

REED'S, INC.
Form DEF 14A
September 01, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for use of the Commission only (only as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-12

REED's, INC.

(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(3) Filing Party:

(4) Date Filed:

Dear Shareholder,

Thank you for your continued interest in Reed's, Inc. Late 2016 saw the start of the Company's transformation into what we believe will lead to a meaningful disruptive force in the beverage industry. Having been in the industry for over 30 years, I was excited when Chris Reed reached out to me and asked me to join the Board of Directors late last year. As many of you know, I co-founded SoBe Beverage in 1995 and helped grow the brand to \$275 million in revenue over 5 years before selling the company to Pepsi for \$370 million. Similar to SoBe at the time, Reed's has the potential to be a leader in a highly attractive and growing category supported by favorable consumer trends. The Company was—and remains today—an innovation leader that started nearly 30 years ago when Chris Reed had the novel idea to incorporate the refreshing taste and health benefits of fresh ginger into an all-natural, “better for you” beverage. While we remain America's best selling ginger beer and the leading all-natural craft soda, the Company has a significant opportunity to improve its current business performance and to re-accelerate growth and expand its leadership positions in two of the fastest growing beverage categories. It is an amazing testament to entrepreneurship that Chris delivered his first homemade ginger brew in the back of his Volkswagen almost 30 years ago. Since those humble beginnings, sales of Reed's craft beverages have now surpassed 500 million bottles.

But recent years have been operationally challenging, which we are quickly addressing. First, the Company struggled to produce and fulfill our valued customer's orders, which lead to frequent “stock outs” driving lower volume and profitability. Second, in hindsight the Company expanded too quickly into adjacent categories causing a rapid increase in our product offerings and SKU's, which diluted management focus and stretched our capabilities. Third, the Company's intense focus on in-house production has led to high idle plant costs that have been a significant drag on gross margins while diverting significant capital away from sales and marketing programs needed to support the core Reed's and Virgil's brands. In addition, the investment in the plant also increased the Company's debt burden, which has impacted cash flow and deferred needed re-investment in the core brands.

We have now started a new chapter at Reed's. With new leadership in place at the Board and management level, we have a plan and we are determined to turn the Company's performance around by driving solid improvements across every area of the business. Having witnessed many of these issues over my career, I'm confident our team has actionable solutions to fix our previous mistakes. We are just getting started, but I'm encouraged by the early operational improvements coming to fruition while at the same time reinvigorating growth in both Reed's and Virgil's.

The Company is very fortunate to have the tailwind of several consumer mega trends that are driving category growth. These trends include increase demand for: i) “better for you” healthier alternatives; ii) all-natural beverages with lower or no sugar; iii) increasingly stronger, spicier and bolder flavors; iv) ginger which is viewed as a “superfood”; v) craft and premium offerings; and vi) bold flavored cocktails and premium mixers as liquor consumption continues to grow. Based on the latest syndicated sales data, the craft beverage category grew 6% year over year during the last 24 weeks and ginger beers grew 17%. This is clearly favorable, especially in relation to the total carbonated beverage industry

that declined 1%. The craft beverage category remains underdeveloped due to a lack of marketing investment and a true category champion. Unlike craft beer—which combined with imports and super premiums accounts for over 30% of total beer sales—craft soda accounts for less than 1% of carbonated beverage sales. Reed's and Virgil's have leadership positions in their respective categories with upside potential in terms of pricing and significant growth. Reed's is the only leading ginger beer that is all natural, uses cane sugar and is made from fresh ginger root to the tune of over one millions pounds per year. The ginger beer category has additionally benefited through its use in two of the fastest growing mixed drinks in the market: the Moscow Mule and the Dark N' Stormy. Those popular cocktails appeal to both Millennials and Baby Boomers and their growth trajectory is accelerating.

Despite strong category momentum and leading brands, sizeable beverage businesses are not built without dynamic leadership. I pride myself in being able to identify and assemble outstanding teams and I can now say that we have most of the key pieces in place required to drive improved operating performance. I brought Val Stalowir in specifically to lead Reed's because I knew he had the talent, the necessary experience and the drive to get the job done. Val brings all the technical and leadership skills in marketing and sales from big blue chip companies such as Quaker and Coke and he combines that with a very entrepreneurial approach. He has learned to move quickly and work aggressively having worked with founders with limited resources at emerging brands such as Boylan, Zola Acai, and Detour Bar in order to maximize results. We are also fortunate to retain Chris' innovative product development talents as he has assumed the role of Chief Innovation Officer. The team also includes other seasoned beverage professionals with decades of success and experience. I have been impressed with the amount of progress they have been able to accomplish in a very short amount of time and I am encouraged to see some of their initiatives starting to have a positive impact on the Company. To complement the management team, we also continue to evolve our Board to help support and direct management in order to maximize shareholder value. I believe the collection of individuals and experiences we have in the Boardroom will continue to provide strong and effective leadership across all of the critical functions.

Under new leadership from the board and the executive management team, we have developed a detailed plan of action to capture the identified performance improvements and drive core brand growth. The team's first priority is to dramatically simplify the business and focus on our core products. We will be moving towards an "asset light" model that will enable us to maximize investment to grow and build our core brands, reduce operational complexity, and meaningfully improve profitability. Since the start of this year, the Company successfully eliminated more than 70 SKU's and reduced our focus on the private label business, which had cannibalized production time of our core products, required significant working capital support, and came at the expense of core brand building. In addition, the team led by our new CEO is undergoing a complete operational review—we have already identified significant savings via operational improvements that are candidly commonplace in world-class beverage organizations. Management is actively working with our existing and new strategic partners to improve performance, lower input costs and working capital requirements while helping to support our refreshed growth plans. While there is much to do, I am confident these improvements will be realized over the coming quarters and years. In addition, we are also exploring divesting non-core assets that could support our new strategic direction.

We believe the Company will require additional financing to best position it for success. We are currently in the process of selecting a large and proven food and beverage investment bank to serve as our advisor for the transaction. While we are still working on the specifics, our intention is for the general financing to be minimally disruptive and available to current shareholders. We are asking you to vote today to increase the authorized share count so that we can achieve our capital raise of approximately \$10 million which we would anticipate closing by the end of the fourth quarter. We are also in talks with a handful of large investors that have already expressed interest in participating. We are confident this financing will significantly improve profitability and reaccelerate growth.

Proceeds from this offering will be used to strengthen our balance sheet and support the launch of our innovative products in our core Reed's and Virgil's brands. As an example, we intend to introduce Virgil's all-natural No Sugar beverage line in the first quarter of 2018. This exciting new product offering delivers the great taste of a full sugar beverage with only 5 calories per serving. We believe our new Virgil's No Sugar line will be a disruptive "game changer" in the multi-billion dollar diet soda market. We will also invest the proceeds in sales and marketing programs to drive growth through increased brand velocity and new doors of distribution across all channels including bars and restaurants, club, convenience stores and international markets. There are hundreds of thousands of retail doors yet to be added to the Company's footprint and penetrating some of these new channels will be aided by the introduction of the convenient and affordable can package. The Company is also in the process of a complete brand re-design for both Reed's and Virgil's along with an investment in upgrading the Company's website, social media platforms and digital presence.

We continue to make progress on our all-natural, lower sugar, craft fountain soda effort with a major fast casual restaurant chain who is dedicated to removing all of the artificial colors, ingredients and preservatives from its beverage offerings. The test results so far are encouraging in terms of sell through. We believe this represents a meaningful growth opportunity for the Company due to our unique ability to offer an all-natural craft fountain soda to restaurants that are eager to provide their customers with a natural beverage alternative that tastes great and has fewer calories. There is a good deal of exciting news we will be bringing to the market on the sales and marketing front this year and next and I am very happy to have Neal Cohane, our Senior Vice President of Sales leading that effort. I have worked with Neal for years and I am confident he and his team will deliver results. Lastly, by strengthening our

balance sheet, we will be able to partner better with our distributors, retailers, vendors and co-packers. We have had some of the same partners for many years, we appreciate their continued support and it is time that we begin to meet and exceed their expectations as we start the next chapter in the growth of Reed's.

In closing, we intend to extend Reed's leadership as America's #1 Ginger Beer and Virgil's leading position in the all-natural craft category. We believe that through our simplified and focused business model we will achieve solid revenue and margin growth. We have the right plans and management team in place. We have uniquely differentiated, "best in class" products in fast growing categories. But we are not stopping there. We will continue to drive innovation in the industry and pioneer new all-natural, no and low Sugar offerings in the "better for you" beverage space. I would like to thank you, our shareholders, for your continued support. I would also like to thank our employees, customers, suppliers, business partners and co-packers for their support and commitment to our growth. There has never been a more exciting time to be a part of Reed's.

Drink Smart, Drink Natural, Drink Reed's!

Sincerely,

/s/ John Bello

John Bello
Chairman

FORWARD LOOKING STATEMENTS

This statement contains forward-looking statements. These statements include projections, predictions, expectations or statements as to beliefs or future events or results or refer to other matters that are not historical facts.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by these statements. The forward-looking statements contained herein are based on various factors and were derived using numerous assumptions. In some cases, you can identify these forward-looking statements by the words "anticipate", "estimate", "plan", "project", "continuing", "ongoing", "target", "aim", "expect", "believe", "intend", "may", "will", "should", "could", or the negative of those words and other comparable words. You should be aware that those statements reflect only the predictions of Reed's Inc.'s management. If known or unknown risks or uncertainties should materialize, or if underlying assumptions should prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind not to place undue reliance on these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements contained in this statement are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

13000 South Spring Street, Los Angeles, California 90061

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON September 29, 2017

Dear Stockholder:

Notice is hereby given that the 2017 Annual Meeting of Stockholders of Reed's, Inc. ("we", "us", "Reed's" or the "company") will be held at 1:00 p.m. Pacific Daylight Time, on Friday September 29, 2017 at Reed's principal executive offices located at 13000 South Spring Street, Los Angeles, California 90061 to conduct the following items of business:

- To elect John Bello, Valentin Stalowir, Lewis Jaffe, Charles F. Cargile, Christopher J. Reed, Scott R. Grossman and James Bass to serve a one-year term until their respective successors are duly elected and qualified or until their death, resignation, removal or disqualification;
- To adopt the Reed's, Inc. 2017 Incentive Compensation Plan;
- To amend Reed's certificate of incorporation to increase the authorized shares of common stock from 19,500,000 to 40,000,000;
- To amend Reed's certificate of incorporation to increase the authorized shares of blank check preferred stock from 500,000 to 2,500,000;
- To approve the issuance of securities in one or more non-public offerings where the maximum discount at which securities will be offered will be equivalent to a discount of up to 25% below the market price of our common stock, as required by and in accordance with NYSE American Company Guide Rule 713;
- To approve any change of control that could result from the potential issuance of securities in the non-public offerings following approved of Proposal 5, as required by and in accordance with NYSE American Company Guide Rule 713;
- To approve an amendment to the Reed's bylaws to authorize the board of directors to set the maximum size of the board between five (5) and nine (9) seats, from time to time;
- To ratify the appointment of Weinberg & Company, P.A. as our independent registered public accounting firm for the fiscal year ending December 31, 2018; and
- To transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

All of the above matters are more fully described in the accompanying Proxy Statement.

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All holders of record of our common stock as of the close of business on August 18, 2017, the record date, are entitled to notice of and to vote at this meeting and any adjournments or postponement thereof. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection during the ten days prior to the Annual Meeting, during ordinary business hours, at Reed's principal executive office, as well as at the Annual Meeting.

All stockholders are cordially invited to attend the Annual Meeting in person. Any stockholder attending the Annual Meeting may vote in person even if he or she has returned a proxy card.

Whether or not you plan to attend the Annual Meeting, please cast your vote as instructed under "Voting Procedures" in the Proxy Statement as promptly as possible. You may vote over the Internet or by telephone as instructed on the Notice or by mailing in your paper proxy card if you received one. If you did not receive a paper proxy card, you may request a paper proxy card to submit your vote by mail, if you prefer.

If you have any questions or require any additional information concerning this Proxy Statement, please contact Okapi Partners at the address set forth below.

1212 Avenue of the Americas, 24th Floor

New York, NY 10036

(212) 297-0720

Call Toll-Free at: (877) 259-6290

E-mail: info@okapipartners.com

By Order of the Board of Directors,

/s/ John Bello

John Bello

Chairman

Los Angeles, California September 1, 2017

Whether or not you intend to be present at the meeting, please sign and date the enclosed proxy and return it in the enclosed envelope, or vote by telephone or online following the instructions on the proxy.

Important Notice Regarding the Internet Availability of Proxy Materials for

the Annual Meeting of Stockholders to be held on September 29, 2017

The Proxy Statement and Annual Report on Form 10-K for the year ended December 31, 2016 are available on the Internet at www.okapivote.com/REEDS

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The enclosed proxy is solicited by the board of directors of Reed's, Inc., a Delaware corporation, for use at the 2017 Annual Meeting of Stockholders (the "Annual Meeting") of Reed's, Inc. and all postponements, continuations or adjournments thereof. These proxy materials and the enclosed Annual Report on Form 10K ("Annual Report") for fiscal year ended December 31, 2016 ("2016 Fiscal Year") are being mailed to our stockholders on or about September 1, 2017. In this Proxy Statement, we use the terms the "company," "Reed's" "we", "our", and "us" to refer to Reed's, Inc.

Where and when is the Annual Meeting? Our Annual Meeting will be held at 1:00 p.m. Pacific Daylight Time, on Friday September 29, 2017 at Reed's principal executive offices located at 13000 South Spring Street, Los Angeles, California 90061.

Why did I receive these materials? You received this Proxy Statement because you held shares of our common stock on August 18, 2017, the record date fixed by our board of directors, and you are entitled to vote at the Annual Meeting. This Proxy Statement and a copy of our Annual Report will be mailed on or about September 1, 2017. Although the Proxy Statement and Annual Report are being mailed together, the Annual Report is not incorporated into, and should not be deemed part of, this Proxy Statement.

Who can attend the Annual Meeting? Only stockholders as of the record date, their authorized representatives, and invited guests will be able to attend the Annual Meeting.

Who is entitled to vote? Only holders of record of our common stock at the close of business on August 18, 2017, the record date, are entitled to vote at the Annual Meeting. Each share is entitled to vote on each matter properly brought before the meeting. As of the record date, there were 15,164,311 shares of our common stock outstanding.

Who are the proxies? The board of directors of the company has appointed Valentin Stalowir, our Chief Executive Officer and director, and Daniel V. Miles, our Chief Financial Officer, to serve as proxies at the Annual Meeting. When you fill out your proxy card and return it, or if you vote electronically, you will be giving the proxies your instruction on how to vote your shares at the Annual Meeting.

How do I vote if I am a registered stockholder? You may vote in person, electronically via the Internet, or by proxy. Proxies are solicited to give all stockholders who are entitled to vote on the matters that come before the meeting the opportunity to do so whether or not they attend the meeting in person. If you are a registered holder, you can vote your proxy card by mail, electronically via the Internet www.okapivote.com/REED, or in person at the Annual Meeting. *If you choose to vote by mail, mark your proxy card enclosed with this Proxy Statement, date and sign it, and mail it in the postage-paid envelope. If you wish to vote in person, you can vote the proxy card in person at the Annual Meeting. Signing and returning a proxy will not prevent you from voting in person at the meeting.*

How do I vote electronically? If you are a registered stockholder, you may vote electronically via the Internet at www.okapivote.com/REED. Please review the voting instructions on the proxy card.

How do I specify how I want my shares voted? If you are a registered stockholder, you can specify how you want your shares voted on each proposal by marking the appropriate boxes on the proxy card. Please review the voting instructions on the proxy card and read the entire text of the proposals and the positions of the board of directors in the Proxy Statement prior to marking your vote. *If your proxy card is signed and returned without specifying a vote, it will be voted according to the recommendation of the board of directors on that proposal.*

How do I vote if I am a beneficial stockholder? If you are a beneficial stockholder, you have the right to direct your broker or nominee on how to vote your shares. You should complete a voting instruction card which your broker or nominee is obligated to provide to you. If you wish to vote in person at the meeting, you must first obtain from the record holder a proxy card issued in your name.

What items will be voted upon at the Annual Meeting? The following items will be voted upon at the Annual Meeting:

1. the election of John Bello, Valentin Stalowir, Lewis Jaffe, Charles F. Cargile, Christopher J. Reed, Scott R. Grossman and James Bass to serve a one-year term until their respective successors are duly elected and qualified or until their death, resignation, removal or disqualification;

2. the adoption of the Reed's, Inc. 2017 Incentive Compensation Plan;

3. the amendment of Reed's certificate of incorporation to increase the authorized shares of common stock from 19,500,000 to 40,000,000;

4. the amendment of Reed's certificate of incorporation to increase the authorized shares of blank check preferred stock from 500,000 to 2,500,000;

5. the approval of the issuance of securities in one or more non-public offerings where the maximum discount at which securities will be offered will be equivalent to a discount of up to 25% below the market price of our common stock, as required by and in accordance with NYSE American Company Guide Rule 713;

6. the approval of any change of control that could result from the potential issuance of securities in the non-public offerings following approved of Proposal 5, as required by and in accordance with NYSE American Company Guide Rule 713;

7. the approval of an amendment to the Reed's bylaws to authorize the board of directors to set the maximum size of the board between five (5) and nine (9) seats, from time to time;

8. ratification of the appointment of Weinberg & Company, P.A. as our independent registered public accounting firm for the fiscal year ending December 31, 2018;

9. stockholder proposal entitled "Shareholder Proxy Access"; and

10. such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

The board of directors does not currently know of any other matters that may be brought before the meeting for a vote. However, if any other matters are properly presented for action, it is the intention of the persons named on the proxy card to vote on them according to their best judgment.

What is the board of directors' voting recommendation? For the reasons set forth in more detail later in the Proxy Statement, the board of directors unanimously recommends a vote **FOR** the election of all nominees for director proposed by our Board (Proposal No. 1). The board of directors has adopted the Reed's, Inc. 2017 Incentive Compensation Plan and unanimously recommends a vote **FOR** its adoption (Proposal No. 2). The board of directors unanimously recommends a vote **FOR** the amendment of Reed's certificate of incorporation to increase the authorized shares of common stock from 19,500,000 to 40,000,000 (Proposal No. 3), **FOR** the amendment of Reed's certificate of incorporation to increase the authorized shares of blank check preferred stock from 500,000 to 2,500,000 (Proposal No. 4), **FOR** the approval of the issuance of securities in one or more non-public offerings where the maximum discount at which securities will be offered will be equivalent to a discount of up to 25% below the market price of our common stock, as required by and in accordance with NYSE American Company Guide Rule 713 (Proposal No. 5), **FOR** the approval of any change of control that could result from the potential issuance of securities in the non-public offerings following approved of Proposal No. 5, as required by and in accordance with NYSE American Company Guide Rule 713 (Proposal No. 6), and **FOR** the approval of the amendment to the Reed's bylaws (Proposal No. 7). The Board unanimously ratified the selection of Weinberg & Company, P.A. as the company's independent registered public accounting firm (Proposal No. 8) which selection was made by the company's audit committee. The Board unanimously recommends a vote **FOR** Proposal No. 8. The Board unanimously recommends a vote **AGAINST** the stockholder proposal entitled "Shareholder Proxy Access" (Proposal No. 9).

Who will solicit proxies on behalf of the board? The Company has retained Okapi Partners, a proxy solicitation firm, who may solicit proxies on the board's behalf. The original solicitation of proxies by mail may be supplemented by telephone, telegram, facsimile, electronic mail, Internet and personal solicitation by our directors, director nominees and certain of our executive officers and other employees (who will receive no additional compensation for such solicitation activities), or by Okapi Partners. You may also be solicited by advertisements in periodicals, press releases issued by us and postings on our corporate website or other websites. Unless expressly indicated otherwise, information contained on our corporate website is not part of this Proxy Statement. In addition, none of the information on the other websites listed in this Proxy Statement is part of this Proxy Statement. These website addresses are intended to be inactive textual references only.

Who will pay for the costs involved in the solicitation of proxies? The entire cost of soliciting proxies on behalf of the board, including the costs of preparing, assembling, printing and mailing this Proxy Statement, the proxy card and any additional soliciting materials furnished to stockholders by, or on behalf of, the Company, will be borne by the Company. Copies of the Company's solicitation material will be furnished to banks, brokerage houses, dealers, voting trustees, their respective nominees and other agents holding shares in their names, which are beneficially owned by others, so that they may forward such solicitation material, together with our 2016 Annual Report, which includes our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, to beneficial owners. In addition, if asked, the Company will reimburse these persons for their reasonable expenses in forwarding these materials to the beneficial owners. We have engaged Okapi Partners to solicit proxies from stockholders in connection with the Annual Meeting. We will pay Okapi Partners a fee of up to \$8,500 plus costs and expenses. In addition, we have agreed to indemnify Okapi Partners and certain related persons against certain liabilities arising out of or in connection with their engagement.

Who can answer my questions? Your vote at this year's Annual Meeting is important, no matter how many or how few shares you own. Please sign and date the enclosed proxy card or voting instruction form and return it in the enclosed postage-paid envelope promptly or vote by Internet or telephone. If you have any questions or require assistance in submitting a proxy for your shares, please call Okapi Partners, the firm assisting us in the solicitation of proxies:

1212 Avenue of the Americas, 24th Floor

New York, NY 10036

(212) 297-0720

Call Toll-Free at: (877)259-6290

E-mail: info@okapipartners.com

How can I obtain additional copies of these materials or copies of other documents? Complete copies of this Proxy Statement and 2016 Annual Report, which includes our Annual Report on Form 10-K for the year ended December 31, 2016, are also available at: www.okapivote.com/REEDS

You may also contact Okapi Partners for additional copies. You are encouraged to access and review all of the important information contained in the proxy materials before voting.

How can I provide my comments to the company? We urge you to let us know your comments about the company or to bring a particular matter to our attention by writing directly to us at Reed's, Inc., 13000 South Spring Street, Los Angeles, California 90061, attention: Judy Holloway Reed, Secretary.

How many votes are needed to have the proposals pass? The affirmative vote of the **majority of the votes present and entitled to vote** at the Annual Meeting is required to elect the directors (Proposal No. 1) and approve Proposal Nos. 2, 5, 6, 7, 8 and 9. The affirmative vote of the **majority of votes outstanding** and entitled to vote at the Annual Meeting is required to approve Proposal Nos. 3 and 4, effecting amendments to the Company's Certificate of Incorporation.

How are the votes counted? You will have one vote for each share of our common stock that you owned on the record date. If the proxy card is properly executed and returned prior to the Annual Meeting, the shares of common stock it represents will be voted as you instruct on the proxy card. If a proxy card is unmarked, or if you indicate no vote, the shares of common stock it represents will be voted **FOR** Proposal No. 1, the election of directors recommended by the board of directors, **FOR** Proposal No. 2, the adoption of the Reed's, Inc. 2017 Incentive Compensation Plan, **FOR** Proposal No. 3 amendment of Reed's certificate of incorporation to increase the authorized shares of common stock, **FOR** Proposal No. 4 the amendment of Reed's certificate of incorporation to increase the authorized shar