keeps and hereafter at all times shall keep correct and accurate records itemizing and describing the kind, type, quality and quantity of the Inventory and Borrower's cost of said items and none of Borrower's Inventory contains any labels, trademarks, trade-names or other identifying characteristics which are the properties of third parties.

5.6 Retail Accounts. No Accounts arise from the sale of goods or rendition of services for personal, family or household purposes.

5.7 Relocation of Chief Executive Office. The chief executive office of Borrower and the location of all books and records of Borrower relating to the Collateral is at the address indicated on the first page of this Agreement and Borrower will not, without thirty (30) days' prior written notice to BACC and compliance with Section 4.3 hereof, relocate such office.

5.8 Due Incorporation and Qualification. Borrower is, and shall at all times hereafter, be a corporation duly organized and existing under the laws of the state of its incorporation as set forth on the first page hereof, and Borrower is, and shall at all times hereafter be, qualified and licensed to do business and is in good standing in any state in which the conduct of its business or its ownership of assets requires that it be so qualified.

5.9 Fictitious Name. Borrower's exact name is set forth on the first page hereof and Borrower has not changed its name in the last five (5) years. Borrower is conducting its business under the following trade or fictitious name(s) and no others: Virgil's, Virgil's Rootbeer and Cream Sodas, Reed's, Reed's Spiced Apple Ciders and Brews, Reed's Ginger Brew, Reed's Ginger Juice Brew, Reed's Original Ginger Brew, Reed's Ginger Candies, and China Cola. Borrower has complied with the fictitious name laws of all jurisdictions in which compliance is required in connection with its use of such name(s).

5.10 Permits and Licenses. Borrower holds all licenses, permits, franchises, approvals and consents required for the conduct of its business and the ownership and operation of its assets.

5.11 Due Authorization. Borrower has the right and power and is duly authorized to enter into the Loan Documents to which it is a party.

5.12 Compliance with Articles; Bylaws. The execution by Borrower of the Loan Documents to which it is a party does not constitute a breach of any provision contained in Borrower's Certificate or Articles of Incorporation or its Bylaws, nor does it constitute an event of default under any material agreement to which Borrower is now or may hereafter become a party.

5.13 Litigation. There are no actions, proceedings or claims pending by or against Borrower, whether or not before any court or administrative agency and Borrower has no knowledge or notice of any pending, threatened or imminent litigation, governmental investigations, or claims, complaints, actions, or prosecutions involving Borrower, except for ongoing collection matters in which Borrower is the plaintiff. If any such actions, proceedings or claims presently exist or arise during the Term, Borrower shall promptly notify BACC in writing and shall, from time to time, notify BACC of all materials events relating thereto.

5.14 Accuracy of Information and No Material Adverse Change in Financial Statements. All information furnished by Borrower to BACC and all statements made by Borrower to BACC, including, without limitation, information set forth in a loan applications, is true, accurate and complete in all respects and does not contain any misstatement of fact or omit to state any facts necessary to make the statements or information contained therein not misleading. All financial statements relating to Borrower which have been or may hereafter be delivered to BACC (i) have been prepared in accordance with GAAP; (ii) fairly present Borrower's financial condition as of the date thereof and Borrower's results of operations for the period then ended; and (iii) disclose all contingent obligations of Borrower. In addition no material adverse change in the financial condition of Borrower has occurred since the date of the most recent of such financial statements.

5.15 Solvency. Borrower is now, and shall be at all times through the Term, solvent and able to pay its debts (including trade debts) as they mature.

5.16 ERISA. Neither Borrower or any ERISA Affiliate, nor any Plan is or has been in violation of any of the provisions of ERISA, any of the qualification requirements of IRC Section 401(a), or any of the published interpretations thereof. No lien upon the assets of Borrower has arisen with respect to any Plan. No *prohibited transaction* within the meaning of ERISA Section 406 or IRC Section 4975(c) has occurred with respect to any Plan. Neither Borrower nor any ERISA Affiliate has incurred any withdrawal liability with respect to any Multiemployer Plan. Borrower and each ERISA Affiliate have made all contributions required to be made by them to any Plan or Multiemployer Plan when due. There is no accumulated funding deficiency in any Plan, whether or not waived.

5.17 Environmental Laws and Hazardous Materials. Borrower has complied, and at all times through the Term will comply, with all Environmental Laws. Borrower has not and will not cause or permit any Hazardous Materials to be located, incorporated, generated, stored, manufactured, transported to or from, released, disposed of, or used at, upon, under, or within any premises at which Borrower conducts its business, or in connection with Borrower's business. To the best of Borrower's knowledge, no prior owner or operator of any premises at which Borrower conducts its business has caused or permitted any of the above to occur at, upon, under, or within any of the premises. Borrower will not permit any lien to be filed against the Collateral or any part thereof under any Environmental Law, and will promptly notify BACC of any proceeding, inquiry or claim relating to any alleged violation of any Environmental Law, or any alleged loss, damage or injury resulting from any Hazardous Material. BACC shall have the right to join and participate in, as a party if it so elects, any legal or administrative proceeding initiated with respect to any Hazardous Material or in connection with any Environmental Law. "Hazardous Material" includes without limitation any substance, material, emission, or waste which is or hereafter becomes regulated or classified as a hazardous substance, hazardous material, toxic substance or solid waste under any Environmental Law, asbestos, petroleum products, urea formaldehyde, polychlorinated biphenyls (PCBs), radon, and any other hazardous or toxic substance, material, emission or waste. Environmental Law means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, the Resource Conservation and Recovery Act of 1976, the Hazardous Materials Transportation Act, the Toxic Substances Control Act, the regulations pertaining to such statutes, and any other safety, health or environmental statutes, laws, regulations or ordinances of the United States or of any state, county or municipality in which Borrower conducts its business or the Collateral is located.

5.18 Tax Compliance. Borrower has filed all tax returns required to be filed by it and has paid all taxes due and payable on said returns and on any assessment made against it or its assets.

5.19 Reliance by BACC; Cumulative. Each warranty, representation and agreement contained in this Agreement shall be automatically deemed repeated by Borrower with each request for an Advance and shall be conclusively presumed to have been relied on by BACC regardless of any investigation made or information possessed by BACC. The warranties, representations and agreements set forth herein shall be cumulative and in addition to any and all other warranties, representations and agreements which Borrower shall now or hereafter give, or cause to be given, to BACC.

5.20 Use of Proceeds. The proceeds of the initial Advance will be used by Borrower for the purposes set forth on Schedule 5.20 annexed hereto.

5.21 Motor Vehicles and Intellectual Property. Schedule 5.21 annexed hereto identifies all motor vehicles, patents, patent applications, copyrights, trademarks, trade-names and other intellectual property, registered or unregistered, owned by Borrower. Borrower will promptly notify BACC of all motor vehicles or intellectual property hereafter owned by Borrower, and the status of all patent applications and the issuance of patents, and in accordance with Section 4.3 hereof, will cooperate with BACC in taking all actions required by BACC to have a perfected security interest or lien on such motor vehicles and intellectual property.

5.22 Commercial Tort Claims. Borrower does not, as of the date hereof, have any commercial tort claims against any third parties. If Borrower does hereafter have any such commercial tort claims Borrower shall furnish BACC with prompt written notice thereof, and in accordance with Article 4 hereof, execute and deliver such supplemental documents and cooperate with BACC in taking all action required by BACC to have a perfected security interest or lien on such commercial tort claims.

6. AFFIRMATIVE COVENANTS

Borrower covenants and acknowledges that during the Term Borrower shall comply with all of the following:

6.1 Collateral and Other Reports. Borrower shall on each Business Day report to BACC all sales and Accounts arising since its most recent report to BACC and shall provide copies of all invoices in excess of Four Thousand Dollars (\$4,000) together with supporting shipping documentation acceptable to BACC. Borrower shall execute and deliver to BACC, no later than the fifteenth (15th) day of each month during the Term, a detailed aging of the Accounts, a reconciliation statement and a summary aging, by vendor, of all accounts payable of Borrower and any book overdraft. Borrower shall deliver to BACC, as BACC may from time to time require, collection reports, sales journals, invoices, original delivery receipts, customers' purchase orders, shipping instructions, bills of lading and other documentation respecting shipment arrangements. Absent such a request by BACC, copies of all such documentation shall be held by Borrower as custodian for BACC.

6.2 Returns. Returns and allowances, if any, as between Borrower and any Account debtors, shall be permitted on the same basis and in accordance with the usual customary practices of Borrower as they exist at the date of the execution and delivery of this Agreement. If at any time prior to the occurrence of an Event of Default any Account debtor returns any Inventory to Borrower, Borrower shall promptly determine the reason for such return and, if Borrower accepts such return, issue a credit memorandum (with a copy to be sent to BACC) in the appropriate amount to such Account debtor. Borrower shall promptly notify BACC of all returns and recoveries and of all disputes and claims.

6.3 Designation of Inventory. Borrower shall contemporaneous with the execution hereof and from time to time hereafter, but not less frequently than monthly by the fifteenth of each month, execute and deliver to BACC a designation of Inventory specifying the cost and the wholesale market value of Borrower's raw materials, work in process and finished goods, and further specifying such other information as BACC may reasonably request. Borrower shall promptly, in writing, notify BACC if any of Borrower's Inventory contains any labels, trademarks, trade-names or other identifying characteristics which are the properties of third parties.

6.4 Financial Statements, Reports, Certificates. Borrower shall deliver to BACC: (a) as soon as available, but in any event within thirty (30) days after the end of each month during the Term, a balance sheet and profit and loss statement prepared by Borrower covering Borrower's operations during such period; and (b) as soon as available, but in any event within ninety (90) days after the end of each of Borrower's fiscal years, financial statements of Borrower for each such fiscal period, reviewed or audited by independent certified public accountants acceptable to BACC. Such financial statements shall include a balance sheet and profit and loss statement, and the accountants' management letter, if any, and shall be prepared in accordance with GAAP. Together with the above, Borrower shall also deliver Borrower's Form 10-Qs, 10-Ks or 8-Ks, if any, as soon as the same become available, and any other report reasonably requested by BACC relating to the Collateral and the financial condition of Borrower and a certificate signed by its chief financial officer to the effect that all reports, statements or computer prepared information of any kind or nature delivered or caused to be delivered to BACC under this Section 6.4 fairly present its financial condition and that there exists on the date of delivery of such certificate to BACC no condition or event which constitutes an Event of Default.

6.5 Tax Returns, Receipts. Borrower shall deliver to BACC copies of each of its future federal income tax returns, and any amendments thereto, within thirty (30) days of the filing thereof. Borrower further shall promptly deliver to BACC, upon request, satisfactory evidence of Borrower's payment of all withholding and other taxes required to be paid by it.

6.6 Guarantor Reports. Borrower agrees to cause each Guarantor to deliver its annual financial statements and copies of all federal income tax returns as soon as the same are available and in any event no later than thirty (30) days after the same are required to be filed by law.

6.7 Title to Equipment. Upon BACC's request, Borrower shall immediately deliver to BACC, properly endorsed, any and all evidences of ownership of, certificates of title, or applications for title to any items of Equipment.

6.8 Maintenance of Equipment. Borrower shall keep and maintain the Equipment in good operating condition and repair, and shall make all necessary replacements thereto so that its value and operating efficiency shall at all times be maintained and preserved. Borrower shall not permit any item of Equipment to become a fixture to real estate or an accession to other property, and the Equipment is now and shall at all times remain Borrower's personal property.

6.9 Taxes. All Federal, state and local assessments and taxes, whether real, personal or otherwise, due or payable by, or imposed, levied or assessed against Borrower or any of its assets or in connection with Borrower's business shall hereafter be paid in full, before they become delinquent or before the expiration of any extension period. Borrower shall make due and timely payment or deposit of all federal, state and local taxes, assessments or contributions required of it by law, and will execute and deliver to BACC, on demand, appropriate certificates attesting to the payment or deposit thereof.

6.10 Insurance. Borrower, at its expense, shall keep and maintain insurance to protect the Collateral against all risk of loss covered under a Special property form (If any of the tangible Collateral is located in a flood zone, Borrower must also have flood insurance. Borrowers with Collateral in California must also insure against the peril of earthquakes.) The coverage shall be written on a replacement cost basis. The property limit(s) shall be no less than those necessary to satisfy the coinsurance requirement contained in the insurance policy. The Borrower, at its expense, shall keep and maintain Business Income Coverage. The Business Income Coverage shall insure against loss covered under a Special policy form. The limit must contemplate a benefit period of no less than twelve months and meet the minimum limit needed to satisfy the coinsurance requirement contained in the policy. The Business Income coverage can be written on an agreed amount basis, or with a coinsurance percentage from 80% to 100%. All policies insuring business personal property and business income shall contain a Lender's Loss Payable endorsement in a form satisfactory to BACC. All policies insuring real property on which BACC has a mortgage or other lien shall contain a Mortgagee endorsement in form satisfactory to BACC. Either, or both, form(s) shall contain a waiver of warranties. All proceeds payable under such policies shall be payable to BACC and applied to the Obligations. Borrower shall cause to be delivered to BACC a properly executed Evidence of Property Insurance form along with a copy of the Lender's Loss Payable and/or Mortgagee endorsement(s) as applicable, in advance of the loan closing date and thereafter at least thirty (30) days prior to the expiration date(s) of the policy(ies). All Mortgagee and Lender's Loss Payable endorsements shall contain the following address for notification purposes, or such other address as BACC may, from time to time, notify Borrower:

Business Alliance Capital Corp.
c/o Howe Insurance Group
P.O. Box 48
Princeton, New Jersey 08542

Borrower, at its expense, shall keep and maintain Commercial General Liability Coverage insuring against all risks relating to or arising from Borrower's ownership and use of the Collateral and its other assets, its products, and its operations. BACC, its directors, officers and employees shall be named as additional insureds for Commercial General Liability on Borrower's policy. Borrower shall cause to be delivered to BACC a properly executed Certificate of Insurance, containing the required additional insured wording, before the loan closing and thereafter at least thirty (30) days prior the expiration date of the policy. Along with the Certificate of Insurance, Borrower shall also deliver a copy of the General Liability endorsement whereby BACC, et. al., are added to the policy as additional insureds.

All required policies shall be in such form, with such companies and in such amounts as may be satisfactory to BACC. All policies shall contain a 30 day notice for cancellation or non-renewal. BACC reserves the right to change insurance specifications at any time.

6.11 BACC Expenses. Borrower shall immediately and without demand reimburse BACC for all BACC Expenses and Borrower hereby authorizes the payment of such BACC Expenses.

6.12 Compliance With Law. Borrower shall comply, in all material respects, with the requirements of all applicable laws, rules, regulations and orders of governmental authorities relating to Borrower and the conduct of its business.

6.13 Accounting System. Borrower at all times hereafter shall maintain a standard and modern system of accounting in accordance with GAAP with ledger and account cards or computer tapes, disks, printouts and records pertaining to the Collateral containing such information as may from time to time be requested by BACC.

6.14 Life Insurance. [Intentionally omitted.]

7. NEGATIVE COVENANTS

Borrower covenants and acknowledges that during the Term Borrower shall not undertake any of the following:

7.1 Extraordinary Transactions and Disposal of Assets. Enter into any transaction not in the ordinary and usual course of its business as conducted on the date hereof, including but not limited to the sale, lease, disposal, movement, relocation or transfer, whether by sale or otherwise, of any its assets other than sales of Inventory in the ordinary and usual course of its business as presently conducted; incur any indebtedness for borrowed money or purchase money indebtedness, or other indebtedness outside the ordinary and usual course of its business as conducted on the date hereof, except for renewals or extensions of existing debts permitted by BACC; make any advance or loan to any third party; or grant a lien on any of its assets except (a) in favor of BACC, or (b) the continuing security interests, if any, set forth on Schedule 5.1.

7.2 Change Name, etc. Change its name, business structure, jurisdiction of incorporation or formation as applicable, or identity, or add any new fictitious name.

7.3 Merge, Acquire. Merge, acquire, or consolidate with or into any other business organization.

7.4 Guaranty. Guaranty or otherwise become in any way liable with respect to the obligations of any third party, except by endorsement of instruments or items of payment for deposit to the account of Borrower for negotiation and delivery to BACC.

7.5 Restructure. Make any change in its financial structure or business operations.

7.6 Prepayments. Except in accordance with Section 7.15, prepay any existing indebtedness owing to any third party other than trade payables.

7.7 Change of Ownership. Cause, permit or suffer any change, direct or indirect, in the ownership of the capital stock of Borrower or enter into any agreement with any person or entity that provides for a payment to such person or entity based upon the income of Borrower. Notwithstanding the foregoing, BACC consents to that certain proposed initial public offering by Borrower as set forth in Form SB-2 filed with the Securities and Exchange Commission on April 28, 2005, provided that the actual initial public offering: (i) will be upon terms and conditions (including economic terms) that are materially consistent with the Form SB-2 and information previously provided to BACC, and (ii) following the consummation of the initial public offering that Christopher Reed's ownership will be no less than 48% of the capital stock of Borrower.

7.8 Compensation. Except in accordance with Section 7.15, pay total compensation, including salaries, withdrawals, fees, bonuses, commissions, drawing accounts, management fees or other payments, whether direct or indirect, in money or otherwise, during any fiscal year to its executives, officers, shareholders, affiliates, and directors (or any relatives of the foregoing) in an aggregate amount in excess of one hundred ten percent (110%) of the total compensation paid in the prior fiscal year.

7.9 Loans and Advances. Except in accordance with Section 7.15, make any loans, advances or extensions of credit to any officer, director, executive employee or shareholder of Borrower (or any relative of any of the foregoing), or to any entity which is a subsidiary of, related to, affiliated with or has common shareholders, officers or directors with Borrower.

7.10 Capital Expenditures. Except in accordance with Section 7.15, make any plant or fixed capital expenditure, or any commitment therefore, or purchase or lease any real or personal assets or replacement Equipment in excess of Ten Thousand Dollars (\$10,000.00) for any individual transaction or where the aggregate amount of such transactions in any fiscal year exceeds Twenty Five Thousand Dollars (\$25,000.00).

7.11 Consignments of Inventory. Consign any Inventory to any third party or obtain any Inventory on a consignment basis from any third party, other than Inventory disclosed by Borrower and considered ineligible by BACC.

7.12 Distributions. Except in accordance with Section 7.15, make any distribution or declare or pay any dividends (in cash or in stock) on, or purchase, acquire, redeem or retire any of its capital stock, of any class, whether now or hereafter outstanding.

7.13 Accounting Methods. Modify or change its method of accounting or enter into, modify or terminate any agreement presently existing or at any time hereafter entered into with any third party for the preparation or storage of Borrower's records of Accounts and financial condition without said party agreeing to provide BACC with information regarding the Collateral or Borrower's financial condition. Borrower waives the right to assert a confidential relationship, if any, it may have with any such third party in connection with any information requested by BACC hereunder, and agrees that BACC may contact any such party directly in order to obtain such information.

7.14 Business Suspension. Suspend or go out of business.

7.15 Payments from Cash Flow. In addition to the amounts, if any, set forth in Sections 7.6, 7.8, 7.9, 7.10 and 7.12, Borrower can make payments that, in aggregate, do not exceed Borrower's "cash flow" (defined as net after-tax profit plus depreciation and amortization expenses plus any net cash proceeds from the sale of stock pursuant to the initial public offering less the current portion of long term debt) for the fiscal year in which such payments are made so long as: (a) no Event of Default has occurred and is continuing, (b) Borrower is solvent and able to pay its debts (including trade debts) as they mature, and (c) Borrower has borrowing availability under Section 2.1 after the making of any such payment.

8. EVENTS OF DEFAULT

The occurrence of any one or more of the following events shall constitute an Event of Default by Borrower hereunder:

8.1 Failure to Pay. Borrower's failure to pay when due and payable, or when declared due and payable, any portion of the Obligations (whether principal, interest, taxes, BACC Expenses, or otherwise);

8.2 Failure to Perform. Borrower's or a Guarantor's failure to perform, keep or observe any term, provision, condition, representation, warranty, covenant or agreement contained in this Agreement, in any of the Loan Documents or in any other present or future agreement between Borrower, and/or a Guarantor and BACC;

8.3 Misrepresentation. Any misstatement or misrepresentation now or hereafter exists in any warranty, representation, statement, aging or report made to BACC by, Borrower and/or a Guarantor or any officer, employee, agent or director thereof, or if any such warranty, representation, statement, aging or report is withdrawn by such person;

8.4 Material Adverse Change. There is a material adverse change in Borrower's, or a Guarantor's, business or financial condition;

8.5 Material Impairment. There is a material impairment of the prospect of repayment of the Obligations or a material impairment of BACC's continuing security interests in the Collateral;

8.6 Levy or Attachment. Any material portion of Borrower's assets is attached, seized, subjected to a writ or distress warrant or is levied upon, or comes into the possession of any judicial officer or assignee;

8.7 Insolvency by Borrower or Guarantor. An Insolvency Proceeding is commenced by Borrower or by a Guarantor;

8.8 Insolvency Against Borrower. An Insolvency Proceeding is commenced against Borrower or a Guarantor;

8.9 Injunction Against Borrower. Borrower is enjoined, restrained or in any way prevented by court order from continuing to conduct all or any material part of its business;

8.10 Government Lien. A notice of lien, levy or assessment is filed of record with respect to any of Borrower's or a Guarantor's assets by the United States Government, or any department, agency or instrumentality thereof, or by any state, county, municipal or other governmental agency, or any taxes or debts owing at any time hereafter to any one or more of such entities becomes a lien, whether choate or otherwise, upon any of Borrower's or a Guarantor's assets and the same is not paid on the payment date thereof;

8.11 Judgment. A judgment is entered against Borrower or a Guarantor;

8.12 Default to Third Party. There is a default in any material agreement to which Borrower or a Guarantor is a party or by which binds Borrower or a Guarantor or any of their assets;

8.13 Subordinated Debt Payments. Borrower makes any payment on account of indebtedness which has now or hereafter been subordinated to the Obligations, except to the extent such payment is allowed under any subordination agreement entered into with BACC;

8.14 Termination of Guarantor. A Guarantor dies or terminates its guaranty;

8.15 Change in Management. If Christopher Reed ceases to be actively engaged in the management of Borrower;

8.16 ERISA Violation. A *prohibited transaction* within the meaning of ERISA Section 406 or IRC Section 1975(c) shall occur with respect to a Plan which could have a material adverse effect on the financial condition of Borrower; any lien upon the assets of Borrower in connection with any Plan shall arise; Borrower or any ERISA Affiliate shall completely or partially withdraw from a Multiemployer Plan and such withdrawal could, in the opinion of BACC, have a material adverse effect on the financial condition of Borrower. Borrower or any of its ERISA Affiliates shall fail to make full payment when due of all amounts which Borrower or any of its ERISA Affiliates may be required to pay to any Plan or any Multiemployer Plan as one or more contributions thereto; Borrower or any of its ERISA Affiliates creates or permits the creation of any accumulated funding deficiency, whether or not waived; the voluntary or involuntary termination of any Plan which termination could, in the opinion of BACC, have a material adverse effect on the financial condition of Borrower or Borrower shall fail to notify BACC promptly and in any event within ten (10) days of the occurrence of an event which constitutes an Event of Default under this clause or would constitute an Event of Default upon the exercise of BACC's judgment; or

8.17 Loss of License, etc. If any license, permit, distributor, franchise or similar agreement, necessary for the continue operation of Borrower's ordinary course of business is revoked, suspended or terminated.

Notwithstanding anything contained in this Section 8 to the contrary, BACC shall refrain from exercising its rights and remedies and an Event of Default shall not be deemed to have occurred by reason of the occurrence of any of the events set forth in Sections 8.6, 8.8, 8.10 or 8.11 hereof if, within ten (10) days from the date thereof, the same is released, discharged, dismissed, bonded against or satisfied; provided, however, BACC shall not be obligated to make Advances to Borrower during such period.

9. BACC'S RIGHTS AND REMEDIES

9.1 Rights and Remedies. Upon the occurrence of an Event of Default, BACC may, at its election, without notice of such election and without demand, do any one or more of the following:

- (a) Declare all Obligations, whether evidenced by the Loan Documents or otherwise, immediately due and payable in full;
- (b) Cease advancing money or extending credit to or for the benefit of Borrower under the Loan Documents or under any other agreement between Borrower and BACC;
- (c) Terminate this Agreement as to any future liability or obligation of BACC, but without affecting BACC's rights and security interest in the Collateral and without affecting the Obligations;
- (d) Settle or adjust disputes and claims directly with Account debtors for amounts and upon terms which BACC considers advisable and, in such cases, BACC will credit the Obligations with the net amounts received by BACC in payment of such disputed Accounts, after deducting all BACC Expenses;
- (e) Cause Borrower to hold all returned Inventory in trust for BACC, segregate all returned Inventory from all other property of Borrower or in Borrower's possession and conspicuously label said returned Inventory as the property of BACC;
- (f) Without notice to or demand upon Borrower or a Guarantor, make such payments and do such acts as BACC considers necessary or reasonable to protect its security interest in the Collateral. Borrower shall assemble the Collateral if BACC so requires and deliver or make the Collateral available to BACC at a place designated by BACC. Borrower authorizes BACC to enter any premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest or compromise any encumbrance, charge or lien which in BACC's determination appears to be prior or superior to its security interest and to pay all expenses incurred in connection therewith;
- (g) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, lease, license or other disposition, advertise for sale, lease, license or other disposition, and sell, lease, license or otherwise dispose (in the manner provided for herein or in the Code) the Collateral. BACC is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any asset of a similar nature, pertaining to the Collateral, in completing the production of, advertising for sale, lease, license or other disposition, and sale, lease, license or other disposition of the Collateral. Borrower's rights under all licenses and all franchise agreements shall inure to BACC's benefit;

(h) Sell, lease, license or otherwise dispose of the Collateral at either a public or private proceeding, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as BACC determines is commercially reasonable. It is not necessary that the Collateral be present at any such sale;

(i) BACC shall give notice of the disposition of the Collateral as follows:

(1) To Borrower and each holder of a security interest in the Collateral who has filed with BACC a written request for notice, a notice in writing of the time and place of public sale or other disposition or, if the sale or other disposition is a private sale or some other disposition other than a public sale is to be made, then the time on or after which the private sale or other disposition is to be made;

(2) The notice hereunder shall be personally delivered or mailed, postage prepaid, to Borrower as provided in Section 12 hereof, at least ten (10) calendar days before the date fixed for the sale or other disposition, or at least ten (10) calendar days before the date on or after which the private sale or other disposition is to be made, unless the Collateral is perishable or threatens to decline speedily in value. Notice to persons other than Borrower claiming an interest in the Collateral shall be sent to such addresses as they have furnished to BACC;

(j) BACC may credit bid and purchase at any public sale:

(k) Any deficiency that exists after disposition of the Collateral, as provided herein, shall be immediately paid by Borrower. Any excess will be remitted without interest by BACC to the party or parties legally entitled to such excess; and

(l) In addition to the foregoing, BACC shall have all rights and remedies provided by law (including those set forth in the Code) and any rights and remedies contained in any Loan Documents and all such rights and remedies shall be cumulative.

9.2 No Waiver. No delay on the part of BACC in exercising any right, power or privilege under any Loan Document shall operate as a waiver, nor shall any single or partial exercise of any right, power or privilege under such Loan Documents or otherwise, preclude other or further exercise of any such right, power or privilege.

10. TAXES AND EXPENSES REGARDING THE COLLATERAL.

If Borrower fails to pay any monies (whether taxes, assessments, insurance premiums or otherwise) due to third persons or entities, or fails to make any deposits or furnish any required proof of payment or deposit, or fails to perform any of Borrower's other covenants under any of the Loan Documents, then in its discretion and without prior notice to Borrower, BACC may do any or all of the following: (a) make any payment which Borrower has failed to pay or any part thereof; (b) set up such reserves in Borrower's loan account as BACC deems necessary to protect BACC from the exposure created by such failure; (c) obtain and maintain insurance policies of the type described in Section 6.10 hereof and take any action with respect to such policies as BACC deems prudent; or (d) take any other action deemed necessary to preserve and protect its interests and rights under the Loan Documents. Any payments made by BACC shall not constitute: (a) an agreement by BACC to make similar payments in the future or (b) a waiver by BACC of any Event of Default. BACC need not inquire as to, or contest the validity of, any such expense, tax, security interest, encumbrance or lien and the receipt of notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

11. WAIVERS

11.1 Demand, Protest. Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, and notice of nonpayment at maturity and acknowledges that BACC may compromise, settle or release, without notice to Borrower, any Collateral and/or guaranties at any time held by BACC. Borrower hereby consents to any extensions of time of payment or partial payment at, before or after the Termination Date.

11.2 No Marshaling. Borrower, on its own behalf and on behalf of its successors and assigns hereby expressly waives all rights, if any, to require a marshaling of assets by BACC or to require that BACC first resort to some portion(s) of the Collateral before foreclosing upon, selling or otherwise realizing on any other portion thereof.

11.3 BACC's Non-Liability for Inventory or Equipment or for Protection of Rights. So long as BACC complies with its obligations, if any, under Section 9-207 of the Code, BACC shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Inventory or Equipment; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency or other person whomsoever. All risk of loss, damage or destruction of the Inventory or Equipment shall be borne by Borrower. BACC shall have no obligation to protect any rights of Borrower against any person obligated on any Collateral.

11.4 Limitation of Damages. In any action or other proceeding against BACC under this Agreement or relating to the transactions between BACC and Borrower, Borrower waives the right to seek any consequential or punitive damages.

12. NOTICES

Unless otherwise provided herein, all consents, waivers, notices or demands by any party relating to the Loan Documents shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be telecopied (followed up by a mailing), personally delivered or sent by registered or certified mail, postage prepaid, return receipt requested, or by receipted overnight delivery service to Borrower or to BACC, as the case may be, at their addresses set forth below

If to Borrower: Reed's, Inc.
13000 South Spring Street
Los Angeles, California 90061
Attn: Christopher Reed
Fax # (310) 217-9411

If to BACC: Business Alliance Capital Corp.
800 Wilshire Boulevard, Suite 700
Los Angeles, California 90071
Attn: Jeffrey B. Lizar, Senior Vice President
Fax # (213) 624-9676

Any party may change the address at which it is to receive notices hereunder by notice in writing in the foregoing manner given to the other. All notices or demands sent in accordance with this Section 12 shall be deemed received on the earlier of the date of actual receipt or five (5) calendar days after the deposit thereof in the mail or on the date telecommunicated if telecopied.

13. DESTRUCTION OF BORROWER'S DOCUMENTS

All documents, schedules, invoices, agings or other papers delivered to BACC may be destroyed or otherwise disposed of by BACC four (4) months after they are delivered to or received by BACC, unless Borrower requests, in writing, the return of the said documents, schedules, invoices or other papers and makes arrangements, at Borrower's expense, for their return.

14. GENERAL PROVISIONS

14.1 Effectiveness. This Agreement shall be binding and deemed effective when executed by Borrower and executed and delivered by BACC.

14.2 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that Borrower may not assign this Agreement or any rights hereunder and any prohibited assignment shall be absolutely void. No consent to an assignment by BACC shall release Borrower from its Obligations. Without notice to or the consent of Borrower, BACC may assign this Agreement and its rights and duties hereunder and BACC reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in BACC's rights and benefits hereunder. In connection therewith, BACC may disclose all documents and information which BACC now or hereafter may have relating to Borrower or Borrower's business. Borrower hereby consents to, and authorizes BACC to, prepare and distribute a "tombstone", to issue a press release, or otherwise disseminate information to newspapers, trade journals, and other sources, describing the nature of, and closing of the credit facilities provided for herein, which may include Borrower's name as well as other general information about Borrower and the credit facilities. Borrower and BACC do not intend any of the benefits of the Loan Documents to inure to any third party, and no third party shall be a third party beneficiary hereof or thereof.

14.3 Section Headings. Headings and numbers have been set forth herein for convenience only.

14.4 Interpretation. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against BACC or Borrower, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each party and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of the parties hereto.

14.5 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of such provision.

14.6 Amendments in Writing. This Agreement cannot be changed or terminated orally. This Agreement is the entire agreement between the parties with respect to the matters contained herein. This Agreement supersedes all prior agreements, understandings and negotiations, if any, all of which are merged into this Agreement.

14.7 Counterparts. This Agreement may be executed in any number of counterparts each of which, when executed and delivered, shall be deemed to be an original and all of which, when taken together, shall constitute but one and the same Agreement.

14.8 Indemnification. Borrower hereby indemnifies, protects, defends and saves harmless BACC and any member, officer, director, official, agent, employee and attorney of BACC, and their respective heirs, successors and assigns (collectively, the "Indemnified Parties"), from and against any and all losses, damages, expenses or liabilities of any kind or nature and from any suits, claims or demands, including reasonable counsel fees incurred in investigating or defending such claim, suffered by any of them and caused by, relating to, arising out of, resulting from, or in any way connected with the Loan Documents and the transactions contemplated therein or the Collateral (unless caused by the gross negligence or willful misconduct of the Indemnified Parties) including, without limitation: (a) losses, damages, expenses or liabilities sustained by BACC in connection with any environmental cleanup or other remedy required or mandated by any Environmental Law; (b) any untrue statement of a material fact contained in information submitted to BACC by Borrower or a Guarantor or the omission of any material fact necessary to be stated therein in order to make such statement not misleading or incomplete; (c) the failure of Borrower or a Guarantor to perform any obligations required to be performed by Borrower or a Guarantor under the Loan Documents; and (d) the ownership, construction, occupancy, operations, use and maintenance of any of Borrower's or a Guarantor's assets. The provisions of this paragraph 14.8 shall survive termination of this Agreement and the other Loan Documents.

14.9 Joint and Several Obligations; Dealings with Multiple Borrowers. If more than one person or entity is named as Borrower hereunder, all Obligations, representations, warranties, covenants and indemnities set forth in the Loan Documents to which such person or entity is a party shall be joint and several. BACC shall have the right to deal with any individual of any Borrower with regard to all matters concerning the rights and obligations of BACC and Borrower hereunder and pursuant to applicable law with regard to the transactions contemplated under the Loan Documents. All actions or inactions of the officers, managers, members and/or agents of any Borrower with regard to the transactions contemplated under the Loan Documents shall be deemed with full authority and binding upon all Borrowers hereunder. Each Borrower hereby appoints each other Borrower as its true and lawful attorney-in-fact, with full right and power, for purposes of exercising all rights of such person hereunder and under applicable law with regard to the transactions contemplated under the Loan Documents. The foregoing is a material inducement to the agreement of BACC to enter into this Agreement and to consummate the transactions contemplated hereby. The Borrowers represents they are operated as part of one consolidated business entity and are directly dependent upon each other for an in connection with their respective business activities financial resources. Each Borrower will receive a direct economic and financial benefit from the Obligations incurred under this Agreement and the incurrence of such Obligations is in the best interests of each Borrower.

15. CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER

THE VALIDITY OF THE LOAN DOCUMENTS, THEIR CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT AND THE RIGHTS OF THE PARTIES HERETO SHALL BE DETERMINED UNDER, GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THE LOAN DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE COURTS LOCATED IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, THE FEDERAL COURTS WHOSE VENUE INCLUDES THE STATE OF CALIFORNIA, OR AT THE SOLE OPTION OF BACC, IN ANY OTHER COURT IN WHICH BACC SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY. **BORROWER AND BACC EACH WAIVES, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, THE RIGHT TO A TRIAL BY JURY** IN ANY PROCEEDING UNDER THE LOAN DOCUMENTS OR RELATING TO THE DEALINGS OF BORROWER AND BACC AND ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF "FORUM NON CONVENIENS" OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 15.

Borrower and BACC have executed and delivered this Agreement at BACC's place of business in Los Angeles, California as of the date first above written.

REED'S, INC.
a Delaware corporation

Signed by: /s/ Christopher J. Reed
Print Name: Christopher J. Reed
Title/Capacity: Chief Executive Officer

BUSINESS ALLIANCE CAPITAL CORP.,
a Delaware corporation

Signed by: /s/ Jeffrey Lizar
Print Name: Jeffrey Lizar
Title/Capacity: Senior Vice President

AMENDMENT NUMBER ONE TO LOAN AND SECURITY AGREEMENT

This Amendment Number One to Loan and Security Agreement (this "Amendment") is entered into as of June 29, 2006, by and between **BUSINESS ALLIANCE CAPITAL COMPANY**, division of Sovereign Bank, as successor by merger to Business Alliance Capital Corp. ("BACC"), and **REED'S, INC.**, a Delaware corporation ("Borrower," and collectively with BACC, the "Parties"), with respect to the following:

RECITALS

A. Borrower and BACC have previously entered into that certain Loan and Security Agreement, dated as of June 3, 2005 (as previously and subsequently amended, restated, extended, renewed, replaced, or otherwise modified from time to time, the "Loan Agreement"), that certain Conditions Precedent Rider to Loan and Security Agreement, dated as of June 3, 2005 (as previously and subsequently amended, restated, extended, renewed, replaced, or otherwise modified from time to time, the "Conditions Precedent Rider, and collectively with the Loan Agreement, the "Agreement"), and certain documents related thereto (as defined in the Agreement, the "Loan Documents").

B. Borrower and BACC previously entered into that certain Term Loan Promissory Note, dated as of June 3, 2005, in the original principal amount of \$190,000 (the "Existing Term Note"), which Existing Term Note has an outstanding principal balance of \$152,000 as of the date this Note (the "Existing Term Loan"). Additionally, Maker and BACC previously entered into that certain Secured Term Promissory Note (Capital Expenditures), dated as of June 3, 2005, which provided Maker with the ability to borrow up to \$150,000 for capital expenditures (the "Existing CapEx Note"), which Existing CapEx Note has an outstanding principal balance of \$79,000 as of the date of this Note (the "Existing CapEx Loan"). Borrower and BACC desire to consolidate such Existing Term Loan and Existing CapEx Loan.

C. Borrower previously provided BACC with that certain Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing, dated as of June 3, 2005 (the "Deed of Trust"), which Deed of Trust BACC will release pursuant to the terms and conditions set forth below. Such Deed of Trust encumbers that certain real property located at 13000 South Spring Street, Los Angeles, California (the "Real Property").

D. The Parties desire to amend the Agreement and certain of the Loan Documents as provided for and on the conditions herein.

NOW, THEREFORE, the Parties hereby amend and supplement the Agreement as follows:

1. **DEFINITIONS.** All initially capitalized terms used in this Amendment shall have the meanings ascribed to such terms in the Agreement unless specifically defined herein.

2. **CONSOLIDATION OF EXISTING TERM LOANS.** The outstanding principal balances of the Existing Term Loan and the Existing CapEx Loan are hereby consolidated and repayment of same shall be governed by the terms and conditions of Section 2.12 of the Agreement and by the terms of that certain Consolidated Term Loan Promissory Note being entered into concurrently herewith, with the Existing Term Note and Existing CapEx Loan to be of no further force and effect, and with Borrower no longer having the ability to obtain capital expenditure loans under the Existing CapEx Note.

3. **AMENDMENTS.**

- (a) All references in the Agreement and the Loan Documents to "Business Alliance Capital Corp." shall be amended to read:

"Business Alliance Capital Company, division of Sovereign Bank, a federal savings bank (successor by merger to Business Alliance Capital Corp., a Delaware corporation), and its successors and assigns."

- (b) All references in the Agreement and Loan Documents to "BACC" shall be amended to mean:

"Business Alliance Capital Company, division of Sovereign Bank, a federal savings bank (successor by merger to Business Alliance Capital Corp., a Delaware corporation), and its successors and assigns."

- (c) Subparagraph (g) of the definition of "Eligible Accounts" set forth in Section 1.1 of the Agreement is amended to read as follows:

"(g) Accounts with respect to an Account debtor whose total obligations to Borrower exceed fifteen percent (15%) of all Accounts or such other percentage as BACC may agree to in writing as to a particular Account debtor (the applicable percentage, the "Concentration Percentage"), to the extent such obligations exceed the applicable Concentration Percentage, with the Concentration Percentages for Account debtors United National Foods, Inc. (and related affiliates, subsidiaries and branches) and Trader Joe's, to be forty percent (40%) and twenty percent (20%), respectively;"

- (d) A new definition of "Permitted IPO" is hereby added in alphabetical order to Section 1.1 as follows:

"*Permitted IPO* shall have the meaning attributed to same in Section 7.7 of the Agreement.

- (e) The definition of "Prime Rate" set forth in Section 1.1 of the Agreement is hereby amended in its entirety to read as follows:

"*Prime Rate* means that rate designated by Sovereign Bank, a federal savings bank, or any successor thereof, from time to time as its prime rate, which shall not necessarily constitute its lowest available rate."

- (f) A new definition of "Qualifying IPO" is hereby added in alphabetical order to Section 1.1 as follows:

"Qualifying IPO means the Permitted IPO, provided, that, the Permitted IPO raises at least \$3,500,000, excluding any amounts raised from persons (including Christopher Reed's brothers) or entities affiliated with Borrower and its management.

(g) The definition of "Termination Date" set forth in Section 1.1 of the Agreement is hereby amended to extend the stated termination date set forth therein from June 30, 2006 through June 30, 2007. The remainder of the definition of "Termination Date" remains unchanged and in full force and effect.

Borrower acknowledges and agrees that as a result of the above extension of the Termination Date from June 30, 2006 through June 30, 2007, a facility fee in the amount of \$16,315 is now fully earned, due and payable pursuant to Section 2.7 of the Agreement, and shall be paid concurrently with the execution of this Amendment.

(h) Section 2.1 of the Agreement is amended to decrease the Advance Limit from One Million Nine Hundred Ten Thousand Dollars (\$1,910,000) to One Million Four Hundred Thousand Dollars (\$1,400,000). The remainder of Section 2.1 remains unchanged and in full force and effect.

(i) Section 2.4(A.) of the Agreement is amended in its entirety to read as follows:

"A. Except where specified to the contrary in the Loan Documents interest shall accrue on the Daily Balance of the Obligations at the per annum rate of four percentage points (4.00%)¹ above the Prime Rate, but not less than eight and one-half percent (8.50%) (the foregoing, the "Non-Default Rate of Interest"). The Obligations shall, at the option of BACC, from and after the occurrence of an Event of Default, and without constituting a waiver of any such Event of Default, and if the Obligations are not paid in full by the Termination Date, and without waiving the maturity of the Obligations on the Termination Date, bear interest at the per annum rate of five percentage points (5.00%) in excess of the Non-Default Rate of Interest (the "Default Rate"). All interest payable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed on the Daily Balance. Interest as provided for herein shall continue to accrue until the Obligations are paid in full."

¹ Commencing July 1, 2006, such interest rate shall be subject to decrease by three-quarters of one-percent (0.75%) upon the occurrence of a Qualifying IPO. In addition, commencing July 1, 2006, such interest rate shall be subject to a separate decrease of three-quarters of one-percent (0.75%) in the event that (y) all outstanding Eligible Inventory Advances (made pursuant to Section 2.1(b) of the Agreement) are repaid in full, and (z) the Eligible Inventory Advance facility (set forth in Section 2.1(b) of the Agreement) is permanently eliminated; with BACC agreeing to release the Deed of Trust upon the occurrence of (y) and (z).

(j) The last sentence of Section 2.4(B.) of the Agreement is amended to increase the minimum monthly interest set forth therein from Two Thousand Five Hundred Dollars (\$2,500) to Five Thousand Dollars (\$5,000). The remainder of Section 2.4(B.) remains unchanged and in full force and effect.

(k) Section 2.8 of the Agreement is amended to increase the Servicing Fee set forth therein from fifteen-one hundredths of one percent (0.15%) to one-quarter of one percent (0.25%²). The remainder of Section 2.8 remains unchanged and in full force and effect.

(l) Section 2.10 of the Agreement is amended in its entirety to read as follows:

"2.10 Delinquent Reporting Fees. Borrower shall pay to BACC a fee in an amount equal to One Hundred Dollars (\$100.00) per document per day for each Business Day any report, financial statement or schedule required by this Agreement to be delivered to BACC is past due, with the exception of an A/R Aging (as defined in Section 6.1) not provided in accordance with the terms of Section 6.1, with each failure to deliver an Daily A/R Aging pursuant to the terms of Section 6.1 to be subject to a fee of Two Hundred Fifty Dollars (\$250.00) per occurrence."

(m) Section 2.12 of the Agreement is amended in its entirety to read as follows:

"2.12 Consolidated Term Loan. BACC has loaned Borrower the principal sum of Two Hundred Thirty-One Thousand Four Hundred Ninety-Six Dollars and no/100 (\$231,496) which sum, together with interest at the rate set forth below shall be paid in equal consecutive monthly installments of principal of Seven Thousand Five Hundred and 00/100 Dollars (\$7,500.00) each beginning on July 1, 2006 and continuing on the same day of each month thereafter until paid in full. Interest, at the rate set forth in Section 2.4 hereof, shall be paid on the first day of each month hereafter and on the maturity date of said term loan. Notwithstanding the foregoing, the entire unpaid principal balance of said term loan, and all accrued and unpaid interest thereon, shall be due and payable in full on the Termination Date. If Borrower prepays, in whole or in part, the term loan other than with the proceeds of a Qualifying IPO or other than in connection with a termination subject to Section 3.2 above, contemporaneous with such prepayment Borrower shall pay BACC a prepayment premium equal to five percent (5.0%) of the amount so prepaid."

² Such 0.25% is subject to decrease to 0.15% following any 120-day period in which any and all reporting required under the Agreement from the date hereof is timely delivered to BACC pursuant to the terms of the Agreement. If, at anytime following the reduction of such percentage to 0.15%, Borrower does not timely deliver any reporting as required under the Agreement, such 0.15% shall permanently revert to 0.25%.

(n) Section 6.1 of the Agreement is hereby amended in its entirety to read as follows:

"6.1 Collateral and Other Reports. Borrower shall on each Business Day report to BACC all sales and Accounts arising since its most recent report to BACC and shall provide: (a) copies of all invoices in excess of Four Thousand Dollars (\$4,000) together with supporting shipping documentation acceptable to BACC; and (b) an Accounts aging report (an "Daily A/R Aging"). Borrower shall execute and deliver to BACC: (y) no later than the seventh (7th) day of each month during the Term, a detailed aging of the Accounts; and (z) no later than the fifteenth (15th) day of each month during the Term, a reconciliation statement and a summary aging, by vendor, of all accounts payable of Borrower and any book overdraft. Borrower shall deliver to BACC, as BACC may from time to time require, collection reports, sales journals, invoices, original delivery receipts, customers' purchase order, shipping instructions, bills of lading and other documentation respecting shipment arrangements. Absent such a request by BACC, copies of all such documentation shall be held by Borrower as custodian for BACC."

(o) Section 7.7 of the Agreement is amended in its entirety to read as follows:

"7.7 Change of Ownership. Cause, permit or suffer any change, direct or indirect, in the ownership of the capital stock of Borrower or enter into any agreement with any person or entity that provides for a payment to such person or entity based upon the income of Borrower. Notwithstanding the foregoing, BACC prospectively consents to a proposed initial public offering by Borrower upon terms and conditions, including economic terms, that are materially consistent with documents and information (including the Form SB-2 filed with the Securities and Exchange Commission on April 28, 2005) previously provided to BACC (the "Permitted IPO"). This prospective consent is expressly conditioned upon Christopher Reed's continued ownership of no less than 48% of the capital stock of Borrower at all times including following consummation of the Qualifying IPO."

(p) The following new Section 16 is hereby added to the Agreement as follows:

"16. REFERENCE PROVISION

a. Borrower and BACC prefer that any dispute between them be resolved in litigation subject to a Jury Trial Waiver as set forth in the Loan Documents (defined below), but the California Supreme Court has held that pre-dispute Jury Trial Waivers not authorized by statute are unenforceable. This Reference Provision will be applicable until: (i) the California Supreme Court holds that a pre-dispute Jury Trial Waiver provision similar to that contained in the Loan Documents is valid or enforceable; or (ii) the California Legislature enacts a statute which becomes law, authorizing pre-dispute Jury Trial Waivers of the type in the Loan Documents and, as a result, such waivers become enforceable.

b. Other than (i) nonjudicial foreclosure of security interests in real or personal property, (ii) the appointment of a receiver or (iii) the exercise of other provisional remedies (any of which may be initiated pursuant to applicable law), any controversy, dispute or claim (each, a "Claim") between Borrower and BACC arising out of or relating to this Agreement or any other document, instrument or agreement between Borrower and BACC (collectively in this Section, the "Loan Documents"), will be resolved, notwithstanding anything to the contrary contained in the Loan Documents, by a reference proceeding in California in accordance with the provisions of Section 638 et seq. of the California Code of Civil Procedure ("CCP"), or their successor sections, which shall constitute the exclusive remedy for the resolution of any Claim, including whether the Claim is subject to the reference proceeding. Except as provided in Section 15 of this Agreement or as otherwise provided in the Loan Documents, venue for the reference proceeding will be in the Superior Court or Federal District Court in the County or District where the real property, if any, is located or in a County or District where venue is otherwise appropriate under applicable law (the "Court").

c. The referee shall be a retired Judge or Justice selected by mutual written agreement of Borrower and BACC. If Borrower and BACC do not agree, the referee shall be selected by the Presiding Judge of the Court (or his or her representative). A request for appointment of a referee may be heard on an ex parte or expedited basis, and Borrower and BACC agree that irreparable harm would result if ex parte relief is not granted. The referee shall be appointed to sit with all the powers provided by law. Pending appointment of the referee, the Court has power to issue temporary or provisional remedies.

d. Borrower and BACC agree that time is of the essence in conducting the reference proceedings. Accordingly, the referee shall be requested, subject to change in the time periods specified herein for good cause shown, to (a) set the matter for a status and trial-setting conference within fifteen (15) days after the date of selection of the referee, (b) if practicable, try all issues of law or fact within ninety (90) days after the date of the conference and (c) report a statement of decision within twenty (20) days after the matter has been submitted for decision.

e. The referee will have power to expand or limit the amount and duration of discovery. The referee may set or extend discovery deadlines or cutoffs for good cause, including a party's failure to provide requested discovery for any reason whatsoever. Unless otherwise ordered based upon good cause shown, neither Borrower nor BACC shall be entitled to "priority" in conducting discovery, depositions may be taken by Borrower and BACC upon seven (7) days written notice, and all other discovery shall be responded to within fifteen (15) days after service. All disputes relating to discovery which cannot be resolved by Borrower and BACC shall be submitted to the referee whose decision shall be final and binding.

f. Except as expressly set forth in this Agreement, the referee shall determine the manner in which the reference proceeding is conducted including the time and place of hearings, the order of presentation of evidence, and all other questions that arise with respect to the course of the reference proceeding. All proceedings and hearings conducted before the referee, except for trial, shall be conducted without a court reporter, except that when any party so requests, a court reporter will be used at any hearing conducted before the referee, and the referee will be provided a courtesy copy of the transcript. The party making such a request shall have the obligation to arrange for and pay the court reporter. Subject to the referee's power to award costs to the prevailing party, Borrower and BACC will equally share the cost of the referee and the court reporter at trial.

g. The referee shall be required to determine all issues in accordance with existing case law and the statutory laws of the State of California. The rules of evidence applicable to proceedings at law in the State of California will be applicable to the reference proceeding. The referee shall be empowered to enter equitable as well as legal relief, provide all temporary or provisional remedies, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a trial, including without limitation motions for summary judgment or summary adjudication. The referee shall issue a decision and pursuant to CCP §644 the referee's decision shall be entered by the Court as a judgment or an order in the same manner as if the action had been tried by the Court. The final judgment or order or from any appealable decision or order entered by the referee shall be fully appealable as provided by law. Borrower and BACC reserve the right to findings of fact, conclusions of laws, a written statement of decision, and the right to move for a new trial or a different judgment, which new trial, if granted, is also to be a reference proceeding under this provision.

h. If the enabling legislation which provides for appointment of a referee is repealed (and no successor statute is enacted) or if a reference procedure is not available to the parties for any reason, any dispute between Borrower and BACC that would otherwise be determined by reference procedure will be resolved and determined by arbitration. The arbitration will be conducted by a retired judge or Justice, in accordance with the California Arbitration Act § 1280 through § 1294.2 of the CCP as amended from time to time. The limitations with respect to discovery set forth above shall apply to any such arbitration proceeding.

i. BORROWER AND BACC RECOGNIZE AND AGREE THAT ALL DISPUTES RESOLVED UNDER THIS REFERENCE PROVISION WILL BE DECIDED BY A REFEREE AND NOT BY A JURY. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR OWN CHOICE, BORROWER AND BACC EACH KNOWINGLY AND VOLUNTARILY AND FOR THEIR MUTUAL BENEFIT AGREE THAT THIS REFERENCE PROVISION WILL APPLY TO ANY DISPUTE BETWEEN THEM WHICH ARISES OUT OF OR IS RELATED TO THIS AGREEMENT OR THE LOAN DOCUMENTS."

4. **AGREEMENT TO PROVIDE APPRAISAL.** No later than July 31, 2006, Borrower shall provide BACC with an appraisal of the Real Property, with the form and content of such appraisal, and the appraiser conducting same, to be satisfactory to BACC, and with such appraisal to evidence a value for the Real Property of at least One Million Five Hundred Thousand Dollars (\$1,500,000). In the event (a) such appraisal is not provided to BACC on or prior to July 31, 2006, or (b) if such appraisal evidences a value for the Real Property less than \$1,500,000, BACC may, in its sole discretion, (y) apply collections and other proceeds of Collateral to the permanent repayment of Eligible Inventory Advances (made pursuant to Section 2.1(b) of the Agreement, and/or (z) permanently reduce the advance rate (set forth in Section 2.1(b) of the Agreement) applicable to Eligible Inventory Advances.

5. **REPRESENTATIONS AND WARRANTIES.** Borrower hereby affirms to BACC that all of Borrower's representations and warranties set forth in the Agreement are true, complete and accurate in all respects as of the date hereof.

6. **NO DEFAULTS.** Borrower hereby affirms to BACC that no Event of Default has occurred and is continuing as of the date hereof.

7. **CONDITIONS PRECEDENT.** The effectiveness of this Amendment is expressly conditioned upon the following:

(a) Receipt by BACC of the \$16,315 Facility Fee discussed above;

(b) Receipt by BACC of a fully executed copy of this Amendment;

(c) Receipt by BACC of a fully executed copy of that certain Amended and Restated Revolving Credit Master Promissory Note, of even date herewith; and

(d) Receipt by BACC of a fully executed copy of that certain Consolidated Term Loan Promissory Note, of even date herewith.

8. **COSTS AND EXPENSES.** Borrower shall pay to BACC all of BACC's out-of-pocket costs and expenses (including, without limitation, the fees and expenses of its counsel, which counsel may include any local counsel deemed necessary, search fees, filing and recording fees, documentation fees, and other fees) arising in connection with the preparation, execution, and delivery of this Amendment and all related documents.

9. **LIMITED EFFECT.** In the event of a conflict between the terms and provisions of this Amendment and the terms and provisions of the Agreement, the terms and provisions of this Amendment shall govern. In all other respects, the Agreement, as amended and supplemented hereby, shall remain in full force and effect.

10. **REPRESENTATIONS.** Borrower represents and warrants to BACC that (i) this Amendment has been duly authorized by its Board of Directors (or equivalent governing body), (ii) no consents are necessary from any third person for the execution, delivery or performance of this Amendment which have not already been obtained and a copy thereof delivered to BACC, and (iii) this Amendment constitutes its legal, valid and binding obligation enforceable against it in accordance with its terms, except to the extent that the enforceability thereof against it may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws affecting the enforceability of creditors' rights generally or by equitable principles of general application (whether considered in an action at law or in equity).

11. **UNDERSTANDING.** All parties have read this Amendment carefully and fully understand the same, and this Amendment and the documents executed in connection herewith represent the entire agreement of the parties with respect to the matters set forth herein.

12. **MODIFICATIONS.** No modification or waiver of any provision of this Amendment, nor consent to any departure by Borrower herefrom, shall be effective unless the same shall be in writing signed by an authorized officer of BACC, and then only in the specific instance and for the purpose for which given.

13. **GOVERNING LAW.** This Amendment is made in the State of California and shall be governed by and construed in accordance with the internal laws of the State of California, without regard to principles of conflicts of law.

14. **MULTIPLE COUNTERPARTS; EFFECTIVENESS.** This Amendment may be executed in multiple counterparts, each of which constitute an original, but all of which taken together shall constitute but one in the same document. It shall not be necessary in making proof of this Amendment to produce or account for more than one counterpart signed by the party to be charged.

15. **FACSIMILE OR TELECOPY.** This Amendment, or a signature page thereto intended to be attached to a copy of this Amendment, signed and transmitted by facsimile machine or telecopier shall be deemed and treated as an original document. The signature of any person thereon, for purposes hereof, is to be considered as an original signature, and the document transmitted is to be considered to have the same binding effect as an original signature on an original document. At the request of any party hereto, any facsimile or telecopy document is to be re-executed in original form by the persons who executed the facsimile or telecopy document. No party hereto may raise the use of a facsimile machine or telecopier or the fact that any signature was transmitted through the use of a facsimile or telecopier machine as a defense to the enforcement of this Amendment.

16. **BINDING AGREEMENT.** It is understood and agreed that this Amendment shall be binding upon and shall inure to the benefit of BACC and Borrower, and their respective successors and assigns.

17. **ENTIRE AGREEMENT.** This Amendment represents the entire agreement and understanding concerning the subject matter hereof and thereof between the parties hereto, and supersedes all other prior agreements, understandings, negotiations and discussions concerning the subject matter hereof, whether oral or written.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first set forth above.

REED'S, INC.,
a Delaware corporation

By: /s/ Christopher J. Reed
Title: Chief Executive Officer

BUSINESS ALLIANCE CAPITAL COMPANY,
division of Sovereign Bank,
as successor by merger to Business Alliance Capital Corp.

By: /s/ R. E. Hays, Sr.
Title: Vice President

ACKNOWLEDGEMENT BY GUARANTOR

Dated as of June 29, 2006

The undersigned, being a Guarantor ("Guarantor") under his respective Individual Guaranty made in favor of BACC (as previously or subsequently amended, modified or supplemented, the "Guaranty"), hereby acknowledges and agrees to the foregoing Amendment Number One to Loan and Security Agreement (the "Amendment") and confirms and agrees that his Guaranty is and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that, upon the effectiveness of, and on and after the date of the Amendment, each reference in such Guaranty to the Agreement (as defined in the Agreement), "thereunder", "thereof" or words of like import referring to the "Agreement", shall mean and be a reference to the Agreement as amended or modified by the Amendment. Although BACC has informed Guarantor of the matters set forth above, and Guarantor has acknowledged the same, Guarantor understands and agrees that BACC has no duty under the Agreement, the Guaranty or any other agreement with any Guarantor to so notify any Guarantor or to seek such an acknowledgement, and nothing contained herein is intended to or shall create such a duty as to any advances or transactions hereafter.

/s/ Christopher J. Reed
Name: Christopher Reed

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Reed's, Inc.

We hereby consent to the inclusion in the foregoing Pre-Effective Amendment No. 1 to the Registration Statement on Form SB-2 of our report dated April 7, 2006 relating to the balance sheet of Reed's, Inc. as of December 31, 2005 and the related statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2005 and 2004. We also consent to the reference to our Firm under the caption "Experts".

/s/ WEINBERG & COMPANY, P.A.

WEINBERG & COMPANY, P.A.
Certified Public Accountants

Los Angeles, California
July 31, 2006

Jenkins & Gilchrist, LLP

12100 Wilshire Boulevard
15th Floor
Los Angeles, California 90025

(310) 820-8800
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July 31, 2006

Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549-3561
Attn: Howard Baik, Esq.

Austin, Texas
(512) 499-3800
Chicago, Illinois
(312) 425-3900
Dallas, Texas
(214) 855-4500
Houston, Texas
(713) 951-3300
Pasadena, California
(626) 578-7400
San Antonio, Texas
(210) 246-5000
Washington, D.C.
(202) 326-1500

Re: Reed's, Inc.
Pre-Effective Amendment No. 1 to
Registration Statement on Form SB-2
(File No. 333-135186)
Form 10-KSB/A for the Year Ended December 31, 2005
Form 10-QSB/A for the Quarter Ended March 31, 2006
(File No. 1-32501)

Dear Mr. Baik:

In connection with the Staff's letter of July 13, 2006, Reed's, Inc. (the "Company") hereby responds to the comments set forth in your letter by the filing of the Pre-Effective Amendment No. 1 to the Registration Statement on Form SB-2/A (File No. 333-135186, the "Amended Registration Statement"). Please note that the Company also has filed its Form 10-KSB/A for the Year Ended December 31, 2005 (the "Amended Annual Report") and Form 10-QSB/A for the Quarter Ended March 31, 2006 (the "Amended Quarterly Report") with the Securities and Exchange Commission (the "Commission") on July 27, 2006 in response to the comments to your letter. The Amended Registration Statement has been filed electronically pursuant to EDGAR, and we will provide you with an additional copy, marked to show all changes.

We have responded to each of the comments in the order that they appear in the comment letter. Each numbered paragraph below corresponds to the numbered paragraphs in your letter. Your comments are noted in italics and the Company's responses follow thereafter. The responses and undertakings contained in this letter are the positions of the Company, except as reflected in the response to your Comment 3 regarding the opinion of this firm included as Exhibit 5.1 to the Amended Registration Statement.

Jenkins & Gilchrist, LLP

Securities and Exchange Commission
Howard Baik, Esq.
July 31, 2006
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I. AMENDED REGISTRATION STATEMENT

Supplemental Notes Regarding the Rescission Offer

1. *The forepart of the document should consist of the cover page, the summary and the risk factors. Please move this section to follow the summary or include this information in the summary.*

In response to your comments, the Company has removed the separate Supplemental Notes section and moved portions of the content of the discussion in the Supplemental Notes section into the Summary section and the Question and Answer section of the Amended Registration Statement, where appropriate.

Appendix A - Form of Notice of Election

2. *Please delete the language indicating that investors have “read” and “reviewe[d]” the prospectus.*

In response to your comments, the Company has revised the Form of Notice of Election (Appendix A) in accordance with your comments.

Exhibit 5.1

3. *Counsel should confirm our understanding that its reference to the “General Corporation Law of Delaware” includes the statutory provisions and also all applicable provisions of the Delaware constitution and reported judicial decisions interpreting these laws.*

In response to your comments, the Company has filed a revised opinion of counsel (Exhibit 5.1) in accordance with your comments. Our firm hereby confirms your understanding that the reference to the “corporate laws of the State of Delaware” includes the statutory provisions of the General Corporation Law of Delaware and all applicable provisions of the Delaware constitution and reported judicial decisions interpreting these laws.

II. FORM 10-KSB FOR THE YEAR ENDED DECEMBER 31, 2005

Item 8A. Controls and Procedures, page 13.

4. *We note your disclosure that your “principal executive and financial officer concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.” Revise to clarify, if true, that your principal executive and financial officer concluded that your disclosure controls and procedures are also effective to ensure that information required to be disclosed in the reports that you file or submit under the Exchange Act is accumulated and communicated to your management, including your principal executive officer and financial officer, to allow timely decisions regarding required disclosure. See Exchange Act Rule 13a-15(e). Please make similar revisions to your Form 10-QSB for the quarterly period March 31, 2006.*

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Securities and Exchange Commission
Howard Baik, Esq.
July 31, 2006
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In response to your comment, the Company has revised the disclosure at page 13 of the Amended Annual Report and at page 10 of the Amended Quarterly Report in accordance with your comments.

5. *Please revise your disclosure regarding changes to internal controls and procedures over financial reporting to identify “any changes, “not just “significant” changes, that have materially affected, or are reasonably likely to materially affect, your internal controls and procedures over financial reporting. See Item 308(c) of Regulation S-B.*

In response to your comment, the Company has revised the disclosure at page 13 of the Amended Annual Report and at page 10 of the Amended Quarterly Report in accordance with your comments.

Certifications

6. *We note that you have not included as exhibits to the Form 10-KSB the certifications required by Item 601(b)(32) of Regulation S-B and Rule 13a-14(b) of the Securities and Exchange Act of 1934. Please re-file the entire Form 10-KSB, including all required certifications.*

In response to your comment, the Company has refiled the Form 10-KSB for the Year Ended December 31, 2005 in the form of the Amended Annual Report and has included the required certifications in accordance with your comments.

III. FORM 10-QSB FOR THE QUARTER ENDED MARCH 31, 2006

General

7. *Where applicable, please revise to comply with the above comments.*

In response to your comment, the Company has refiled the Form 10-QSB for the Quarter Ended March 31, 2006 in the form of the Amended Quarterly Report and has revised the Amended Quarterly Report and included the required certifications in accordance with your comments.

Jenkins & Gilchrist, LLP

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Howard Baik, Esq.
July 31, 2006
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Exhibit 31

8. *Please eliminate the titles you indicate Christopher J. Reed holds in the opening paragraph of the certification.*

In response to your comment, the Company has refiled the Form 10-QSB for the Quarter Ended March 31, 2006 in the form of the Amended Quarterly Report and has revised the required certifications in accordance with your comments.

23. *Please do not omit required language or otherwise alter the certification. For example, in paragraph 5 you should specify that your certifying officers have disclosed to both your auditors and the audit committee the items specified. Also, throughout the certification, you should refer to the "small business issuer" instead of "the Company." See Item 601(b)(31) of Regulation S-B.*

In response to your comment, the Company has refiled the Form 10-QSB for the Quarter Ended March 31, 2006 in the form of the Amended Quarterly Report and has revised the required certifications in accordance with your comments.

We look forward to your review of the Amended Registration Statement. Please contact us if you have any questions.

Very truly yours,

/s/ Jeffrey P. Berg

Jeffrey P. Berg
of JENKENS & GILCHRIST, LLP

CC: CHRISTOPHER J. REED
ELLIE QUARLES, ESQ.
KENNETH M.H. HOFF, ESQ.
MICHAEL ROY FUGLER
LYNNE BOLDUC, ESQ.
