Invesco Municipal Trust
Form N-Q
July 28, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED

MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-06362

Invesco Municipal Trust
(Exact name of registrant as specified in charter)

1555 Peachtree Street, N.E., Suite 1800 Atlanta, Georgia 30309
(Address of principal executive offices) (Zip code)

Sheri Morris 1555 Peachtree Street, N.E., Suite 1800 Atlanta, Georgia 30309
(Name and address of agent for service)

Registrant s telephone number, including area code: (713) 626-1919

Date of fiscal year end: 2/28

Date of reporting period: 5/31/17

Item 1. Schedule of Investments.

Invesco Municipal Trust
Quarterly Schedule of Portfolio Holdings
May 31, 2017

invesco.com/us VK-CE-MUNI-QTR-1 05/17 Invesco Advisers, Inc.

Schedule of Investments

May 31, 2017

(Unaudited)

	Interest Rate	Maturity Date	Principal Amount (000)	V
al Obligations 163.82%[a]				
2.85%				
(State of) Special Care Facilities Financing Authority (Ascension Health Senior Credit Group); 16 B, Ref. RB	5.00%	11/15/2046	$ 4,770	$ 5
(City of) Board of Education;				
14 A, Limited Special Tax GO Wts. (INS-AGM)[b]	5.00%	09/01/2039	1,245	1
14 A, Limited Special Tax GO Wts. (INS-AGM)[b]	5.00%	09/01/2044	1,245	1
Governmental Utility Services Corp.; Series 2008 A, Ref. Water Supply RB (INS-AGC)[b][c]	5.00%	06/01/2039	2,150	2
am (City of) Airport Authority; Series 2010, RB (INS-AGM)[b]	5.25%	07/01/2030	1,650	1
am (City of) Special Care Facilities Financing Authority (Methodist Home for the Aging); Series	5.75%	06/01/2045	550	
am (City of) Water Works Board; Series 2016 B, Ref. Sub. Water RB	5.00%	01/01/2043	1,235	1
e (City of) Special Care Facilities Financing Authority (Redstone Village); Series 2007, nt Facility RB	5.50%	01/01/2043	1,725	1
abama Gas District (The); Series 2016 A, Gas Project RB[c]	5.00%	09/01/2046	2,700	3
ity of) Industrial Development Board; Series 2009 A, Gulf Opportunity Zone RB	6.25%	11/01/2033	1,950	2
				21
).47%				
tate of) Industrial Development & Export Authority (Providence Health Services); 11 A, RB[c]	5.50%	10/01/2041	3,160	3
2.67%				
State of) Health Facilities Authority (Scottsdale Lincoln Hospital); Series 2014, Ref. RB	5.00%	12/01/2042	2,160	2
State of) Transportation Board;				
08 B, Highway RB[c][d][e]	5.00%	07/01/2018	2,545	2
08 B, Highway RB[d][e]	5.00%	07/01/2018	1,700	1
11 A, Ref. Sub. Highway RB[c][d][e]	5.25%	07/01/2021	2,500	2
(City of) Industrial Development Authority (Midwestern University);				
10, RB	5.00%	05/15/2035	500	
10, RB	5.13%	05/15/2040	1,100	1
(City of) McDowell Road Commercial Corridor Improvement District; Series 2007, Special nt Improvement RB (INS-AMBAC)[b]	5.25%	01/01/2032	1,035	1
City of) Industrial Development Authority (Career Success Schools);				
09, Education RB	7.00%	01/01/2039	640	
09, Education RB	7.13%	01/01/2045	610	
City of) Industrial Development Authority (Legacy Traditional Schools);				
14 A, Education Facility RB[f]	6.50%	07/01/2034	500	

City of) Industrial Development Authority (Rowan University); Series 2012, Lease RB	5.00%	06/01/2042	2,170	2
r Project Agricultural Improvement & Power District; Series 2009 A, Electric System RB (c)	5.00%	01/01/2028	2,050	2
ty of) Industrial Development Authority (Regional Medical Center); 14 A, Hospital RB	5.25%	08/01/2032	1,060	1
				20
a 13.28%				
(County of) Corridor Transportation Authority; Series 2016 B, Ref. Second Sub. Lien RB	5.00%	10/01/2037	2,250	2
(City of) Public Financing Authority (Anaheim Public Improvements); Series 1997 C, Sub. B RB (INS-AGM) (b)(g)	0.00%	09/01/2020	4,000	3
Toll Authority (San Francisco Bay Area);				
08 F-1, Toll Bridge RB (c)(d)(e)	5.00%	04/01/2018	6,000	6
09 F-1, Toll Bridge RB (c)(d)(e)	5.00%	04/01/2019	2,500	2
09 F-1, Toll Bridge RB (c)(d)(e)	5.13%	04/01/2019	4,000	4
17 F-1, Toll Bridge RB (c)	5.00%	04/01/2056	2,490	2

See accompanying notes which are an integral part of this schedule.

Invesco Municipal Trust

	Interest Rate	Maturity Date	Principal Amount (000)	Value
California (continued)				
Beverly Hills Unified School District (Election of 2008); Series 2009, Unlimited Tax CAB GO Bonds [(g)]	0.00%	08/01/2028	$ 800	$ 593,944
California (County of) Tobacco Securitization Agency (Alameda County Tobacco Asset Securitization Corp.); Series 2006 C, Tobacco Settlement Sub. CAB RB [(g)]	0.00%	06/01/2055	11,000	398,090
California (State of) Department of Water Resources (Central Valley); Series 2008, Water System RB [(c)(d)(e)]	5.00%	06/01/2018	975	1,016,174
Series 2008 AE, Water System RB [(c)]	5.00%	12/01/2024	775	807,542
Series 2008 AE, Water System RB [(c)]	5.00%	12/01/2025	975	1,015,736
Series 2008 AE, Water System RB [(c)]	5.00%	12/01/2026	975	1,015,541
Series 2008 AE, Water System RB [(c)]	5.00%	12/01/2027	575	598,845
California (State of) Health Facilities Financing Authority (Catholic Healthcare West); Series 2009 A, RB [(d)(e)]	6.00%	07/01/2019	1,000	1,105,460
California (State of) Health Facilities Financing Authority (Sutter Health); Series 2011 B, RB	5.50%	08/15/2026	1,000	1,135,450
California (State of) Housing Finance Agency; Series 2008 K, Home Mortgage RB [(h)]	5.30%	08/01/2023	1,510	1,515,466
Series 2008 K, Home Mortgage RB [(h)]	5.45%	08/01/2028	2,680	2,686,566
California (State of) Pollution Control Finance Authority; Series 2012, Water Furnishing RB [(f)(h)]	5.00%	07/01/2027	1,375	1,490,569
Series 2012, Water Furnishing RB [(f)(h)]	5.00%	07/01/2030	1,600	1,714,288
Series 2012, Water Furnishing RB [(f)(h)]	5.00%	07/01/2037	3,535	3,787,505
California (State of) Statewide Communities Development Authority (Kaiser Permanente); Series 2009 A, RB	5.00%	04/01/2019	1,300	1,395,823
California (State of) Statewide Communities Development Authority (Loma Linda University Medical Center); Series 2014, RB	5.25%	12/01/2044	855	928,855
Series 2016 A, RB [(f)]	5.00%	12/01/2041	1,355	1,468,292
California (State of); Series 2009, Various Purpose Unlimited Tax GO Bonds	5.75%	04/01/2031	1,150	1,250,844
Series 2009 A, Ref. Economic Recovery Unlimited Tax GO Bonds [(d)(e)]	5.25%	07/01/2019	1,205	1,314,245
Series 2009 A, Ref. Economic Recovery Unlimited Tax GO Bonds [(d)(e)]	5.25%	07/01/2019	695	758,009
Series 2012, Ref. Unlimited Tax GO Bonds	5.00%	02/01/2032	2,100	2,391,375
Series 2012, Various Purpose Unlimited Tax GO Bonds	5.00%	04/01/2042	1,900	2,150,078
Series 2012, Various Purpose Unlimited Tax GO Bonds	5.25%	04/01/2035	2,880	3,317,702
Series 2013, Ref. Various Purpose Unlimited Tax GO Bonds	5.25%	09/01/2030	1,500	1,794,435
Daly City (City of) Housing Development Finance Agency (Franciscan Mobile Home Park Acquisition); Series 2007 C, Ref. Third Tier Mobile Home Park RB	6.50%	12/15/2047	410	413,989
	0.00%	01/15/2034	4,125	2,160,716

Foothill-Eastern Transportation Corridor Agency; Series 2015, Ref. CAB Toll Road RB (INS-AGM) [(b)(g)]				
Golden State Tobacco Securitization Corp.;				
Series 2007 A-1, Sr. Tobacco Settlement Asset-Backed RB	5.00%	06/01/2033	5,420	5,446,558
Series 2007 A-1, Sr. Tobacco Settlement Asset-Backed RB	5.13%	06/01/2047	2,790	2,789,860
Series 2013 A, Enhanced Tobacco Settlement Asset-Backed RB	5.00%	06/01/2030	2,875	3,320,222
Series 2015 A, Ref. Tobacco Settlement Asset-Backed RB	5.00%	06/01/2040	1,000	1,142,840
Los Angeles (City of) Department of Water & Power; Series 2012 B, Waterworks RB [(c)]	5.00%	07/01/2043	3,500	3,959,865
Los Angeles (City of) Harbor Department; Series 2009 C, Ref. RB	5.00%	08/01/2031	1,000	1,079,260
Los Angeles Unified School District (Election of 2002); Series 2009 D, Unlimited Tax GO Bonds	5.00%	07/01/2022	1,200	1,301,832
Morongo Band of Mission Indians (The) (Enterprise Casino); Series 2008 B, RB [(f)]	5.50%	03/01/2018	50	50,991
Palomar Pomerado Health; Series 2009, COP [(d)(e)]	6.75%	11/01/2019	1,125	1,282,061
Sacramento (County of); Series 2010, Sr. Airport System RB	5.00%	07/01/2040	2,300	2,521,214
San Diego Community College District (Election of 2006); Series 2011, Unlimited Tax GO Bonds [(c)(d)(e)]	5.00%	08/01/2021	4,110	4,771,587
San Francisco (City & County of) Airport Commission (San Francisco International Airport); Series 2011 F, Ref. Second Series RB [(h)]	5.00%	05/01/2025	775	870,674
Series 2011 F, Ref. Second Series RB [(h)]	5.00%	05/01/2026	1,550	1,738,837
San Francisco (City & County of) Public Utilities Commission (Water System Improvement Program); Subseries 2011 A, Water RB [(c)]	5.00%	11/01/2036	3,360	3,839,808
Santa Margarita Water District (Community Facilities District No. 2013-1); Series 2013, Special Tax RB	5.50%	09/01/2032	685	775,221

See accompanying notes which are an integral part of this schedule.

Invesco Municipal Trust

	Interest Rate	Maturity Date	Principal Amount (000)	Value
California (continued)				
Southern California Metropolitan Water District; Series 2009 A, RB	5.00%	01/01/2034	$ 2,500	$ 2,655,850
Vernon (City of);				
Series 2009 A, Electric System RB [(d)(e)]	5.13%	08/01/2019	540	573,723
Series 2009 A, Electric System RB	5.13%	08/01/2021	1,250	1,347,888
				100,120,543
Colorado 4.52%				
Colorado (State of) Board of Governors; Series 2012 A, University Enterprise System RB (CEP-Colorado Higher Education Intercept Program) [(c)]	5.00%	03/01/2041	3,850	4,328,016
Colorado (State of) Health Facilities Authority (Catholic Health); Series 2006 C5, RB [(c)(d)(e)]	5.00%	05/01/2018	4,875	5,061,615
Colorado (State of) Health Facilities Authority (Evangelical Lutheran); Series 2005, Health Facilities RB	5.00%	06/01/2035	2,790	2,795,468
Colorado (State of) Health Facilities Authority (Volunteers of America Care);				
Series 2007 A, Health & Residential Care Facilities RB	5.25%	07/01/2027	295	294,982
Series 2007 A, Health & Residential Care Facilities RB	5.30%	07/01/2037	355	354,968
Colorado (State of) Regional Transportation District (Denver Transit Partners Eagle P3);				
Series 2010, Private Activity RB	6.00%	01/15/2034	1,100	1,221,308
Series 2010, Private Activity RB	6.50%	01/15/2030	1,400	1,576,358
Denver (City & County of);				
Series 2012 B, Airport System RB	5.00%	11/15/2037	1,850	2,108,797
Series 2016 A, Ref. Dedicated Tax and Improvement RB	5.00%	08/01/2044	1,210	1,407,908
Montezuma (County of) Hospital District; Series 2007, Ref. RB [(d)(e)]	5.90%	10/01/2017	830	843,853
Platte River Power Authority; Series 2009 HH, RB [(d)(e)]	5.00%	06/01/2019	1,000	1,080,670
University of Colorado;				
Series 2013 A, Enterprise RB [(c)]	5.00%	06/01/2037	5,845	6,717,659
Series 2013 A, Enterprise RB [(c)]	5.00%	06/01/2043	5,465	6,248,025
				34,039,627
Connecticut 0.56%				
Connecticut (State of) (Bradley International Airport); Series 2000 A, Special Obligation Parking RB (INS-ACA) [(b)(h)]	6.60%	07/01/2024	2,840	2,849,571
Connecticut (State of) Development Authority (Aquarion Water Co.); Series 2011, Water Facilities RB [(h)]	5.50%	04/01/2021	1,200	1,342,200
				4,191,771
District of Columbia 4.58%				
District of Columbia (Provident Group - Howard Properties LLC); Series 2013, Student Dormitory RB	5.00%	10/01/2045	2,125	1,947,584

District of Columbia (Sibley Memorial Hospital);				
Series 2009, Hospital RB (d)(e)	6.38%	10/01/2019	2,400	2,695,248
Series 2009, Hospital RB (d)(e)	6.50%	10/01/2019	700	788,123
District of Columbia Water & Sewer Authority;				
Series 2007 A, Public Utility Sub. Lien RB (d)(e)	5.50%	10/01/2017	4,000	4,062,960
Series 2008 A, Ref. Public Utility Sub. Lien RB (c)(d)(e)	5.00%	10/01/2018	775	817,594
Series 2008 A, Ref. Public Utility Sub. Lien RB (c)(d)(e)	5.00%	10/01/2018	1,575	1,661,562
Series 2013 A, Public Utility Sub. Lien RB (c)	5.00%	10/01/2044	3,000	3,380,490
District of Columbia;				
Series 2014 C, Unlimited Tax GO Bonds (c)	5.00%	06/01/2034	3,445	3,980,560
Series 2014 C, Unlimited Tax GO Bonds (c)	5.00%	06/01/2035	6,890	7,937,280
Metropolitan Washington Airports Authority (Dulles Metrorail and Capital Improvement);				
Series 2014 A, Ref. Sr. Lien Dulles Toll Road RB	5.00%	10/01/2053	6,800	7,227,652
				34,499,053
Florida 6.58%				
Alachua (County of) (North Florida Retirement Village, Inc.);				
Series 2007, IDR	5.25%	11/15/2017	350	351,390
Series 2007, IDR	5.88%	11/15/2036	1,000	1,004,460
Alachua (County of) Health Facilities Authority (Terraces at Bonita Springs);				
Series 2011 A, RB	8.13%	11/15/2041	1,000	1,160,820

See accompanying notes which are an integral part of this schedule.

Invesco Municipal Trust

	Interest Rate	Maturity Date	Principal Amount (000)	Value
Florida (continued)				
Broward (County of);				
Series 2012 A, Water & Sewer Utility RB	5.00%	10/01/2037	$ 2,270	$ 2,610,341
Series 2013 C, Airport System RB	5.25%	10/01/2038	2,450	2,826,785
Series 2015 A, Airport System RB (h)	5.00%	10/01/2045	2,190	2,449,077
Citizens Property Insurance Corp. (High Risk Account);				
Series 2010 A-1, Sr. Sec. RB	5.25%	06/01/2017	2,200	2,200,000
Collier (County of) Industrial Development Authority (The Arlington of Naples);				
Series 2014 A, Continuing Care Community RB (f)	7.75%	05/15/2035	1,300	1,478,464
Davie (Town of) (Nova Southeastern University); Series 2013 A, Educational Facilities RB	6.00%	04/01/2042	1,400	1,641,976
Escambia (County of) Health Facilities Authority (Florida Health Care Facility Loan Veterans Health Administration Program); Series 2000, RB (e)	5.95%	07/01/2020	35	40,166
Florida (State of) Ports Financing Commission (State Transportation Trust Fund);				
Series 2011 B, Ref. RB (h)	5.13%	06/01/2027	1,650	1,873,922
Hillsborough (County of) Aviation Authority;				
Series 2008 A, RB (INS-AGC) (b)(c)(h)	5.38%	10/01/2033	975	1,022,707
Series 2008 A, RB (INS-AGC) (b)(c)(h)	5.50%	10/01/2038	2,175	2,285,012
JEA; Series 2012 Three B, Electric System RB (c)	5.00%	10/01/2039	3,100	3,469,396
Miami Beach (City of) Health Facilities Authority (Mount Sinai Medical Center); Series 2014, Ref. RB	5.00%	11/15/2039	935	1,021,833
Miami-Dade (County of) Expressway Authority; Series 2010 A, Ref. Toll System RB	5.00%	07/01/2040	1,250	1,369,838
Miami-Dade (County of) Health Facilities Authority (Miami Children s Hospital);				
Series 2010, Ref. Hospital RB (d)(e)	6.13%	08/01/2020	470	544,063
Series 2010, Ref. Hospital RB	6.13%	08/01/2042	170	189,854
Miami-Dade (County of);				
Series 2012 A, Ref. Aviation RB (h)	5.00%	10/01/2028	1,000	1,130,730
Series 2012 B, Ref. Sub. Special Obligation RB	5.00%	10/01/2032	1,150	1,302,502
Series 2012 B, Ref. Sub. Special Obligation RB (INS-AGM) (b)	5.00%	10/01/2035	1,950	2,213,835
Series 2016 A, Ref. Aviation RB	5.00%	10/01/2041	2,795	3,202,902
Overoaks Community Development District;				
Series 2004 A, Capital Improvement Special Assessment RB (i)	6.13%	05/01/2035	120	1
Series 2010 A-2, Capital Improvement RB	6.13%	05/01/2035	105	105,008
Palm Beach (County of) Health Facilities Authority (The Waterford); Series 2007, RB (d)(e)	5.88%	11/15/2017	1,100	1,125,278
Palm Beach (County of) Solid Waste Authority;				
Series 2009, Improvement RB (INS-BHAC) (b)(c)	5.50%	10/01/2023	2,600	2,872,324
Series 2011, Ref. RB (c)	5.00%	10/01/2031	2,565	2,912,788
	0.78%	11/01/2038	1,000	1,000,000

Pinellas (County of) Florida Health Facilities Authority (Baycare Health System);				
Series 2009 A-2, VRD Health System RB (LOC-Northern Trust Co. (The)) [j][k]				
Putnam (County of) Development Authority (Seminole Electric Cooperative);				
Series 2007 A, Ref. PCR (INS-AMBAC) [b][d]	5.35%	05/01/2018	3,250	3,369,827
Reunion East Community Development District;				
Series 2005, Special Assessment RB [i]	5.80%	05/01/2036	235	2
Series 2015-2, Special Assessment RB	6.60%	05/01/2036	290	297,813
Seminole Indian Tribe of Florida;				
Series 2007 A, Special Obligation RB [f]	5.25%	10/01/2027	400	403,592
Series 2007 A, Special Obligation RB [f]	5.75%	10/01/2022	500	505,570
Sterling Hill Community Development District; Series 2003 A, Capital Improvement Special Assessment RB	6.20%	05/01/2035	773	540,984
Sumter (County of) Industrial Development Authority (Central Florida Health Alliance);				
Series 2014 A, Hospital RB	5.25%	07/01/2044	1,000	1,090,410
				49,613,670
Georgia 2.24%				
Atlanta (City of) (Beltline);				
Series 2009 B, Tax Allocation RB [d][e]	6.75%	01/01/2019	290	311,025
Series 2009 B, Tax Allocation RB [d][e]	6.75%	01/01/2019	160	171,574
Series 2009 B, Tax Allocation RB [d][e]	7.38%	01/01/2019	205	225,820
Atlanta (City of);				
Series 2009 A, Water & Wastewater RB [d][e]	6.00%	11/01/2019	1,200	1,344,936
Series 2009 A, Water & Wastewater RB [d][e]	6.00%	11/01/2019	1,300	1,457,014
Series 2009 A, Water & Wastewater RB [d][e]	6.00%	11/01/2019	1,200	1,344,936
Series 2015, Ref. Water & Wastewater RB [c]	5.00%	11/01/2040	8,290	9,672,855

See accompanying notes which are an integral part of this schedule.

Invesco Municipal Trust

	Interest Rate	Maturity Date	Principal Amount (000)	Value
ontinued)				
unty of) thority edical); Series	6.00%	09/01/2030	$ 1,000	$ 1,104,490
nty of) nt Georgia ic); Series RB	5.00%	10/01/2042	1,150	1,281,733
				16,914,383
4%				
itory of)); A, ligation	5.38%	12/01/2019	350	387,881
A, ligation	5.63%	12/01/2019	1,850	2,061,621
itory of) ority; A, RB	5.50%	10/01/2040	835	884,908
itory of) s Series r & System	5.63%	07/01/2040	1,400	1,494,640
itory of); A, ivilege	5.13%	01/01/2042	780	822,237
A, ivilege	5.25%	01/01/2036	625	666,294
				6,317,581
07%				
te of) of inance cific gated	5.75%	07/01/2040	1,000	1,092,420

B, pose RB				
A, Ref. pose RB	5.50%	07/01/2043	2,500	2,851,075
te of); A, tem RB	5.00%	07/01/2039	2,050	2,236,201
A, tem RB	5.00%	07/01/2045	1,695	1,910,757
				8,090,453

f ued for	–	–	–	–	–	–	42,000	–	
d Series stock	–	–	–	–	–	–	–	(65,000)	
ock paid and eferred end	13,533	–	–	–	–	–	26,000	–	
	–	–	–	–	–	–	–	(941,000)	
ecember	10,885,833	$1,000	46,621	$466,000	80,415	$804,000	$22,924,000	$(19,890,000)	$
of ock onuses s	14,965	–	–	–	–	–	23,000	–	
ock	144,840	–	(36,210)	(362,000)	–	–	362,000	–	
of Series stock ock	243,691	–	–	–	(34,813)	(348,000)	348,000	–	
of Series stock stock	347,223	–	–	–	–	–	30,000	–	
warrants	416,048	–	–	–	–	–	147,000	–	
esting of ed to	–	–	–	–	–	–	107,000	–	
d Series stock	–	–	–	–	–	–	–	(45,000)	
ock paid and vidend	32,073	–	–	–	–	–	55,000	–	
								(524,000)	

ecember	$	12,084,673	$1,000	10,411	$104,000	45,602	$456,000	$23,996,000	$20,459,000	$

The accompanying notes are an integral part of these financial statements

F-4

REED'S, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

	2012	**2011**
Cash flows from operating activities:		
Net loss	$(524,000)	$(941,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	738,000	653,000
Fair value of stock options issued to employees	107,000	258,000
Fair value of warrants issued for services	–	42,000
Fair value of common stock issued for services	23,000	131,000
Increase in allowance for doubtful accounts	264,000	30,000
Changes in assets and liabilities:		
Accounts receivable	(599,000)	(361,000)
Inventory	305,000	(1,544,000)
Prepaid expenses and inventory and other current assets	(122,000)	(75,000)
Accounts payable	1,058,000	(276,000)
Accrued expenses	19,000	34,000
Recycling fees payable	(92,000)	(215,000)
Net cash provided by (used in) operating activities	1,177,000	(2,264,000)
Cash flows from investing activities:		
Purchase of property and equipment	(507,000)	(356,000)
Net cash used in investing activities	(507,000)	(356,000)
Cash flows from financing activities:		
Proceeds from issuance of common stock in private placement, net of offering costs	–	672,000
Proceeds from stock option and warrant exercises	177,000	25,000
Payments for deferred financing fees	(44,000)	(65,000)
Proceeds received from term loan	–	750,000
Principal repayments on term loan	(153,000)	(22,000)
Principal repayments on long term financing obligation	(71,000)	(54,000)
Principal repayments on capital lease obligation	(57,000)	(43,000)
Net (repayments) borrowings on existing line of credit	(72,000)	3,404,000
Net (payoff) borrowings on former line of credit	–	(2,347,000)
Principal repayments on note payable	–	(71,000)
Net cash (used) provided by financing activities	(220,000)	2,249,000
Net increase (decrease) in cash	450,000	(371,000)
Cash at beginning of year	713,000	1,084,000
Cash at end of year	$1,163,000	$713,000

Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$668,000	$671,000
Taxes	$–	$–

Non Cash Investing and Financing Activities		
Series A preferred stock converted to common stock	$362,000	$–
Series B preferred stock converted to common stock	$348,000	$54,000
Common Stock issued in settlement of Series A and Series B preferred stock	$55,000	$26,000
Series B preferred stock dividend payable in common stock	$74,000	$42,000
Property and equipment acquired through capital lease obligation	$15,000	$-67,000
Common stock issued for deferred financing fees	$–	$15,000

The accompanying notes are an integral part of these financial statements

F-5

REED'S, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(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 seven Reed's Ginger Brew flavors (Extra, Original, Premium, Light 55 Calorie Extra, Cherry Ginger, Raspberry Ginger and Spiced Apple Ginger); Reed's Energy Elixir; five Virgil's beverages (Root Beer, Cream Soda, Orange Cream Soda, Black Cherry Cream Soda, and Real Cola); four zero calorie Virgil's versions; two China Cola beverages (regular and cherry); two Sonoma Sparkler sparkling juices; three kinds of ginger candies (crystallized ginger, ginger chews and peanut butter ginger chews); and three flavors of ginger ice cream (Original, Green Tea, and Chocolate). In 2011 the Company introduced its nausea relief product and reformulated its Virgil's diet products into its new ZERO line with stevia natural sweetener. In 2012 the company introduced its kombucha line with four flavors.

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

B) 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. Those estimates and assumptions include estimates for reserves of uncollectible accounts, inventory obsolescence, depreciable lives of property and equipment, analysis of impairments of recorded intangibles, accruals for potential liabilities and assumptions made in valuing stock instruments issued for services.

C) Accounts Receivable

The Company evaluates the collectability 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 reducing the carrying value of receivables. 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, 2012 was approximately $399,000 and December 31, 2011 was approximately $135,000.

D)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	5-12 years
Vehicles	5 years
Office equipment	5-7 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 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 Company did not recognize impairment for the years ended December 31, 2012 and 2011.

E) Intangible Assets and Impairment Policy

The Company records intangible assets in accordance with FASB ASU Topic 350 “Intangibles – Goodwill and Other”. Intangible assets consist mostly of brand names and are deemed to have indefinite lives not subject to annual amortization. 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.

Management regularly reviews intangible 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 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. No impairments were identified for the years ended December 31, 2012 and 2011.

F) Concentrations

The Company’s cash balances on deposit with banks are guaranteed by the Federal Deposit Insurance Corporation up to $250,000 at December 31, 2012. The Company may be exposed to risk for the amounts of funds held in bank accounts 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 guarantee during the years ended December 31, 2012 and 2011.

During the year ended December 31, 2012, the Company had two customers who accounted for approximately 30% and 10% of its sales, respectively; and during the year ended December 31, 2011, the Company had two customers who accounted for approximately 28% and 11% of its sales, respectively. No other customer accounted for more than 10% of sales in either year. As of December 31, 2012 the Company had accounts receivable due from two customers who comprised $580,000 (25%) and $340,000 (14%), of its total accounts receivable; and as of December 31, 2011 the Company had accounts receivable due from two customers who comprised $475,000 (27%), $264,000 (15%), respectively, of its total accounts receivable.

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 available for their production of products. Although there are other packers and the Company has outfitted their own brewery and bottling plant, a change in packers may cause a delay in the production process, which could ultimately affect operating results.

G) Fair Value of Financial Instruments

The Company uses various inputs in determining the fair value of its investments and measures these assets on a recurring basis. Financial assets recorded at fair value in the balance sheets are categorized by the level of objectivity associated with the inputs used to measure their fair value. Authoritative guidance provided by the FASB defines the following levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these financial assets:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3—Unobservable inputs based on the Company's assumptions.

The Company has no such assets or liabilities recorded to be valued on the basis above at December 31, 2012 and 2011.

H)Cost of sales

The Company classifies cost of sales in two categories. Cost of tangible goods sold is comprised of the costs of raw materials and packaging utilized in the manufacture of products, co-packing fees, repacking fees, in-bound freight charges, as well as certain internal transfer costs. Cost of goods sold – idle capacity consists of direct production costs in excess of charges allocated to finished goods in production. Plant costs include labor costs, production supplies, repairs and maintenance, and inventory write-off. Charges for labor and overhead allocated to finished goods are determined on a market cost basis, which is lower than the actual costs incurred. Plant costs in excess of production allocations are expensed in the period incurred rather than added to the cost of finished goods produced. Expenses not related to the production of our products are classified as operating expenses.

I)Delivery and Handling Expenses

Shipping and handling costs are comprised of purchasing and receiving costs, inspection costs, warehousing costs, transfer freight costs, and other costs associated with product distribution after manufacture and are included as part of 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)*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.

The Company accounts for certain sales incentives, including slotting fees, as a reduction of gross sales. These sales incentives for the years ended December 31, 2012 and 2011 approximated $2,345,000 and $1,463,000, respectively.

L)Net Loss Per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) applicable to Common Stockholders by the weighted average number of shares of Common Stock outstanding during the year. Diluted earnings (loss) per share is computed by dividing the net income (loss) applicable to Common Stockholders by the weighted average number of common shares outstanding plus the number of additional common shares that would have been outstanding if all dilutive potential common shares had been issued, using the treasury stock method. Potential common shares are excluded from the computation as their effect is antidilutive.

For the years ended December 31, 2012 and 2011, 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,	
	2012	2011
Warrants	317,253	2,006,870
Series A Preferred Stock	41,644	186,484
Series B Preferred Stock	319,214	562,905
Options	607,000	1,172,000
Total	1,285,111	3,928,259

F-8

M) Advertising Costs

Advertising costs are expensed as incurred and are included in selling expense in the amount of $111,000 and $25,000, for the years ended December 31, 2012 and 2011, respectively.

N) Stock Compensation Expense

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on Financial Accounting Standards Board (FASB) ASC Topic 718, "Compensation – Stock Compensation", whereas the award is measured at its fair value at the date of grant and is amortized ratably over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with ASC Topic 718 whereas the value of the stock compensation is based upon the measurement date as determined at either (a) the date at which a performance commitment is reached, or (b) at the date at which the necessary performance to earn the equity instruments is complete.

O) Recent Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." This ASU requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU No. 2011-11 will be applied retrospectively and is effective for annual and interim reporting periods beginning on or after January 1, 2013. The Company does not expect adoption of this standard to have a material impact on its results of operations, financial condition, or liquidity.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the Securities Exchange Commission (the "SEC") did not or are not believed by management to have a material impact on the Company's present or future financial statements.

P) Reclassification

In presenting the Company's statement of operations for the year ended December 31, 2011, the Company previously presented $2,307,000 of delivery and handling expenses as part of cost of goods sold. In presenting the Company's statement of operations for the year ended December 31, 2012, the Company has reclassified the 2011 delivery and handling expenses to operating expenses.

F-9

(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, 2012	December 31, 2011
Raw Materials and Packaging	$3,524,000	$3,538,000
Finished Goods	2,270,000	2,561,000
	$5,794,000	$6,099,000

(3) Property and Equipment

Property and equipment is comprised of the following as of:

	December 31, 2012	December 31, 2011
Land	$1,108,000	$1,108,000
Building	1,737,000	1,708,000
Vehicles	320,000	320,000
Machinery and equipment	2,174,000	1,702,000
Office equipment	434,000	413,000
	5,773,000	5,251,000
Accumulated depreciation	(2,351,000)	(1,739,000)
	$3,422,000	$3,512,000

Depreciation expense for the years ended December 31, 2012 and 2011 was $612,000 and $561,000, respectively.

Machinery and equipment at December 31, 2012 and 2011 includes equipment held under capital leases of $309,000 and $294,000, respectively. Accumulated depreciation on equipment held under leases was $149,000 and 104,000 as of December 31, 2012 and 2011, respectively.

(4) Intangible Assets

Brand Names

Brand names consist of three trademarks for natural beverages. 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.

Deferred Financing Fees

Deferred financing fees are comprised of the following as of:

	December 31, 2012	December 31, 2011
Loan fees relating to financing	$ 80,000	$ 135,000
Accumulated amortization	(26,000)	(50,000)
	$ 54,000	$ 85,000

Amortization expense for the years ended December 31, 2012 and 2011 was approximately $75,000 and $42,000 respectively.

F-10

Amortization of deferred financing fees is as follows for the years ending December 31:

Year	Amount
2013	41,000
2014	8,000
2015	3,000
2016	2,000
Total	$54,000

(5) ***Line of Credit***

On November 9, 2011, the Company entered into a Loan and Security Agreement with PMC Financial Services Group, LLC. The Loan and Security Agreement replaced the Company's existing RLOC and added a $750,000 term loan to the credit (see Note 7). The RLOC initially was for $3 million, based on 85% of eligible accounts receivable and 50% of eligible inventory. The interest rate on the revolving line of credit is at the prime rate plus 3.75% (7% at December 31, 2012). The three-year Agreement is secured by all of the unencumbered assets of the Corporation. There is an early termination fee of 2% of the maximum revolver amount during the first two years and 1% of the maximum revolver during the third year. The Agreement includes a financial covenant debt service coverage ratio that is effective if the credit availability under the RLOC falls below $100,000. On November 30, 2011, the maximum RLOC amount was temporarily raised to $3.5 million, and on May 11, 2012, the Company's revolving line of credit was increased from $3,000,000 to $4,000,000. At December 31, 2012 and December 31, 2011, the aggregate amount outstanding under the line of credit was $3,023,000 and $3,095,000 respectively, and the Company had approximately $234,000 of availability on this line of credit at December 31, 2012. The line of credit expires on November 7, 2014 and is secured by substantially all of the Company's assets.

(6) Long Term Financing Obligation

Long term financing obligation is comprised of the following as of:

	December 31,	
	2012	2011
Financing obligation	$2,874,000	$2,944,000
Valuation discount	(576,000)	(626,000)
	2,298,000	2,318,000
Less current portion	(90,000)	(71,000)
Long term financing obligation	$2,208,000	$2,247,000

On June 15, 2009, the Company closed escrow on the sale of its two buildings and its brewery equipment and concurrently entered into a long-term lease agreement for the same property and equipment. In connection with the lease the Company has the option to repurchase the buildings and brewery equipment from 12 months after the commencement date to the end of the lease term at the greater of the fair market value or an agreed upon amount. Since the lease contains a buyback provision and other related terms, the Company determined it had continuing involvement that did not warrant the recognition of a sale; therefore, the transaction has been accounted for as a long-term financing. The proceeds from the sale, net of transaction costs, have been recorded as a financing obligation in the amount of $3,056,000. Monthly payments under the financing agreement are recorded as interest expense and a reduction in the financing obligation at an implicit rate of 9.9%. The financing obligation is personally guaranteed up to a limit of $150,000 by the principal shareholder and Chief Executive Officer, Christopher J. Reed.

In connection with the financing obligation, the Company issued an aggregate of 400,000 warrants to purchase its common stock at $1.20 per share for five years. The 400,000 warrants were valued at $752,000 and reflected as a debt discount, using the Black Scholes option pricing model. The following assumptions were utilized in valuing the 400,000 warrants: strike price of $2.10 to $2.25; term of 5 years; volatility of 91.36% to 110.9%; expected dividends 0%; and discount rate of 2.15% to 2.20%. The 400,000 warrants were recorded as valuation discount and are being amortized over 15 years, the term of the purchase option. Amortization of valuation discount was $50,000 during both of the years ended December 31, 2012 and 2011.

F-11

The aggregate amount due under the financing obligation at December 31, 2012 and 2011 was $2,874,000 and $2,944,000, respectively.

Aggregate future obligations under the financing obligation are as follows:

Year	
2013	$90,000
2014	111,000
2015	134,000
2016	161,000
2017	190,000
Thereafter	2,188,000
Total	$2,874,000

(7) Term Loan

In connection with the Loan and Security Agreement with PMC Financial Services Group, LLC (see Note 5), the Company entered into a Term Loan. The loan is for $750,000, bears interest at the prime rate plus 11.6%, which shall not be below 14.85%, is secured by all of the unencumbered assets of the Company, and is to be repaid in 48 equal installments of principal and interest of $21,000.

	December 31,	
	2012	2011
Term loan	$575,000	$728,000
Less current portion	(176,000)	(152,000)
Long term debt	$399,000	$576,000

Aggregate future obligations under the term loan are as follows:

Year	
2013	$176,000
2014	204,000
2015	195,000
Total	$575,000

(8) Obligations Under Capital Leases

The Company leases equipment for its brewery operations with an aggregate value of $294,000 under eight non-cancelable capital leases. Most of the leases are personally guaranteed by the Company's chief executive officer. Monthly payments range from $341 to $1,680 per month, including interest, at interest rates ranging from 6.51% to 17.32% per annum. At December 31, 2012, monthly payments under these leases aggregated $7,000. The leases expire at various dates through 2016.

Future minimum lease payments under capital leases are as follows:

Years Ending December 31,	
2013	$92,000
2014	71,000
2015	28,000
2016	14,000
Total payments	205,000
Less: Amount representing interest	38,000
Present value of net minimum lease payments	167,000
Less: Current portion	69,000
Non-current portion	$98,000

(9) Stockholders' Equity

Preferred Stock

Series A

Series A Preferred stock consists of 500,000 shares authorized to Series A, $10.00 par value, 5% non-cumulative, participating, preferred stock. As of December 31, 2012 and 2011, there were 10,411 and 46,621 shares outstanding, respectively, with a liquidation preference of $10.00 per share.

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. During the year ended December 31, 2012 the Company accrued and paid a $16,000 dividend payable to the preferred shareholders, which the board of directors elected to pay through the issuance of 4,760 shares of its common stock; and during the year ended December 31, 2011 the Company accrued and paid a $23,000 dividend payable to the preferred shareholders, which the board of directors elected to pay through the issuance of 11,455 shares of its common stock.

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. Since June 30, 2008, 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. During the year ended December 31, 2012, 36,210 shares of Series A preferred stock were converted into 144,840 shares of common stock and in 2011, no shares of Series A preferred stock were converted into shares of common 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.

Series B

Series B Preferred stock consists of 500,000 shares authorized to Series B, $10.00 par value, 5% non-cumulative, participating, preferred stock. As of December 31, 2012 and 2011 there were 45,602 and 80,415 shares outstanding, respectively.

On February 5, 2011, the Company completed a standby offering of 12,780 shares of its Series B Convertible Preferred Stock at $10.00 per share, for gross proceeds of $127,800. In connection with the offering, the Company also issued warrants to purchase 3,575 shares of common stock at $1.79 per share for five years. The Company paid legal and broker fees of approximately $11,000 in connection with the offering, resulting in net proceeds to the Company of $117,000.

These preferred shares have a 5% pro-rata annual non-cumulative dividend payable quarterly for a period of three years. 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. During the year ended December 31, 2012, $29,000 in dividends were accrued and $38,000 of dividends were paid by the issuance of 27,313 shares of common stock, as shares of Series B Preferred were converted into shares of common stock. During the year ended December 31, 2011, $42,000 in dividends were accrued and $3,000 of dividends were paid by the issuance of 2,078 shares of common stock.

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 B 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.

The Series B 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 seven 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 B preferred stock. During the year ended December 31, 2012, 34,813 shares of preferred stock were converted into 243,691 shares of common stock. During the year ended December 31, 2011, 5,351 shares of Series B preferred stock were converted into 37,457 shares of common stock.

Except as provided by law, the holders of our Series B 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 B preferred stock are outstanding, we shall not, without first obtaining the approval of at least a majority of the holders of the Series B preferred stock, authorize or issue any equity security having a preference over the Series B 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.

Common Stock

Common stock consists of $.0001 par value, 19,500,000 shares authorized, 12,084,673 shares issued and outstanding as of December 31, 2012 and 10,885,833 shares issued and outstanding as of December 31, 2011.

On February 3, 2011 the Company sold 304,880 shares of common stock at $2.46 per share for $750,000. In connection with the sale, the Company granted to the investors warrants to purchase 121,952 shares of common stock for $2.77 for five years. The Company paid an 8% placement agent fee of $60,000. The Company received proceeds from the private placement, after deducting placement agent fees and offering expenses, of $672,000. On March 25, 2011, the Registration Statement of the common stock to be sold and the common stock underlying the warrants with the Securities and Exchange Commission was declared effective, in accordance with the Registration Rights Agreement.

During the year ended December 31, 2011, the Company issued 63,873 shares of common stock for services rendered at prices ranging from $1.32 to $2.69 per share with a value of $131,000. During the year ended December 31, 2011, the Company issued 9,000 shares of common stock at a price of $1.75 with a value of $15,000 for financing fees related to the capital leases. The value of the shares has been recorded as deferred financing fees and are being amortized over the term of the capital leases.

During the year ended December 31, 2012, the Company issued 14,965 shares of common stock for services rendered at prices ranging from $1.13 to $2.17 per share with a value of $23,000.

(10) Stock Options and Warrants

A) Stock Options

In 2001, the Company adopted the Original Beverage Corporation 2001 Stock Option Plan and, in 2007, the Company adopted the Reed's Inc 2007 Stock Option Plan (the "Plans"). The options under both plans 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. The total number of options authorized is 500,000 and 1,500,000, respectively for the Original Beverage Corporation 2001 Stock Option Plan and the Reed's Inc 2007 Stock Option Plan.

During the years ended December 31, 2012 and 2011, the Company granted 10,000 and 437,000 options, respectively, to purchase the Company's common stock at a weighted price of $1.85 and a weighted average price of $1.48, respectively, to employees under the Plans. The aggregate value of the options vesting, net of forfeitures, during the years ended December 31, 2012 and 2011 was $112,000 and $210,000, respectively, and has been reflected as compensation cost. As of December 31, 2012, the aggregate value of unvested options was $145,000, which will be amortized as compensation cost as the options vest, over 2 - 3 years.

On April 9, 2012, the Company repriced 20,000 employee options to an exercise price of $1.83, which were previously $2.43 per share and $2.06 per share. The total increase in stock compensation expense, as a result of the repricing was $3,000. On December 23, 2011, the Company repriced 20,000 employee options to an exercise price of $1.14, which were previously $2.06 per share; and extended the termination date of 420,000 employee options until December 22, 2016. Such options previously were to expire on dates that were between 8 months and 48 months from the extension date. The total increase in stock compensation expense, as a result of the repricing and extensions, was $53,000; of which $48,000 was recognized in the year ended December 31, 2011 and $5,000 in the year ended December 31, 2012. During the year ended December 31, 2012 there were 408,334 options exercised at an average price of $1.05, resulting in proceeds to the Company of $30,000. Most of such exercises were cash-less, resulting in no proceeds to the Company. During the year ended December 31, 2011 there were 8,333 stock options exercised at a price of $0.75 per share resulting in proceeds to the Company of $6,000.

The weighted-average grant date fair value of options granted during 2012 and 2011 was $0.40 and $0.66, respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. For purposes of determining the expected life of the option, an average of the estimated holding period is used. The risk-free rate for periods within the contractual life of the options is based on the U. S. Treasury yield in effect at the time of the grant.

	Year ended December 31,	
	2012	2011
Expected volatility	48%	48% - 92%
Expected dividends	—	—
Expected average term (in years)	3.0	3.0
Risk free rate - average	0.9%	1.30%
Forfeiture rate	0%	0%

A summary of option activity as of December 31, 2012 and changes during the two years then ended is presented below:

	Shares	Weighted-Average	Weighted-Average	Aggregate
		Exercise Price	Remaining	Intrinsic

			Contractual Terms (Years)	Value
Outstanding at December 31, 2010	840,000	$1.74		
Granted	437,000	$1.48		
Exercised	-	-		
Forfeited or expired	(105,000)	$2.59		
Outstanding at December 31, 2011	1,172,000	$1.55		
Granted	10,000	$1.85		
Exercised	(408,334)	$1.05		
Forfeited or expired	(166,666)	$4.46		
Outstanding at December 31, 2012	607,000	$1.27	3.6	$2,668,000
Exercisable at December 31, 2012	411,165	$1.17	3.7	$1,847,000

The aggregate intrinsic values of $2,668,000 and $1,847,000 were calculated as the difference between the market price and the exercise price of the Company’s stock, which was $5.68 as of December 31, 2012.

A summary of the status of the Company's nonvested shares granted under the Company's stock option plan as of December 31, 2012 and changes during the year then ended is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2011	505,000	$0.74
Granted	10,000	$0.40
Vested	(205,276)	$0.55
Forfeited	(113,888)	$1.41
Nonvested at December 31, 2012	195,836	$0.65

Additional information regarding options outstanding as of December 31, 2012 is as follows:

	Options Outstanding at December 31, 2012			Options Exercisable at December 31, 2012	
Range of Exercise Price	Number of Shares Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price
$0.01 - $1.99	472,000	3.80	$1.05	332,831	$0.67
$2.00 - $4.99	135,000	2.90	$2.01	78,334	$1.96
	607,000			411,165	

B) Warrants

On February 9, 2011, the Company granted warrants to purchase 3,575 shares of common stock to a dealer-manager in connection with the placement of its Series B Convertible Preferred Stock. The warrants are exercisable for five years at an exercise price of $1.79. On February 22, 2011, the Company granted warrants to purchase 83,208 shares of common stock to investors who purchased 277,359 shares of its common stock. The warrants are exercisable for five years at an exercise price of $2.10.

On February 3, 2011, the Company granted warrants in connection with a placement of 304,880 shares of its common stock to purchase 121,952 shares of common stock for $2.77 for a term of five years. In connection with the same placement, the Company also granted warrants to purchase 24,390 shares of common stock to a dealer-manager at a price of $3.075 for five years. In February 2011, 11,000 warrants were exercised at a price of $2.25 per share resulting in proceeds to the Company of $25,000.

On April 8, 2011, the Company granted to a consultant 250,000 warrants to purchase common stock at a price of $3.00 for five years. The warrants vest monthly over 24 months. In October 2011, the consultant agreement was terminated, so no further vesting shall occur on these warrants. During the year ended December 31, 2011, 62,500 of such warrants vested, resulting in expense of $42,000, and 187,500 of such warrants were forfeited.

During the year ended December 31, 2012 there were 574,622 warrants exercised at prices between $1.20 per share and $3.08 per share (an average price of $1.61), resulting in proceeds to the Company of $147,000 and 416,328 shares of common stock issued.

The following table summarizes warrant activity for the two years ended December 31, 2012:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	2,009,028	$4.68		
Granted	396,342	$2.93		
Exercised	(11,000)	$2.25		
Forfeited or expired	(387,500)	$4.86		
Outstanding at December 31, 2011	2,006,870	$4.32		
Granted	-	-		
Exercised	(574,622)	$1.61		
Forfeited or expired	(1,114,995)	$6.26		
Outstanding at December 31, 2012	317,253	$2.40	1.7	$1,906,000
Exercisable at December 31, 2012	317,253	$2.40	2.7	$1,906,000

The aggregate intrinsic value of $1,906,000 was calculated, as of December 31, 2012, as the difference between the market price and the exercise price of the Company's stock, which was $5.68 as of December 31, 2012.

The fair value of each warrant is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company. For purposes of determining the expected life of the warrant, the full contract life of the warrant is used. The risk-free rate for periods within the contractual life of the warrants is based on the U. S. Treasury yield in effect at the time of the grant.

	Year ended December 31,	
	2012	2011
Expected volatility	N/A	48% - 76%
Expected dividends	N/A	-
Expected term (in years)	N/A	5
Risk free rate	N/A	1.6%

The weighted-average grant date fair value of warrants granted during 2011 was $0 and $0.98 respectively. There were no warrants granted in 2012.

The following table summarizes the outstanding warrants to purchase Common Stock at December 31, 2012:

Number	**Exercise Price**	Expiration Dates
83,208	$2.10	August 2015
116,565	$2.25	April 2015
117,480	$2.77	February 2016
317,253		

(11) Income Taxes

At December 31, 2012 and 2011, the Company had available Federal and state net operating loss carryforwards to reduce future taxable income. The amounts available were approximately $16.5 million and $16.2 million for Federal purposes, respectively, and $12.5 million and $12.3 million for state purposes respectively. The Federal carryforward expires in 2033 and the state carryforward expires in 2018. Given the Company's history of net operating losses, management has determined that it is more likely than not that 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.

Effective January 1, 2007, the Company adopted FASB guidelines that address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. This guidance also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. At the date of adoption, and as of December 31, 2012 and 2011, the Company did not have a liability for unrecognized tax benefits, and no adjustment was required at adoption.

The Company’s policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2012 and 2011, the Company has not accrued interest or penalties related to uncertain tax positions. Additionally, tax years 2007 through 2012 remain open to examination by the major taxing jurisdictions to which the Company is subject.

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 are as follows as of:

	December 31, 2012	December 31, 2011
Deferred income tax asset:		
Net operating loss carry forward	$6,000,000	$6,150,000
Valuation allowance	(6,000,000)	(6,150,000)
Net deferred income tax asset	$–	$–

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

	Year Ended December 31, 2012	2011
Federal Statutory tax rate	(34)%	(34)%
State tax, net of federal benefit	(5)%	(5)%
	(39)%	(39)%

Valuation allowance	39 %	39 %
Effective tax rate	– %	– %

(12) Commitments and Contingencies

Lease Commitments

The Company leases warehouse space under non-cancelable operating leases. Rental expense for the years ended December 31, 2012 and 2011 was $237,000 and $129,000, respectively.

Future payments under these leases as of December 31, 2012 are as follows:

Year ending December 31,	Amount
2013	$181,000
2014	186,000
2015	138,000
2016	138,000
2017	131,000
Total	$774,000

Other Commitments

The Company has entered into contracts with customers with clauses that commit the Company to pay fees if the Company terminates the agreement early or without cause. The contracts call for the customer to have the right to distribute the Company's products to a defined type of retailer within a defined geographic region. If the Company should terminate the contract or not automatically renew the agreements without cause, amounts would be due to the customer. As of December 31, 2012 and 2011, the Company has no plans to terminate or not renew any agreement with any of their customers; therefore, no fees have been accrued in the accompanying financial statements.

(13) ***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.

From August 3, 2005 through April 7, 2006, we issued 333,156 shares of our common stock in connection with our initial public offering. These securities represented all of the shares issued in connection with the initial public offering prior to October 11, 2006. These 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.

On August 12, 2006, we made a rescission offer to all holders of the outstanding shares that we believe are subject to rescission, pursuant to which we offered to repurchase these shares then outstanding from the holders. At the expiration of the rescission offer on September 18, 2006, the rescission offer was accepted by 32 of the offerees to the extent of 28,420 shares for an aggregate of $119,000, including statutory interest. The shares that were tendered for rescission were agreed to be purchased by others and not from our funds.

Federal securities laws do not provide that a rescission offer will terminate a purchaser’s right to rescind a sale of stock that was not registered as required or was not otherwise exempt from such registration requirements. With respect to the 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 may be required to pay. 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. However, we believe the rescission offer provides us with additional meritorious defenses against any future claims relating to these shares.

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.

(14) Related Party Activity

During the year ended December 31, 2008, the Company entered into an agreement for the distribution of its products internationally. The agreement is between the Company and a company controlled by two brothers of Christopher Reed, Chief Executive Officer of the Company. The agreement remains in effect until terminated by either party and requires the Company to pay 10% of the defined sales of the previous month. During the year ended December 31, 2012, the Company paid commissions on sales of $15,000, and during the year ended December 31, 2011, the Company paid commissions on sales of $66,000.

(15) Subsequent Events

From January 1, 2013 until February 20, 2013, Company employees exercised 51,665 options at prices between $0.86 and $2.02, and received proceeds of $30,000 and issued 47,867 shares of common stock. On January 23, 2013 the Company issued 1,189 shares of common stock as a cashless exercise of a warrant for 2,000 shares at $2.25.

As of February 15, 2013, the Company declared a mandatory conversion of its Series B Convertible Preferred Stock. The company issued 319,214 shares of common stock in exchange for the remaining 45,602 shares of Series B Convertible Preferred Stock outstanding. The Company also issued 47,890 shares of common stock to the Series B Convertible Preferred Stock shareholders as payment of dividends that had accrued in the amount of $1.05 per share.

On March 4, 2013, the Company granted stock options to employees for 256,000 shares with an exercise price of $4.00 per share, the market closing price of its common stock on the grant date with a fair value of approximately $287,000.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Management's Annual Report on Internal Control over Financial Reporting

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Securities and Exchange Act of 1934 Rules 13a-15(f). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2012.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on our assessment we concluded that, as of December 31, 2012, the Company's internal control over financial reporting was effective.

This report shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act

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 death, resignation or removal. Officers serve at the discretion of the board of directors. Our board members are encouraged to attend meetings of the board of directors and the annual meeting of stockholders. The board of directors held nine meetings in 2012. The following table sets forth certain information with respect to our current directors and executive officers:

Name	Position	Age
Christopher J. Reed	President, Chief Executive Officer and Chairman of the Board	54
James Linesch	Chief Financial Officer	58
Thierry Foucaut	Chief Operating Officer	48
Judy Holloway Reed	Secretary and Director	53
Mark Harris	Director	57
Daniel S.J. Muffoletto	Director	58
Michael Fischman	Director	57

Business Experience of Directors and Executive Officers

Christopher J. Reed founded our company in 1987. Mr. Reed has served as our Chairman, President and Chief Executive Officer since our incorporation in 1991. Mr. Reed also served as Chief Financial Officer during fiscal year 2007 until October 1, 2007 and again from April 17, 2008 to January 19, 2010. 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.

James Linesch was appointed as Chief Financial Officer effective January 19, 2009. Mr. Linesch served as the chief financial officer of AdStar, Inc., a public company providing ad placement services and payment processing software for publishers, from February 2006 until January 2009. He performed transaction intermediary services with MET Advisors, LLC from January 2005 until January 2006. From June 2000 to October 2004, he served as chief financial officer of DynTek, Inc., an information technology (IT) services company. From May 1996 until October 1999, he served as chief financial officer and president of CompuMed, Inc. He also served as chief financial officer of Universal Self Care, Inc. from June 1991 until May 1996. Mr. Linesch is a certified public accountant (CPA), having practiced with Price Waterhouse in Los Angeles. He earned a BS degree in finance from California State University, Northridge, and an MBA from the University of Southern California.

Thierry Foucaut has been our Chief Operating Officer since May 2007. Prior to joining us, Mr. Foucaut worked for six years as Chief Operating Officer of Village Imports, a $30 million specialty foods and beverage distributor in California, where he created and launched a line of sparkling lemonades and managed the company’s operations including multiple warehouses and fleets of DSD delivery trucks. Mr. Foucaut spent 2000 with Eve.com, a leading San Francisco website specializing in retail sales of high-end cosmetics. Mr. Foucaut worked for L’Oréal Paris from 1994 through 1999 with growing marketing and sales responsibilities, including Product Manager from September 1994 to May 1996, South Europe Marketing Coordinator from June 1996 to July 1998 and Duty Free Key Account Executive from July 1998 to December 1999, managing large airport and airline clients over several European countries. He earned a Master of Science degree from Ecole Centrale Paris in 1988, and an MBA from Harvard Business School in 1994.

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, and our Secretary since October 1996. 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 and Chief Executive 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 a founding investor. From 1991 to 2002, Mr. Harris worked at Amgen, Inc. (Nasdaq: AMGN), a preeminent biotech company, managing much of Amgen'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.

Daniel S.J. Muffoletto, N.D. has been a member of our board of directors from April 2005 to December 2006 and from January 2007 to the present. Dr. Muffoletto has practiced as a Naturopathic Physician since 1986. He has served as 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.

Family Relationships

Other than the relationship of Christopher J. Reed, and Judy Holloway Reed, Christopher Reed's wife and a board member, none of our directors or executive officers are related to one another.

Legal Proceedings

To the best of our knowledge, none of our executive officers or directors are parties to any material proceedings adverse to Reed’s, have any material interest adverse to Reed’s or have, during the past ten years:

- been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- had any bankruptcy petition filed by or against him/her or any business of which he/she was a general partner or executive officer, either at the time of the bankruptcy or within two years prior to that time;
- been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his/her involvement in any type of business, securities, futures, commodities or banking activities;

- been found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;

been subject to, or party to, any judicial or administrative order, judgment, decree , or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of (i) any Federal or State securities or commodities law or regulation, (ii) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order or (iii) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

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been subject to, or party to, any judicial or administrative order, judgment, decree , or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of (i) any Federal or State securities or commodities law or regulation, (ii) any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order or (iii) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Corporate Governance

We are committed to having sound corporate governance principles. We believe that such principles are essential to running our business efficiently and to maintaining our integrity in the marketplace. There have been no changes to the procedures by which stockholders may recommend nominees to our board of directors.

Director Qualifications

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 of directors 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.

Director Independence

The board of directors has determined that three members of our board of directors, Mr. Harris, Dr. Muffoletto and Mr. Fischman, are independent under the New York Stock Exchange Listed Company Manual. We intend to maintain at least three independent directors on our board of directors in the future.

Code of Ethics

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. Our Code of Ethics is posted on our website at www.reedsinc.com.

Board Structure and Committee Composition

As of the date of this Annual Report, our board of directors has five directors and the following three standing committees: an Audit Committee, a Compensation Committee and a Nominations and Governance Committee. These committees were formed in January 2007.

Audit Committee. Our Audit Committee oversees our accounting and financial reporting processes, internal systems of accounting and financial controls, relationships with independent auditors and audits of financial statements. Specific responsibilities include the following:

- selecting, hiring and terminating our independent auditors;
- evaluating the qualifications, independence and performance of our independent auditors;
- approving the audit and non-audit services to be performed by our independent auditors;
- reviewing the design, implementation, adequacy and effectiveness of our internal controls and critical accounting policies;
- overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;
- reviewing with management and our independent auditors, any earnings announcements and other public announcements regarding our results of operations; and
- preparing the audit committee report that the SEC requires in our annual proxy statement.

Our Audit Committee is comprised of Dr. Muffoletto, Mr. Harris and Mr. Fischman. Dr. Muffoletto serves as Chairman of the Audit Committee. The board of directors has determined that the three members of the Audit Committee are independent under the rules of the SEC and the New York Stock Exchange Listed Company Manual and that Dr. Muffoletto qualifies as an “audit committee financial expert,” as defined by the rules of the SEC. Our board of directors has adopted a written charter for the Audit Committee meeting applicable standards of the SEC and the New York Stock Exchange.

Compensation Committee. Our Compensation Committee assists our board of directors in determining and developing plans for the compensation of our officers, directors and employees. Specific responsibilities include the following:

- approving the compensation and benefits of our executive officers;

- reviewing the performance objectives and actual performance of our officers; and
- administering our stock option and other equity compensation plans.

26

Our Compensation Committee is comprised of Dr. Muffoletto, Mr. Harris and Mr. Fischman. The board of directors has determined that all of the members of the Compensation Committee are independent under New York Stock Exchange Listed Company Manual Section 303A.02. In affirmatively determining the independence of a director who will serve on the compensation committee, the Company's board considered all factors specifically relevant to whether the director has a relationship to the Company which is material to the director's ability to be independent from management in connection with the duties of a committee member, including, without limitation: (1) the source of compensation of the director, including any consulting, advisory or other compensatory fee paid by the Company; and (2) whether the director is affiliated with the Company, or an affiliate of the Company.

Our board of directors has adopted a written charter for the Compensation Committee.

Nominations and Governance Committee. Our Nominations and Governance Committee assists the board of directors by identifying and recommending individuals qualified to become members of our board of directors, reviewing correspondence from our stockholders, and establishing, evaluating and overseeing our corporate governance guidelines. Specific responsibilities include the following:

- evaluating the composition, size and governance of our board of directors and its committees and making recommendations regarding future planning and the appointment of directors to our committees;
- establishing a policy for considering stockholder nominees for election to our board of directors; and
- evaluating and recommending candidates for election to our board of directors.

Our Nominations and Governance Committee is comprised of Dr. Muffoletto and Mr. Fischman. The board of directors has determined that all of the members of the Nominations and Governance Committee are independent under the rules of the New York Stock Exchange Listed Company Manual. Our board of directors has adopted a written charter for the Nominations and Corporate Governance Committee.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") requires our directors and executive officers and beneficial holders of more than 10% of our common stock to file with the SEC initial reports of ownership and reports of changes in ownership of our equity securities.

To our knowledge, based solely upon a review of Forms 3 and 4 and amendments thereto furnished to Reed's under 17 CFR 240.16a-3(e) during our most recent fiscal year and Forms 5 and amendments thereto furnished to Reed's with respect to our most recent fiscal year or written representations from the reporting persons, we believe that during the year ended December 31, 2012 our directors, executive officers and persons who own more than 10% of our common stock complied with all Section 16(a) filing requirements.

27

Item 11. Executive Compensation

The following table summarizes all compensation for fiscal years 2012 and 2011 received by our principal executive officer, principal financial officer and chief operating officer, who are the only executive officers of the Company in fiscal year 2012, our “Named Executive Officers”.

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation Earnings	All Other Compensation	Total
Christopher J. Reed, Chief Executive Officer (Principal Executive Officer)	2012	$217,000	$4,000	–	$–	–	–	$ 4,616 (2)	$221,000
	2011	$190,000	$3,045	–	$19,000	–	–	$ 4,616 (2)	$216,661
James Linesch, Chief Financial Officer (Principal Financial Officer)	2012	$181,009	$29,000	–	$ –	–	–	–	$210,009
	2011	$175,400	$3,045	–	$ 15,200	–	–	–	$193,645
Thierry Foucaut, Chief Operating Officer	2012	$184,154	$ –	$	$ –				$184,154
	2011	$180,000	$ 3,045	$	$ 9,500				$192,545

(1) The amounts represent the fair value for all share-based payment awards, calculated on the date of grant in accordance with Financial Accounting Standards, excluding any impact of assumed forfeiture rates.
(2) Represents value of automobile provided to Christopher J. Reed.

Employment Agreements

There are no employment agreements with our executive officers. Mr. Reed is currently paid an annual Salary of $190,000; Mr. Linesch is currently paid an annual salary of $175,000; and Mr. Foucaut is currently paid an annual salary of $180,000. Any bonuses are discretionary. In the event of a sale of Reed’s, Inc., should Mr. Linesch’s employment terminate during the first 12 months after the sale, he will be entitled to three months severance based on his compensation level at that time.

28

Outstanding Equity Awards At Fiscal Year-End

The following table sets forth information regarding unexercised options and equity incentive plan awards for each Named Executive Officer outstanding as of December 31, 2012.

Name and Position	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable		Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date
Christopher J. Reed, Chief Executive Officer	25,000	25,000	(1)	–	$1.14	12/22/16
James Linesch, Chief Financial Officer	13,333	6,667	(3)	–	$1.14	12/22/16
	20,000	20,000	(4)	–	$1.14	12/22/16
Thierry Foucaut, Chief Operating Officer	12,500	12,500	(5)	–	$1.14	12/22/16

Vesting of Options:

(1) 25,000 will vest on 12/23/13
(2) 25,000 vested on 01/03/12.
(3) 6,667 will vest on 12/30/13
(4) 20,000 will vest on 12/23/13
(5) 12,500 will vest on 12/23/13

Director Compensation

The following table summarizes the compensation paid to our directors for the fiscal year ended December 31, 2012:

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Judy Holloway Reed	$1,350					$1,350
Mark Harris	$2,350					$2,350

Daniel S.J. Muffoletto	$12,096(1)	$12,096
Michael Fischman	$750	$750

(1) Since November 2007, Dr. Muffoletto receives $833 per month to serve as the Chairman of the Audit Committee.

Item 12. Security Ownership of Certain Beneficial Owners, Management and Related Stockholder Matters

The following table reflects, as of March 7, 2013, the beneficial common stock ownership of: (a) each of our directors, (b) each of our current named executive officers, (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.

29

Name of Named Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned (1)
Directors and Named Executive Officers		
Christopher J. Reed [(2)]	1,615,475	12.9
Judy Holloway Reed [(2)]	1,615,475	12.9
Mark Harris [(3)]	9,363	*
Daniel S.J. Muffoletto, N.D.	0	*
Michael Fischman	0	*
James Linesch [(4)]	112,921	*
Thierry Foucaut [(5)]	70,049	*
Directors and executive officers as a group (7 persons)	1,807,808	14.4
5% or greater stockholders		
Robert Reed [(6)]	800,000	6.4

* 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 March 8, 2012 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. Percentage of ownership is based on approximately 12,500,833 shares of common stock outstanding as of March 8, 2012.

(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. Consists of 1,584,225 shares of common stock and options to purchase 31,250 shares of common stock. Does not include options to purchase up to 43,750 shares of common stock, which vest over two years.

(3) The address for Mr. Harris is 160 Barranca Road, Newbury Park, California 91320.

(4) Consists of 73,338 shares of common stock and options to purchase 39,583 shares of common stock. Does not include options to purchase 45,417 shares of common stock vesting over two years.

(5) Consists of 51,299 shares of common stock and options to purchase up to 18,750 shares of common stock. Does not include options to purchase up to 31,250 shares of common stock, which vest over two years.

(6) Robert Reed is the trustee of the Reed Family Irrevocable Trust One and the Reed Family Irrevocable Trust Two. Each trust owns 400,000 shares of common stock. As sole Trustee, Robert Reed holds voting and dispositive power over all of these shares.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Our board of directors has adopted written policies and procedures for the review of any transaction, arrangement or relationship between Reed's and one of our executive officers, directors, director nominees or 5% or greater stockholders (or their immediate family members), each of whom we refer to as a "related person," in which such related person has a direct or indirect material interest.

30

If a related person proposes to enter into such a transaction, arrangement or relationship, defined as a “related party transaction,” the related party must report the proposed related party transaction to our Chief Financial Officer. The policy calls for the proposed related party transaction to be reviewed and, if deemed appropriate, approved by the Nominations and Governance Committee. Our Nominations and Governance Committee is comprised of Dr. Muffoletto and Mr. Fischman. The board of directors has determined that all of the members of the Nominations and Governance Committee are independent under the rules of the New York Stock Exchange Listed Company Manual. If practicable, the reporting, review and approval will occur prior to entry into the transaction. If advance review and approval is not practicable, the Nominations and Governance Committee will review, and, in its discretion, may ratify the related party transaction. Any related party transactions that are ongoing in nature will be reviewed annually at a minimum. The related party transactions listed below were reviewed by the full board of directors. Prior to August 2005, we did not have independent directors on our board to review and approve related party transactions. The Nominations and Governance Committee shall review future related party transactions.

During the years December 31, 2012 and 2011, we have participated in the following transactions in which a related person had or will have a direct or indirect material interest:

Judy Holloway Reed, our Secretary and director, is Christopher J. Reed’s spouse.

During the year ended December 31, 2008, the Company entered into an agreement for the distribution of its products internationally. The agreement is between the Company and a company controlled by two brothers of Christopher Reed, Chief Executive Officer of the Company. The agreement remains in effect until terminated by either party and requires the Company to pay 10% of the defined sales of the previous month. During the year ended December 31, 2012, the Company paid commissions on sales of $15,000, and during the year ended December 31, 2011, the Company paid commissions on sales of $66,000.

Item 14. Principal Accounting Fees and Services

Weinberg & Company, P.A. (“Weinberg”) was our independent registered public accounting firm for the years ended December 31, 2012 and 2011.

The following table shows the fees paid or accrued by us for the audit and other services provided by Weinberg for the years ended December 31, 2012 and 2011.

	2012	2011
Audit Fees	$57,000	$100,000

Audit-Related Fees	0	0
Tax Fees	5,000	5,000
All Other Fees	0	0
Total	$62,000	$105,000

As defined by the SEC, (i) “audit fees” are fees for professional services rendered by our principal accountant for the audit of our annual financial statements and review of financial statements included in our Form 10-K, or for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years; (ii) “audit-related fees” are fees for assurance and related services by our principal accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “audit fees;” (iii) “tax fees” are fees for professional services rendered by our principal accountant for tax compliance, tax advice, and tax planning; and (iv) “all other fees” are fees for products and services provided by our principal accountant, other than the services reported under “audit fees,” “audit-related fees,” and “tax fees.”

Audit Fees

Services provided to us by Weinberg with respect to such periods consisted of the audits of our financial statements and limited reviews of the financial statements included in Quarterly Reports on Form 10-Q. Weinberg also provided services with respect to the filing of our registration statements in 2012 and 2011.

31

Audit Related Fees

Weinberg did not provide any professional services to us with which would relate to “audit related fees.”

Tax Fees

Weinberg prepared our 2012 and 2011 Federal and state income taxes.

All Other Fees

Weinberg did not provide any professional services to us with which would relate to “other fees.”

Audit Committee Pre-Approval Policies and Procedures

Under the SEC’s rules, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent registered public accounting firm in order to ensure that they do not impair the auditors’ independence. The Commission’s rules specify the types of non-audit services that an independent auditor may not provide to its audit client and establish the Audit Committee’s responsibility for administration of the engagement of the independent registered public accounting firm.

Consistent with the SEC’s rules, the Audit Committee Charter requires that the Audit Committee review and pre-approve all audit services and permitted non-audit services provided by the independent registered public accounting firm to us or any of our subsidiaries. The Audit Committee may delegate pre-approval authority to a member of the Audit Committee and if it does, the decisions of that member must be presented to the full Audit Committee at its next scheduled meeting. Accordingly, 100% of audit services and non-audit services described in this Item 14 were pre-approved by the Audit Committee.

There were no hours expended on the principal accountant’s engagement to audit the registrant’s financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant’s full-time, permanent employees.

PART IV

Item 15. Exhibits and Financial Statements

(a) 1. Financial Statements

See Index to Financial Statements in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

2. Financial Statement Schedules

All other financial statement schedules have been omitted because they are either not applicable or the required information is shown in the financial statements or notes thereto.

3. Exhibits

See the Exhibit Index, which follows the signature page of this Annual Report on Form 10-K, which is incorporated herein by reference.

(b) Exhibits

See Item 15(a) (3) above.

(c) Financial Statement Schedules

See Item 15(a) (2) above.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 25, 2013	**REED'S, INC.** a Delaware corporation
	By: /s/ Christopher J. Reed Christopher J. Reed Chief Executive Officer

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ CHRISTOPHER J. REED Christopher J. Reed	Chief Executive Officer, President and Chairman of the Board of Directors (Principal Executive Officer)	March 25, 2013
/s/ JAMES LINESCH James Linesch	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 25, 2013
/s/ JUDY HOLLOWAY REED Judy Holloway Reed	Director	March 25, 2013
/s/ MARK HARRIS Mark Harris	Director	March 25, 2013
/s/ DANIEL S.J. MUFFOLETTO Daniel S.J. Muffoletto	Director	March 25, 2013

Michael Fischman	Director	March 25, 2013

33

EXHIBIT INDEX

3.1	Certificate of Incorporation of Reed’s, Inc. as filed September 7, 2001 (Incorporated by reference to Exhibit 3.1 to Reed’s, Inc.’s Registration Statement on Form SB-2 (File No. 333-120451))
3.2	Certificate of Amendment of Certificate of Incorporation of Reed’s, Inc. as filed September 27, 2004 (Incorporated by reference to Exhibit 3.2 to Reed’s, Inc.’s Registration Statement on Form SB-2 (File No. 333-120451))
3.3	Certificate of Amendment of Certificate of Incorporation of Reed’s, Inc. as filed December 18, 2007 (Incorporated by reference to Exhibit 3.3 to Reed’s, Inc.’s Registration Statement on Form S-1 (File No. 333-156908))
3.4	Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Reed’s, Inc. as filed October 12, 2004 (Incorporated by reference to Exhibit 3.3 to Reed’s, Inc.’s Registration Statement on Form SB-2 (File No. 333-120451))
3.5	Certificate of Correction to Certificate of Designations as filed November 10, 2004 (Incorporated by reference to Exhibit 3.4 to Reed’s, Inc.’s Registration Statement on Form SB-2 (File No. 333-120451))
3.6	Amended Certificate of Designation of Series B Convertible Preferred Stock, filed December 4, 2009 (filed herewith)
3.7	Bylaws of Reed’s Inc., as amended (Incorporated by reference to Exhibit 3.1 to Reed’s, Inc.’s Current Report on Form 8-K filed December 19, 2012)
4.1	Form of common stock certificate (Incorporated by reference to Exhibit 4.1 to Reed’s, Inc.’s Registration Statement on Form SB-2 (File No. 333-120451))
4.2	Form of Series A preferred stock certificate (Incorporated by reference to Exhibit 4.2 to Reed’s, Inc.’s Registration Statement on Form SB-2 (File No. 333-120451))
10.1	Waiver to Loan and Security Agreement dated January 5, 2009 (Incorporated by reference to Exhibit 10.19 to Reed’s, Inc.’s Registration Statement on Form S-1 (File No. 333-156908))
10.2*	2001 Stock Option Plan (Incorporated by reference to Exhibit 4.3 to Reed’s, Inc.’s Registration Statement on Form SB-2 (File No. 333-120451)
10.3	Reed’s Inc. Master Brokerage Agreement between Reed’s, Inc. and Reed’s Brokerage, Inc. dated May 1, 2008 (Incorporated by reference to Exhibit 10.21 to Reed’s, Inc.’s Registration Statement on Form S-1 (File No. 333-156908))
10.4*	2007 Stock Option Plan (Incorporated by reference to Exhibit 10.22 to Reed's, Inc.'s Form 10K filed March 27, 2009)
10.5*	2009 Consultant Stock Plan (Incorporated by reference to Exhibit 4.1 to Reed’s, Inc.’s Registration Statement on Form S-8 (File No. 333-157359))
10.6*	2010 Incentive Stock Plan (Incorporated by reference to Exhibit 4.1 to Reed’s, Inc.’s Registration Statement on Form S-8 (File No. 333-165906))
10.7*	2010-2 Incentive Stock Plan (Incorporated by reference to Exhibit 4.1 to Reed’s, Inc.’s Registration Statement on Form S-8 (File No. 333-166575))
10.8	Loan and Security Agreement between PMC Financial Services Group, LLC and Reed’s, Inc. dated November 8, 2011 (Incorporated by reference to Exhibit 10.15 to Reed’s, Inc.’s Form 10Q as filed November 14, 2011)
14.1	Code of Ethics (Incorporated by reference to Exhibit 14.1 to Reed’s, Inc.’s Registration Statement on Form SB-2 (File No. 333-157359))
21.	Subsidiaries of Reed’s, Inc., filed herewith.
23.1	Consent of Weinberg & Co., P.A., filed herewith.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

Indicates a management contract or compensatory plan or arrangement.
*

In accordance with SEC Release 33-8238, Exhibit 32.1 and 32.2 are being furnished and not filed.

Furnished herewith. XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.