BANK OF NOVA SCOTIA
Form 424B5
February 24, 2015

The information in this Preliminary Pricing Supplement is not complete and may be changed. We may not sell these Notes until the Pricing Supplement is delivered in final form. We are not selling these Notes, nor are we soliciting offers to buy these Notes, in any State where such offer or sale is not permitted.

| | |
|---|---|
| PRELIMINARY PRICING SUPPLEMENT | **Filed Pursuant to Rule 424(b)(5)** |
| Subject to Completion | **Registration No. 333-200089** |
| Dated February 24, 2015 | |

Pricing Supplement dated l to the

Prospectus dated December 1, 2014

Prospectus Supplement dated December 1, 2014 and Product Prospectus Supplement (Rate Linked Notes, Series A) dated December 1, 2014

**The Bank of Nova Scotia**

**$**

**Floored and Capped Floating Rate Notes, Series A**

**Due March 13, 2020**

| | |
|---|---|
| · 100% repayment of principal at maturity, subject to the credit risk of the Bank | · Floating Interest Rate of 3-Month USD LIBOR, subject to a minimum rate of 1.35% and a cap of 4.35% |
| · 5-year stated term | · Quarterly interest payments |

The Floored and Capped Floating Rate Notes, Series A due March 13, 2020 (the "Notes") offered hereunder are unsecured obligations of The Bank of Nova Scotia and are subject to investment risks including possible loss of the Principal Amount invested due to the credit risk of The Bank of Nova Scotia. As used in this pricing supplement, the "Bank," "we," "us" or "our" refers to The Bank of Nova Scotia.

The Notes will not be listed on any securities exchange or automated quotation system.

**NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC") NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE NOTES OR PASSED**

**UPON THE ACCURACY OR THE ADEQUACY OF THIS DOCUMENT, THE ACCOMPANYING PROSPECTUS, PROSPECTUS SUPPLEMENT OR PRODUCT PROSPECTUS SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE NOTES ARE NOT INSURED BY THE CANADA DEPOSIT INSURANCE CORPORATION PURSUANT TO THE CANADA DEPOSIT INSURANCE CORPORATION ACT, THE UNITED STATES FEDERAL DEPOSIT INSURANCE CORPORATION, OR ANY OTHER GOVERNMENTAL AGENCY OF CANADA, THE UNITED STATES OR ANY OTHER JURISDICTION.**

Scotia Capital (USA) Inc., our affiliate, will purchase the Notes from us for distribution to agents or other registered broker-dealers or will offer the Notes directly to investors. Scotia Capital (USA) Inc. or any of its affiliates or agents may use the final pricing supplement to which this preliminary pricing supplement relates in market-making transactions in the Notes after their initial sale. Unless we, Scotia Capital (USA) Inc. or another of its affiliates or agents selling such Notes to you informs you otherwise in the confirmation of sale, the final pricing supplement to which this pricing supplement relates is being used in a market-making transaction. See "Supplemental Plan of Distribution (Conflicts of Interest)" in this pricing supplement and "Supplemental Plan of Distribution" on page PS-32 of the accompanying product prospectus supplement.

**Investment in the Notes involves certain risks. You should refer to "Additional Risk Factors" in this pricing supplement and "Additional Risk Factors Specific to the Notes" beginning on page PS-5 of the accompanying product prospectus supplement and "Risk Factors" beginning on page S-2 of the accompanying prospectus supplement.**

| | Per Note | Total |
|---|---|---|
| Price to public | 100.00% | l |
| Underwriting commissions[1] | l | l |
| Proceeds to The Bank of Nova Scotia[2] | l | l |

The difference between the estimated value of your Notes and the original issue price reflects costs that the Bank or its affiliates expect to incur and profits that the Bank or its affiliates expect to realize in connection with hedging activities related to the Notes. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the Notes. As a result, you may experience an immediate and substantial decline in the market value of your Notes on the Trade Date and you may lose all or a substantial portion of your initial investment. The Bank's profit in relation to the Notes will vary based on the difference between (i) the amounts received by the Bank in connection with the issuance and the reinvestment return received by the Bank in connection with those funds and (ii) the costs incurred by the Bank in connection with the issuance of the Notes and the hedging transactions. The Bank will also realize a profit that will be based on the (i) payments received on the hedging transactions minus the (ii) cost of creating and maintaining the hedging transactions.

We will deliver the Notes in book-entry form through the facilities of The Depository Trust Company ("DTC") on or about March 13, 2015 against payment in immediately available funds.

**Scotia Capital (USA) Inc.**

---

1 Scotia Capital (USA) Inc. or one of our affiliates will purchase the Notes at the Principal Amount and as part of the distribution, if the Notes priced today, would pay discounts and underwriting commissions of $4.00 (0.40%) per $1,000 Principal Amount of the Notes in connection with the distribution of the Notes. Scotia Capital (USA) Inc. may separately receive a structuring and development fee of up to $0.50 (0.05%) per $1,000 Principal Amount of the Notes. See "Supplemental Plan of Distribution (Conflicts of Interest)" in this pricing supplement.

2 Excludes potential profits from hedging. For additional considerations relating to hedging activities see "Additional Risk Factors - The Inclusion of Dealer Spread and Projected Profit from Hedging in the Original Issue Price is Likely to Adversely Affect Secondary Market Prices" in this pricing supplement.

## SUMMARY

The information in this "Summary" section is qualified by the more detailed information set forth in this pricing supplement, the prospectus, the prospectus supplement and the product prospectus supplement, each filed with the SEC. See "Additional Terms of Your Notes" in this pricing supplement.

| | |
|---|---|
| **Issuer:** | The Bank of Nova Scotia (the "Issuer" or the "Bank") |
| **CUSIP/ISIN:** | CUSIP 064159GF7 / ISIN US064159GF77 |
| **Type of Note:** | Floored and Capped Floating Rate Notes, Series A |
| **Minimum Investment:** | $1,000 |
| **Denominations:** | $1,000 and integral multiples of $1,000 in excess thereof |
| **Principal Amount:** | $1,000 per Note |
| **Currency:** | U.S. Dollars |
| **Trade Date:** | Expected to be March 10, 2015 |
| **Pricing Date:** | Expected to be March 10, 2015 |
| **Original Issue Date:** | Expected to be March 13, 2015 (to be determined on the Trade Date and expected to be the 3rd Business Day after the Trade Date). |
| **Maturity Date:** | March 13, 2020, subject to adjustment as described in more detail in the accompanying product prospectus supplement. |
| **Business Day:** | Any day which is neither a legal holiday nor a day on which banking institutions are authorized or obligated by law, regulation or executive order to close in New York and Toronto. |
| **Interest Payment Dates:** | The 13th Calendar Day of each June, September, December and March, commencing June 13, 2015 and ending on the Maturity Date.<br><br>If these days are not Business Days, interest will actually be paid on the dates determined as described below. |
| **Interest Period:** | For each Interest Payment Date, the quarterly period from, and including, the previous Interest Payment Date (or the Original Issue Date in the case of the first Interest Payment Date) to, but excluding, the applicable Interest Payment Date. |
| **Floating Interest Rate:** | LIBOR, subject to a minimum rate of 1.35% (the "**Minimum Rate**") and a cap of the Maximum Rate/Cap. |
| **Maximum Rate/Cap:** | 4.35% per annum |
| **LIBOR:** | The offered rate appearing on the Reference Page as of 11:00 a.m., London time, on the LIBOR Interest Determination Date, for deposits of U.S. Dollars having the Index Maturity. |
| **Index Maturity:** | Three months |

| | |
|---|---|
| **Reference Page** | Reuters page LIBOR01 |
| **LIBOR Interest Determination Dates:** | The second London Business Day preceding the relevant Interest Reset Date (regardless of whether such Interest Reset Date is a Business Day). |
| **London Business Day:** | A Monday, Tuesday, Wednesday, Thursday or Friday that is neither a legal holiday nor a day on which banking institutions are authorized or required by law, regulation or executive order to close, in London. |
| **Interest Reset Dates:** | Each Interest Payment Date (regardless of whether such day is a Business Day or London Business Day) |
| **Day Count Fraction:** | 30/360, unadjusted, Following Business Day Convention |
| **Form of Notes:** | Book-entry |
| **Calculation Agent:** | Scotia Capital Inc., an affiliate of the Bank |
| **Status:** | The Notes will constitute direct, unsubordinated and unsecured obligations of the Bank ranking *pari passu* with all other direct, unsecured and unsubordinated indebtedness of the Bank from time to time outstanding (except as otherwise prescribed by law). Holders will not have the benefit of any insurance under the provisions of the Canada Deposit Insurance Corporation Act, the U.S. Federal Deposit Insurance Act or under any other deposit insurance regime of any jurisdiction. |
| **Tax Redemption:** | The Bank (or its successor) may redeem the Notes, in whole but not in part, at a redemption price equal to the Principal Amount thereof together with accrued and unpaid interest to the date fixed for redemption, if it is determined that changes in tax laws or their interpretation will result in the Bank (or its successor) becoming obligated to pay, on the next Interest Payment Date, additional amounts with respect to the Notes. See "Tax Redemption" in this pricing supplement. |
| **Listing:** | The Notes will not be listed on any securities exchange or quotation system |
| **Use of Proceeds:** | General corporate purposes |
| **Clearance and Settlement:** | Depository Trust Company |
| **Terms Incorporated:** | All of the terms appearing under the caption "General Terms of the Notes" beginning on page PS-10 in the accompanying product prospectus supplement, as modified by this pricing supplement |

## ADDITIONAL TERMS OF YOUR NOTES

You should read this pricing supplement together with the prospectus dated December 1, 2014, as supplemented by the prospectus supplement dated December 1, 2014 and the product prospectus supplement (Rate Linked Notes, Series A) dated December 1, 2014, relating to our Senior Note Program, Series A, of which these Notes are a part. Capitalized terms used but not defined in this pricing supplement will have the meanings given to them in the product prospectus supplement. In the event of any conflict, this pricing supplement will control. ***The Notes may vary from the terms described in the accompanying prospectus, prospectus supplement, and product prospectus supplement in several important ways. You should read this pricing supplement, including the documents incorporated herein, carefully.***

This pricing supplement, together with the documents listed below, contains the terms of the Notes and supersedes all prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in “Additional Risk Factors Specific to the Notes” in the accompanying product prospectus supplement, as the Notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Notes. You may access these documents on the SEC website at www.sec.gov as follows (or if that address has changed, by reviewing our filings for the relevant date on the SEC website at

http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000009631):

Prospectus dated December 1, 2014:

http://www.sec.gov/Archives/edgar/data/9631/000089109214008992/e61582_424b3.htm

Prospectus Supplement dated December 1, 2014:

http://www.sec.gov/Archives/edgar/data/9631/000089109214008993/e61583-424b3.htm

Product Prospectus Supplement (Rate Linked Notes, Series A), dated December 1, 2014

http://www.sec.gov/Archives/edgar/data/9631/000089109214008996/e61586-424b5.htm

**The Bank of Nova Scotia has filed a registration statement (including a prospectus, a prospectus supplement, and a product prospectus supplement) with the SEC for the offering to which this pricing supplement relates. Before you invest, you should read those documents and the other documents relating to this offering that we have filed with the SEC for more complete information about us and this offering. You may obtain these documents without cost by visiting EDGAR on the SEC Website at www.sec.gov or accessing the links above. Alternatively, The Bank of Nova Scotia, any agent or any dealer participating in this offering will arrange to send you the prospectus, the prospectus supplement and the product prospectus supplement if you so request by calling 1-416-866-3672.**

## PAYMENT AT MATURITY

We will pay you the Principal Amount of your Notes on the Maturity Date, plus the final interest payment.

In the event that the stated Maturity Date is not a Business Day, then relevant repayment of principal will be made on the next Business Day, regardless of whether such Business Day falls in the month following that in which the stated Maturity Date would otherwise have fallen (“Following Business Day Convention”).

**Interest**

The Notes are Floored and Capped Floating Rate Notes subject to a Minimum Rate and a Maximum Rate/Cap. The Floating Interest Rate will equal the per annum interest rate of LIBOR, subject to a Minimum Rate of 1.35% and a Maximum Rate/Cap of 4.35% per annum.

We describe payments as being based on a “day count fraction” of 30/360, unadjusted, “Following Business Day Convention”.

This means that the number of days in the Interest Period will be based on a 360-day year of twelve 30-day months (“30/360”) and that the number of days in each Interest Period will not be adjusted if an Interest Payment Date falls on a day that is not a Business Day (“unadjusted”).

If any Interest Payment Date falls on a day that is not a Business Day (including any Interest Payment Date that is also the Maturity Date), the relevant payment of interest will be made in accordance with the Following Business Day Convention.

Notwithstanding anything in the Prospectus, Prospectus Supplement, or Product Prospectus Supplement:

- the “Interest Reset Date” will be the stated Interest Payment Date, not the third Wednesday of the month, and the Interest Reset Date will occur on that date even if it is not a Business Day. See “Description of the Notes—Interest Rates—Interest Reset Dates” in the Prospectus Supplement. Thus, the deposits on which LIBOR is based may not, in fact, commence on the relevant Interest Reset Date. See “Description of the Notes—Interest Rates—LIBOR Notes” in the Prospectus Supplement.
- the “Interest Payment Dates” will be the Interest Payment Dates specified above. See “Description of the Notes—Interest Rates—Interest Payment Dates” in the Prospectus Supplement.
- regardless of whether the Notes are paying a fixed or floating rate of interest, if the Interest Payment Date would otherwise fall on a day that is not a Business Day and the next Business Day falls in the next calendar month, then the Interest Payment Date will still be advanced to the next day that is a Business Day. See “Description of the Notes—Interest Rates—Interest Payment Dates” in the Prospectus Supplement.

**EVENTS OF DEFAULT AND ACCELERATION**

If the Notes have become immediately due and payable following an Event of Default (as defined in the accompanying prospectus) with respect to the Notes, the Calculation Agent will determine (i) your Principal Amount and (ii) any accrued but unpaid interest payable based upon the then-applicable interest rate calculated on the basis of a 360-day year consisting of twelve 30-day months.

If the Notes have become immediately due and payable following an Event of Default, you will not be entitled to any additional payments with respect to the Notes.  For more information, see “Description of the Debt Securities We May Offer — Events of Default” beginning on page 21 of the accompanying prospectus.

**TAX REDEMPTION**

The Bank (or its successor) may redeem the Notes, in whole but not in part, at a redemption price equal to the Principal Amount thereof together with accrued and unpaid interest to the date fixed for redemption, upon the giving of a notice as described below, if:

- as a result of any change (including any announced prospective change) in or amendment to the laws (or any regulations or rulings promulgated thereunder) of Canada (or the jurisdiction of organization of the successor to the Bank) or of any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings (including a holding by a court of competent jurisdiction), which change or amendment is announced or becomes effective on or after the Pricing Date (or, in the case of a successor to the Bank, after the date of succession), and which in the written opinion to the Bank (or its successor) of legal counsel of recognized standing has resulted or will result (assuming, in the case of any announced prospective change, that such announced change will become effective as of the date specified in such announcement and in the form announced) in the Bank (or its successor) becoming obligated to pay, on the next succeeding date on which interest is due, additional amounts with respect to the Notes; or

- on or after the Pricing Date (or, in the case of a successor to the Bank, after the date of succession), any action has been taken by any taxing authority of, or any decision has been rendered by a court of competent jurisdiction in, Canada (or the jurisdiction of organization of the successor to the Bank) or any political subdivision or taxing authority thereof or therein, including any of those actions specified in the paragraph immediately above, whether or not such action was taken or decision was rendered with respect to the Bank (or its successor), or any change, amendment, application or interpretation shall be officially proposed, which, in any such case, in the written opinion to the Bank (or its successor) of legal counsel of recognized standing, will result (assuming, in the case of any announced prospective change, that such change, amendment, application, interpretation or action is applied to the Notes by the taxing authority and that such announced change will become effective as of the date specified in such announcement and in the form announced) in the Bank (or its successor) becoming obligated to pay, on the next succeeding date on which interest is due, additional amounts with respect to the Notes;

and, in any such case, the Bank (or its successor), in its business judgment, determines that such obligation cannot be avoided by the use of reasonable measures available to it (or its successor).

In the event the Bank elects to redeem the Notes pursuant to the provisions set forth in the preceding paragraph, it shall deliver to the Trustees a certificate, signed by an authorized officer, stating (i) that the Bank is entitled to redeem such Notes pursuant to their terms and (ii) the Principal Amount of the Notes to be redeemed.

Notice of intention to redeem such Notes will be given to holders of the Notes not more than 45 nor less than 30 days prior to the date fixed for redemption and such notice will specify, among other things, the date fixed for redemption and the redemption price.

## ADDITIONAL RISK FACTORS

An investment in the Notes involves significant risks. In addition to the following risks included in this pricing supplement, we urge you to read "Additional Risk Factors Specific to the Notes" beginning on page PS-5 of the accompanying product prospectus supplement and "Risk Factors" beginning on page S-2 of the accompanying prospectus supplement and on page 6 of the accompanying prospectus.

You should understand the risks of investing in the Notes and should reach an investment decision only after careful consideration, with your advisers, of the suitability of the Notes in light of your particular financial circumstances and the information set forth in this pricing supplement and the accompanying prospectus, prospectus supplement and product prospectus supplement.

**The Amount of Each Interest Payment on an Interest Payment Date is Variable and may be as low as 1.35% Per Annum.**

You will receive interest on the applicable Interest Payment Date based on a rate per annum equal to the LIBOR fixed on the corresponding Interest Determination Date, subject to the Maximum Rate/Cap of 4.35% per annum and the Minimum Rate of 1.35% per annum.  While the interest rate applicable to each Interest Payment Date will fluctuate because it is based on the floating rate of LIBOR, the interest rate for any Interest Payment Date will not be greater than the Maximum Rate/Cap or less than the Minimum Rate.

**Interest Rate Risk**

Generally, when market interest rates rise, the prices of debt obligations fall, and vice versa. This risk may be particularly acute because market interest rates are currently at historically low levels. The prices of long-term debt obligations generally fluctuate more than prices of short-term debt obligations as interest rates change. The Notes are a long-term investment in a floating interest rate for the Interest Periods. However, the Floating Interest Rate will become fixed if LIBOR rises above the Maximum Rate/Cap or drops below the Minimum Rate. Fixed interest rate instruments are generally more sensitive to market interest rate changes; however floating rate instruments may nevertheless decline in value in response to market interest rate changes. Therefore, an increase in market interest rates will adversely affect the value of your Notes.

**The Interest Rate for Each Interest Payment Date is limited by the Maximum Rate/Cap.**

For each Interest Payment Date, the Floating Interest Rate will be capped at the Maximum Rate/Cap. THE INTEREST RATE FOR EACH SUCH INTEREST PAYMENT DATE WILL NOT BE GREATER THAN THE MAXIMUM RATE/CAP.

The interest rate on the Notes for the Floating Interest Period is limited to the Maximum Rate/Cap of 4.35% per annum. Even if the Floating Interest Rate is greater than the Maximum Rate/Cap, the Notes will bear interest for such Floating Interest

Period only at 4.35% per annum. The Maximum Rate/Cap may be lower than the interest rates for similar debt securities then-prevailing in the market.

As a result of the fact that the quarterly interest rate may not be greater than the Maximum Rate/Cap, you will not be fully compensated for any loss in value due to inflation and other factors relating to the value of money over time. You should consider, among other things, the overall potential annual interest rate of the Notes (taking the Maximum Rate/Cap into account) as compared to other investment alternatives.

**Repayment of Principal Only at Maturity.**

The Notes offer repayment of principal only if you hold your Notes until the Maturity Date.

**Because the Notes Accrue Interest at a Floating Rate During the Interest Period, You May Receive a Lesser Amount of Interest After Such Period.**

The interest payable on the Notes will accrue at a per annum rate equal to the Floating Interest Rate, as determined on the LIBOR Interest Determination Date, subject to the Maximum Rate/Cap and the Minimum Rate. LIBOR may vary from time to time and there will be significant risks not associated with a conventional fixed–rate debt security. These risks include fluctuation of LIBOR and the possibility that, in the future, the interest rate on the Notes will decrease for any Floating Interest Period.

**LIBOR, and Therefore the Value of the Notes, May be Volatile and Will Be Affected by a Number of Factors.**

LIBOR, and therefore the value of the Notes is subject to volatility due to a variety of factors, including but not limited to:

- interest and yield rates in the market,
- changes in, or perceptions about future LIBOR rates,
- general economic conditions,
- policies of the U.S. Federal Reserve Board regarding interest rates,
- supply and demand among banks in London for U.S. dollar-denominated deposits with the relevant term,
- sentiment regarding underlying strength in the U.S. and global economies,
- expectations regarding the level of price inflation,

- sentiment regarding credit quality in the U.S. and global credit markets,
- inflation and expectations concerning inflation,
- performance of capital markets,
- geopolitical conditions and economic, financial, political, regulatory or judicial events that affect markets generally and that may affect LIBOR.

The impact of any of the factors set forth above may enhance or offset some or all of the changes resulting from another factor or factors. A lower LIBOR will result in the corresponding interest rate decreasing, but in no case will the interest rate be greater than the Maximum Rate/Cap or less than the Minimum Rate.

**Changes in Banks' Inter-Bank Lending Rate Reporting Practices or Methods Pursuant to which the LIBOR Rates are determined may adversely affect the Value of Your Notes.**

Regulators and law enforcement agencies from a number of governments have been conducting investigations relating to the calculation of the London Interbank Offered Rate, or LIBOR, across a range of maturities and currencies, and certain financial institutions that were member banks surveyed by the British Bankers' Association (the "BBA") in setting daily LIBOR have entered into agreements with the U.S. Department of Justice, the U.S. Commodity Futures Trading Commission and/or the U.K. Financial Services Authority in order to resolve the investigations. In addition, in September 2012, the U.K. government published the results of its review of LIBOR, commonly referred to as the "Wheatley Review." The Wheatley Review made a number of recommendations for changes with respect to LIBOR, including the introduction of statutory regulation of LIBOR, the transfer of responsibility for LIBOR from the BBA to an independent administrator, changes to the method of compilation of lending rates, new regulatory oversight and enforcement mechanisms for rate-setting and the corroboration of LIBOR, as far as possible, by transactional data. Based on the Wheatley Review, on March 25, 2013, final rules for the regulation and supervision of LIBOR by the U.K. Financial Conduct Authority (the “FCA”) were published and came into effect on April 2, 2013 (the “FCA Rules”). In particular, the FCA Rules include requirements that (1) an independent LIBOR administrator monitor and survey LIBOR submissions to identify breaches of practice standards and/or potentially manipulative behavior, and (2) firms submitting data to LIBOR establish and maintain a clear conflicts of interest policy and appropriate systems and controls. In addition, in response to the Wheatley Review recommendations, ICE Benchmark Administration Limited has been appointed as the independent LIBOR administrator, effective February 1, 2014. It is not possible to predict the further effect of the FCA Rules, any changes in the methods pursuant to which LIBOR rates are determined or any other reforms to LIBOR that may be enacted in the U.K., the European Union (the “EU”) and elsewhere, each of which may adversely affect the trading market for LIBOR-based securities. In addition, any changes announced by the FCA, ICE Benchmark Administration Limited, the European Commission or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which LIBOR rates are determined may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If such changes and reforms were to be implemented, the level of interest payments and the value of the Notes may be affected. Further, uncertainty as to the extent and manner in which the Wheatley Review recommendations and other proposed reforms will continue to be adopted and the timing of such changes may adversely affect the current trading market for the Notes and their value.

**The Notes are Not Ordinary Debt Securities.**

The Notes have certain investment characteristics that differ from traditional fixed income securities. Specifically, the performance of the Notes will not track the same price movements as traditional interest rate products. A person should reach a decision to invest in the Notes after carefully considering, with his or her advisors, the suitability of the Notes in light of his or her investment objectives and the information set out in the above terms of the offering. The Bank does not make any recommendation as to whether the Notes are a suitable investment for any person.

**Historical Levels of the 3-Month USD LIBOR do not guarantee Future Levels.**

The 3-Month USD LIBOR historical levels do not guarantee future levels of the 3-Month USD LIBOR. It is not possible to predict whether the levels of the 3-Month USD LIBOR will rise or fall during the term of the Notes.

**3-Month USD LIBOR as of any LIBOR Interest Determination Date may be less than 3-Month USD LIBOR as of any Other Day during the Term of the Notes.**

Because 3-Month USD LIBOR for any relevant Interest Period will be determined solely as of two London Business Days prior to the previous Interest Reset Date, 3-Month USD LIBOR will not be considered on any other dates during the term of the Notes. Therefore, even if 3-Month USD LIBOR as of any day that is not the LIBOR Interest

Determination Date for the applicable Interest Period is higher than 3-Month USD LIBOR as of such LIBOR Interest Determination Date, the amount of interest on the corresponding Interest Payment Date will not take into account that higher level.

**Your Yield may be lower than the Yield on Other Debt Securities of Comparable Maturity.**

The yield that you will receive on your Notes may be less than the return you could earn on other investments. The interest payable for any of the Interest Periods is linked to the 3-Month USD LIBOR as of the applicable Interest Reset Date (subject to the Maximum Rate/Cap and the Minimum Rate). If there is a decline in the 3-Month USD LIBOR over the term of your Notes, the effective yield on your Notes for such Interest Period may be less than that which would be payable on a conventional fixed-rate debt security with the same stated Maturity Date, including those of the Bank. Your investment may not reflect the full opportunity cost to you when you take into account factors that affect the time value of money.

**Your Investment is Subject to the Credit Risk of The Bank of Nova Scotia**.

The Notes are senior unsecured debt obligations of The Bank of Nova Scotia, and are not, either directly or indirectly, an obligation of any third party. As further described in the accompanying prospectus, prospectus supplement and product prospectus supplement, the Notes will rank on par with all of the other unsecured and unsubordinated debt obligations of The Bank of Nova Scotia, except such obligations as may be preferred by operation of law. Any payment to be made on the Notes, including the return of the Principal Amount at maturity, depends on the ability of The Bank of Nova Scotia to satisfy its obligations as they come due. As a result, the actual and perceived creditworthiness of The Bank of Nova Scotia may affect the market value of the Notes and, in the event The Bank of Nova Scotia were to default on its obligations, you may not receive the amounts owed to you under the terms of the Notes.

**The Price at Which the Notes may be sold prior to Maturity will depend on a Number of Factors and May Be Substantially Less Than the Amount for Which They Were Originally Purchased.**

The price at which the Notes may be sold prior to maturity will depend on a number of factors. Some of these factors include, but are not limited to: (i) volatility of the level of interest rates and the market's perception of future volatility of the level of interest rates, (ii) changes in interest rates generally, (iii) any actual or anticipated changes in our credit ratings or credit spreads, and (iv) time remaining to maturity.

Depending on the actual or anticipated level of interest rates, the market value of the Notes may decrease and you may receive substantially less than 100% of the issue price if you sell your Notes prior to maturity.

**The Inclusion of Dealer Spread and Projected Profit from Hedging in the Original Issue Price is Likely to Adversely Affect Secondary Market Prices.**

Assuming no change in market conditions or any other relevant factors, the price, if any, at which Scotia Capital (USA) Inc. or any other party is willing to purchase the Notes at any time in secondary market transactions will likely be significantly lower than the original issue price, since secondary market prices are likely to exclude underwriting commissions paid with respect to the Notes and the cost of hedging our obligations under the Notes that are included in the original issue price. The cost of hedging includes the projected profit that we and/or our affiliates may realize in consideration for assuming the risks inherent in managing the hedging transactions. These secondary market prices are also likely to be reduced by the costs of unwinding the related hedging transactions. In addition, any secondary market prices may differ from values determined by pricing models used by Scotia Capital (USA) Inc. as a result of dealer discounts, mark-ups or other transaction costs.

**The Notes Lack Liquidity.**

The Notes will not be listed on any securities exchange or automated quotation system. Therefore, there may be little or no secondary market for the Notes. Scotia Capital (USA) Inc. or any other dealer may, but is not obligated to, make a market in the Notes.  Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Notes easily.  Because we do not expect that other broker-dealers will participate significantly in the secondary market for the Notes, the price at which you may be able to trade your Notes is likely to depend on the price, if any, at which Scotia Capital (USA) Inc. is willing to purchase the Notes from you.  If at any time Scotia Capital (USA) Inc. or any other dealer were not to make a market in the Notes, it is likely that there would be no secondary market for the Notes.  Accordingly, you should be willing to hold your Notes to maturity.

**We, our Subsidiaries, or Affiliates may Publish Research that Could Affect the Market Value of the Notes. We also expect to Hedge Our Obligations under the Notes.**

We or one or more of our affiliates may, at present or in the future, publish research reports with respect to movements in interest rates generally. This research is modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding the Notes. Any of these activities may affect the market value of the Notes. In addition, our subsidiaries expect to hedge our obligations under the Notes and they may realize a profit from that expected hedging activity even if investors do not receive a favorable investment return under the terms of the Notes or in any secondary market transaction.

**HISTORICAL PERFORMANCE OF LIBOR**

Historically, LIBOR has experienced significant fluctuations. Any historical upward or downward trend in the level of LIBOR during any period shown below is not an indication that the interest payable on the Notes is more or less likely to increase or decrease at any time during the floating rate period.

LIBOR was 0.2616% on February 23, 2015. The graph below sets forth the historical performance of the LIBOR from January 1, 2005 through February 23, 2015. ***Past performance of the 3-Month USD LIBOR is not indicative of future performance of the 3-Month USD LIBOR.***

We obtained the information regarding the historical performance of the *3-Month USD LIBOR* in the graph above from Bloomberg Financial Markets. We make no representation or warranty as to the accuracy or completeness of the information obtained from Bloomberg Financial Markets and have not undertaken an independent review or due diligence of the information. The historical performance of the *3-Month USD LIBOR* should not be taken as an indication of its future performance, and no assurance can be given as to the Final Price of the *3-Month USD LIBOR*. We cannot give you assurance that the performance of the *3-Month USD LIBOR* will result in any positive return on your initial investment.

**SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)**

Pursuant to the terms of a distribution agreement, Scotia Capital (USA) Inc., an affiliate of The Bank of Nova Scotia, will purchase the Notes from The Bank of Nova Scotia for distribution to other registered broker-dealers or will offer the Notes directly to investors.

Scotia Capital (USA) Inc. or one of our affiliates will purchase the Notes at the Principal Amount and as part of the distribution, if the Notes priced today, would pay discounts and underwriting commissions of $4.00 (0.40%) per $1,000 Principal Amount of the Notes in connection with the distribution of the Notes. Scotia Capital (USA) Inc. may separately receive a structuring and development fee of up to $0.50 (0.05%) per $1,000 Principal Amount of the Notes.

In addition, Scotia Capital (USA) Inc. or another of its affiliates or agents may use the product prospectus supplement to which this pricing supplement relates in market-making transactions after the initial sale of the Notes. While Scotia Capital (USA) Inc. may make markets in the Notes, it is under no obligation to do so and may discontinue any market-making activities at any time without notice. See the sections titled “Supplemental Plan of Distribution” in the accompanying prospectus supplement and product prospectus supplement.

The price at which you purchase the Notes includes costs that the Bank or its affiliates expect to incur and profits that the Bank or its affiliates expect to realize in connection with hedging activities related to the Notes, as set forth above. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the Notes. As a result, you may experience an immediate and substantial decline in the market value of your Notes on the Issue Date.

**Conflicts of Interest**

Each of Scotia Capital (USA) Inc. and Scotia Capital Inc. is an affiliate of the Bank and, as such, has a ‘‘conflict of interest’’ in this offering within the meaning of FINRA Rule 5121. In addition, the Bank will receive the gross proceeds from the initial public offering of the Notes, thus creating an additional conflict of interest within the meaning of Rule 5121. Consequently, the offering is being conducted in compliance with the provisions of Rule 5121. Neither Scotia Capital (USA) Inc. nor Scotia Capital Inc. is permitted to sell the Notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

Scotia Capital (USA) Inc. and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Scotia Capital (USA) Inc. and its affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Bank, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, Scotia Capital (USA) Inc. and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Bank. Scotia Capital (USA) Inc. and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

**CERTAIN CANADIAN INCOME TAX CONSEQUENCES**

See “Certain Income Tax Consequences—Certain Canadian Income Tax Considerations” at page S-24 of the Prospectus Supplement dated December 1, 2014.

**CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

We intend to treat the Notes as "variable rate debt instruments" for U.S. federal income tax purposes. Pursuant to the terms of the Notes, you agree to treat the Notes in this manner for all U.S. federal income tax purposes. If your Notes are so treated, all of the stated interest on the Notes should be treated as qualified stated interest for purposes of applying the original issue discount rules and should therefore be included in your income as ordinary income in accordance with your regular method of accounting for U.S. federal income tax purposes. Additionally, you should generally recognize capital gain or loss upon the sale, exchange, redemption or payment on maturity in an amount equal to the difference between the amount you receive at such time (excluding the amount attributable to any interest payment) and the amount that you paid for your Notes. Such gain or loss should generally be long-term capital gain or loss if you have held your Notes for more than one year.

You should carefully consider the discussion set forth in “Supplemental Discussion of U.S. Federal Income Tax Consequences” in the accompanying product prospectus supplement. In particular, U.S. holders should review the discussion under “—Fixed Rate Notes, Floating Rate Notes, Inverse Floating Rate Notes, Step Up Notes, Leveraged Notes, Range Accrual Notes, Dual Range Accrual Notes and Non-Inversion Range Accrual Notes” and “—Sale, Redemption or Maturity of Notes that Are Not Treated as Contingent Payment Debt Instruments” under “Supplemental Discussion of U.S. Federal Income Tax Consequences—Supplemental U.S. Tax Considerations—U.S. Holders—Where the term of your notes exceeds one year” in the product prospectus supplement and “—Variable Rate Debt Securities” in the prospectus, and non-U.S. holders should review the discussion set forth in “Supplemental Discussion of U.S. Federal Income Tax Consequences—Supplemental U.S. Tax Considerations—Non-U.S. Holders” in the product prospectus supplement. U.S. holders should also review the discussion under “—Treasury Regulations Requiring Disclosure of Reportable Transactions”, “—Information With Respect to Foreign Financial Assets” and “Backup Withholding and Information Reporting” under “United States Taxation” in the prospectus.

*Foreign Account Tax Compliance Act*. Sections 1471 through 1474 of the Internal Revenue Code (which are commonly referred to as “FATCA”) generally impose a 30% withholding tax on certain payments, including “pass-thru” payments to certain persons if the payments are attributable to assets that give rise to U.S.-source income or gain. Pursuant to recently issued Treasury regulations, this withholding tax would not be imposed on payments pursuant to obligations that are issued on or before the date that is six months after the date on which final Treasury regulations defining “foreign passthru payments” are published (and are not materially modified thereafter). Accordingly, FATCA withholding generally is not expected to be required on the Notes. If, however, withholding is required as a result of future guidance, we (and any paying agent) will not be required to pay additional amounts with respect to the amounts so withheld.

Significant aspects of the application of FATCA are not currently clear and Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

**Prospective purchasers of the Notes should consult their tax advisors as to the federal, state, local and other tax consequences to them of acquiring, holding and disposing of the Notes and receiving payments under the Notes.**

GHT: 0px">3,012,690

**COST OF SALES**

3,044,287

2,473,068

**GROSS PROFIT**

519,813

539,622

**OPERATING EXPENSES**

Selling

1,124,128

554,165

General and Administrative

1,330,146

449,343

Total Operating Expenses

2,454,274

1,003,508

**LOSS FROM OPERATIONS**

(1,934,461
)

(463,886
)

**OTHER INCOME (EXPENSES)**

Interest Income

830

| | | |
|---|---|---|
| | | 23,491 |
| Interest Expense | (56,438) | (47,551) |
| Total Other Income (Expenses) | (55,608) | (24,060) |
| **NET LOSS** | $ (1,990,069) | $ (487,946) |
| **LOSS PER SHARE** — Basic and Diluted | $ (0.23) | $ (0.07) |
| **WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED** | 8,764,683 | 7,143,185 |

See accompanying Notes to Condensed Financial Statements

3

**REED'S INC.**

**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**
For the three months ended March 31, 2008 (Unaudited)

| | Common Shares | Stock Amount | Preferred Shares | Stock Amount | Additional Paid in Capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2008 | 8,751,721 | $ 874 | 48,121 | $ 481,212 | $ 17,838,516 | $ (11,081,141) | $ 7,239,461 |
| Common stock issued for services | 155,979 | 16 | - | - | 320,746 | | 320,762 |
| Fair value of options issued to employees | - | - | - | - | (27,983) | - | (27,983) |
| Net Loss for the three months ended March, 31, 2008 | - | - | - | - | - | (1,990,069) | (1,990,069) |
| | | | | | | | |
| Balance, March 31, 2008 | 8,907,700 | $ 890 | 48,121 | $ 481,212 | $ 18,131,279 | $ (13,071,210) | $ 5,542,171 |

See accompanying Notes to Condensed Financial Statements

4

**REED'S INC.**

**CONDENSED STATEMENTS OF CASH FLOWS**
**For the three months ended March 31, 2008 and 2007**
**(Unaudited)**

| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2007 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| (Net Loss) | $ (1,990,069) | $ (487,946) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 87,920 | 38,836 |
| Fair value of options issued to employees | (27,983) | 25,128 |
| Fair value of consulting services paid with the issuance of common stock | 320,762 | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (295,771) | (185,626) |
| Inventory | 298,866 | (479,324) |
| Prepaid Expenses | 19,574 | (81,856) |
| Other receivables | 15,088 | (11,650) |
| Other intangibles | (35,400) | |
| Accounts payable | 52,751 | 128,797 |
| Accrued expenses | 27,014 | 7,440 |
| Accrued interest | (3,548) | (20,180) |
| Net cash used in operating activities | (1,530,796) | (1,066,381) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Increase in restricted cash | - | (145,664) |
| Purchase of property and equipment | (81,558) | (171,624) |
| Net cash used in investing activities | (81,558) | (317,288) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds received from long term debt borrowings | 1,770,000 | 163,276 |
| Increase in bank overdraft | - | 224,872 |
| Principal payments on debt | (789,343) | (45,538) |
| Net payment on lines of credit | - | (630) |
| Payment for public offering expenses | - | (45,000) |
| Deferred costs | - | (82,585) |
| Net cash provided by financing activities | 980,657 | 214,395 |
| **NET DECREASE IN CASH** | (631,697) | (1,169,274) |
| **CASH — Beginning of period** | 742,719 | 1,638,917 |
| **CASH — End of period** | $ 111,022 | $ 469,643 |
| **Supplemental Disclosures of Cash Flow Information** | | |
| Cash paid during the period for: | | |

| | | | | |
|---|---|---|---|---|
| Interest | $ | 59,986 | $ | 67,732 |
| Taxes | $ | - | $ | - |

See accompanying Notes to Condensed Financial Statements

5

REED'S, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
Three Months Ended March 31, 2008 and 2007 (UNAUDITED)

## 1. BASIS OF PRESENTATION

The accompanying interim condensed financial statements are unaudited, but in the opinion of management of Reeds, Inc. (the Company), contain all adjustments, which include normal recurring adjustments necessary to present fairly the financial position at March 31, 2008 and the results of operations and cash flows for the three months ended March 31, 2008 and 2007. The balance sheet as of December 31, 2007 is derived from the Company's audited financial statements.

Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although management of the Company believes that the disclosures contained in these financial statements are adequate to make the information presented herein not misleading. For further information, refer to the financial statements and the notes thereto included in the Company's Annual Report on Form 10-KSB, as filed with the Securities and Exchange Commission on April 15, 2008.

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, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2008.

Income (Loss) per Common Share

Basic income (loss) per share is calculated by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted income per share is calculated assuming the issuance of common shares, if dilutive, resulting from the exercise of stock options and warrants. As the Company had a loss in the three month-period ended March 31, 2008 and 2007, basic and diluted loss per share are the same because the inclusion of common share equivalents would be anti-dilutive.

For the three months ended March 31, 2008 and 2007 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 March 31, 2008:

| | |
|---|---|
| Warrants | 1,668,236 |
| Preferred Stock | 192,484 |
| Options | 563,333 |
| Total | 2,424,053 |

Fair Value of Financial Instruments:

The carrying amounts of financial instruments, including cash, accounts and other receivables, accounts payable and accrued liabilities, approximate fair value because of their short maturity. The carrying amounts of notes payable approximate fair value because the related effective interest rates on these instruments approximate the rates currently available to the Company.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements." This Statement defines fair value for certain financial and nonfinancial assets and liabilities that are recorded at fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements. On February 12, 2008, the FASB finalized FASB Staff Position (FSP) No.157-2, Effective Date of FASB Statement No. 157. This Staff Position delays the effective date of SFAS No. 157 for nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 had no effect on the Company’s financial position or results of operations.

Recent Accounting Pronouncements:

References to the “FASB”, “SFAS” and “SAB” herein refer to the “Financial Accounting Standards Board”, “Statement of Financial Accounting Standards”, and the “SEC Staff Accounting Bulletin”, respectively.

In December 2007, the FASB issued FASB Statement No. 141 (R), “Business Combinations” (FAS 141(R)), which establishes accounting principles and disclosure requirements for all transactions in which a company obtains control over another business. Statement 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51”. SFAS No. 160 establishes accounting and reporting standards that require that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent’s equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; and changes in a parent’s ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS No. 160 also requires that any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value when a subsidiary is deconsolidated. SFAS No. 160 also sets forth the disclosure requirements to identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS No. 160 must be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements are applied retrospectively for all periods presented.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133” (“SFAS No. 161”). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS No. 133”). The objective of SFAS No. 161 is to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 applies to all derivative financial instruments, including bifurcated derivative instruments (and nonderivative instruments that are designed and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS No. 133) and related hedged items accounted for under SFAS No. 133 and its related interpretations. SFAS No. 161 also amends certain provisions of SFAS No. 131. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company has not yet determined the effect on its consolidated financial statements, if any, upon adoption of SFAS No. 161.

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

Concentrations

The Company's cash balances on deposit with banks are guaranteed by the Federal Deposit Insurance Corporation up to $100,000. The Company may be exposed to risk for the amounts of funds held in one bank in excess of the insurance limit. In assessing the risk, the Company's policy is to maintain cash balances with high quality financial institutions. The Company had cash balances in excess of the $100,000 guarantee during the three months ended March 31, 2008.

During the three months ended March 31, 2008 and 2007, the Company had two customers, which accounted for approximately 30% and 13% and 39% and 16% of sales, respectively . No other customers accounted for more than 10% of sales in either period. As of March 31, 2008, the Company had approximately $754,000 and $71,000, respectively, of accounts receivable from these customers.

2. Inventory

Inventory consists of the following at:

| | March 31, 2008 | December 31, 2007 |
|---|---|---|
| Raw Materials | $ 951,688 | $ 1,175,580 |
| Finished Goods | 1,777,896 | 1,848,870 |
| | $ 2,729,584 | $ 3,028,450 |

3. Long Term Debt

In March 2008, the Company originated a note payable with a bank in the amount of $1,770,000. The note matures in February 2038. The note carries a 8.41% interest rate, requires a monthly payment of $13,651 and is secured by all of the land and building owned by the Company. The previous debt secured by land and building were paid off as a condition of obtaining this loan.

4. Stock Based Compensation

The impact on our results of operations of recording stock-based compensation for the three-month period ended March 31, 2008 and 2007 was to (reduce) increase selling expenses by $(27,983) and $25,127, respectively, and increase general and administrative expenses by $0 and $0, respectively. The reduction in compensation expense resulted from a change in estimated forfeitures of our total expected stock option compensation expense. In accordance with FAS 123R, the company recalculated its expected compensation for all options outstanding at March 31, 2008 and compared it to previously recorded compensation expense for options in that option pool. The change in forfeiture assumption resulted from a significant forfeiture of stock options due to many of the option holders leaving the employ of the company before they became vested in those options.

The amount of the cumulative adjustment to reflect the effect of the forfeited options is approximately $153,000. The amount of compensation expense which would have been recognized if the cumulative adjustment was not made would have been approximately $126,000.

No options were issued during the 3 months ended March 31, 2008.

The following table summarizes stock option activity for the three months ended March 31, 2008 :

| | Shares | Weighted Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2008 | 749,000 | $ 6.02 | 3.8 | $ 732,760- |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Forfeited | (185,667) | $ 7.24 | - | - |
| Outstanding at March 31, 2008 | 563,333 | $ 5.61 | 3.3 | $ 63,350 |
| Exercisable at March 31, 2008 | 298,333 | $ 3.81 | 2.4 | $ 63,350 |

Stock options granted under our equity incentive plans vest over two and three years from the date of grant, ½ and 1/3 per year, respectively, and generally expire five years from the date of grant. No options were granted during the three months ended March 31, 2008.

We calculated the fair value of each warrant award on the date of grant using the Black-Scholes option pricing model.

The Company had 1,668,236 of warrants outstanding at March 31, 2008. There was no warrant activity in the three months ended March 31, 2008.

5. Equity

During the three months ended March 31, 2008, 155,979 shares of common stock were issued to consultants. The stock was valued based on the closing price of the Company's common stock on the date of issuance. The aggregate value of stock issued was $320,762.

6. Related Party Activity

As of December 31, 2007, the Company had a $300,000 note receivable from an entity that is partly owned by an advisor to the board of directors. The note is secured by all the entity's assets and intellectual property. The note is payable on March 25, 2008 and bears interest at 7.50% per annum with quarterly interest payments. As of March 31, 2008, the Company has determined that the note is deemed uncollectible and the collateral worthless, and has written off the entire balance and associated accrued interest.

For the three months ended March 31, 2008 the Company employed one family member of the majority shareholder, Chief Executive Officer and Chief Financial Officer of the Company in a sales role. He was paid approximately $56,250. No stock options were granted to him during the three months ended March 31, 2008.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD LOOKING STATEMENTS

*Certain statements in this Quarterly Report on Form 10-Q, or the Report, are "forward-looking statements." These forward-looking statements include, but are not limited to, statements about the plans, objectives, expectations and intentions of Reed's, Inc., a Delaware corporation (referred to in this Report as "we," "us," or "our"") and other statements contained in this Report that are not historical facts. Forward-looking statements in this Report or hereafter included in other publicly available documents filed with the Securities and Exchange Commission, or the Commission, reports to our stockholders and other publicly available statements issued or released by us involve known and unknown risks, uncertainties and other factors which could cause our actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Such future results are based upon management's best estimates based upon current conditions and the most recent results of operations. When used in this Report, the words "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" and similar expressions are generally intended to identify forward-looking statements, because these forward-looking statements involve risks and uncertainties. There are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including our plans, objectives, expectations and intentions and other factors that are discussed under the section entitled "Risk Factors," in our Annual Report on Form 10-KSB for the year ended December 31, 2007.*

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed financial statements and the related notes appearing elsewhere in this Form 10-Q.*

**Overview**

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

- Reed's Ginger Brews,
- Virgil's Root Beer and Cream Sodas,
- China Colas,
- Reed's Ginger Juice Brews,
- Reed's Ginger Candies, and
- Reed's Ginger Ice Creams

We sell most of our products in specialty gourmet and natural food stores, supermarket chains, retail stores and restaurants in the United States and, to a lesser degree, in Canada. We primarily sell our products through a network of natural, gourmet and independent distributors. We also maintain an organization of in-house sales managers who work mainly in the stores serviced by our natural, gourmet and mainstream distributors and with our distributors. We also work with regional, independent sales representatives who maintain store and distributor relationships in a specified territory. In Southern California, we have our own direct distribution system.

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

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

Fuel Prices - As oil prices continue to increase, our packaging, production and ingredient costs will continue to rise. We have attempted to offset the rising freight costs from fuel price increases by creatively negotiating rates and managing freight. We will continue to pursue alternative production, packaging and ingredient suppliers and options to help offset the affect of rising fuel prices on these expenses.

Low Carbohydrate Diets and Obesity - Our products are not geared for the low carbohydrate market. Consumer trends have reflected higher demand for lower carbohydrate products. Despite this trend, we achieved an increase in our sales growth in 2006. We monitor these trends closely and have started developing low-carbohydrate versions of some of our beverages, although we do not have any currently marketable low-carbohydrate products.

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

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

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

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

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

Cash Flow Requirements - Our growth will depend on the availability of additional capital infusions. We have a financial history of losses and are dependent on non-banking sources of capital, which tend to be more expensive and charge higher interest rates. Any increase in costs of goods will further increase losses and will further tighten cash reserves.

Interest Rates - We use lines of credit as a source of capital and are negatively impacted as interest rates rise.

**Critical Accounting Policies**

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

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

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

In accordance with SFAS No. 142, we evaluate our non-amortizing trademark license and trademarks quarterly for impairment. We measure impairment by the amount that the carrying value exceeds the estimated fair value of the trademark license and trademarks. The fair value is calculated by reviewing net sales of the various beverages and applying industry multiples. Based on our quarterly impairment analysis the estimated fair values of trademark license and trademarks exceeded the carrying value and no impairments were identified during the three months ended March 31, 2008 or March 31, 2007.

Long-Lived Assets. Our management regularly reviews property, equipment and other long-lived assets, including identifiable amortizing intangibles, for possible impairment. This review occurs quarterly or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. If there is indication of impairment of property and equipment or amortizable intangible assets, then management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. The fair value is estimated at the present value of the future cash flows discounted at a rate commensurate with management’s estimates of the business risks. Quarterly, or earlier, if there is indication of impairment of identified intangible assets not subject to amortization, management compares the estimated fair value with the carrying amount of the asset. An impairment loss is recognized to write down the intangible asset to its fair value if it is less than the carrying amount. Preparation of estimated expected future cash flows is inherently subjective and is based on management’s best estimate of assumptions concerning expected future conditions. No impairments were identified during the three months ended March 31, 2008 or 2007.

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

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

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

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

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

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

**Results of Operations**

*Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2008*

Net sales increased by $551,410, or 18.3%, from $3,012,690 in the first three months ended 2007 to $3,564,100 in the first three months ended 2008. The increase in net sales was primarily due to an increase in our Virgil's product line and our Reed's Ginger Brews line. The increase in sales was also primarily due to an increase in net sales due to newly introduced mainstream distributors and an increase in our existing distribution channels of natural food distributors and retailers.

The Virgil’s brand, which includes Root Beer, Cream Soda and Black Cherry Cream soda, Diet Root Beer, Diet Cream Soda and Diet Black Cherry Cream Soda, realized an increase in net sales of $641,000, or 43.0% to $1,492,000 in first three months ended 2008 from $851,000 in first three months ended 2007. The increase was the result of increased sales in 12 ounce Root Beer of $234,000 or 40.3% from $580,000 in first three months ended 2007 to $814,000 in first three months ended 2008, increased sales in Cream Soda of $116,000 or 184.1% from $63,000 in the first three months of 2007 to $179,000 in the first three months of 2008, and increased sales in Black Cherry Cream Soda of $32,000 or 50.8% from $63,000 in the first three months of 2007 to $95,000 in the first three months of 2008. Also, the Virgil’s Root Beer five-liter party kegs increased $210,000 or 238.6%, from $88,000 in first three months ended 2007 to $298,000 in first three months ended 2008. In addition, the increase in sales in the Virgil’s Brand was the result of three diet products introduced in the second quarter 2007. The three new products include Diet Root Beer, Diet Cream Soda and Diet Black Cherry Cream Soda which realized net sales of $54,000 in first three months ended 2008.

The Reeds Ginger Brew Line increased $388,000 or 26.2% to $1,868,000 in first three months ended 2008 from $1,480,000 in first three months ended 2007.

Net sales of candy decreased $3,000, or 1.2% to $253,000 in first three months ended 2008 from $256,000 in first three months ended 2007.

The product mix for our two most significant product lines, Reed's Ginger Brews and Virgil's sodas was 51.2% and 40.9%, respectively of net sales in first three months ended 2008 and was 56.5% and 32.5%, respectively of net sales in first three months ended 2007.

Cost of sales increased by $571,219, or 23.1%, to $3,044,287 in first three months ended 2008 from $2,473,068 in first three months ended 2007. As a percentage of net sales, cost of sales increased to 85.4% in first three months ended 2008 from 82.1% in first three months ended 2007. Cost of sales as a percentage of net sales increased by 3.3%, primarily as a result of increased discounting and promotions, increased production expenses, increased packaging costs and increased ingredient costs.

Gross profit decreased $19,809 or 3.7% to $519,813 in first three months ended 2008 from $539,622 in first three months ended 2007. As a percentage of net sales, gross profit decreased to 14.6% in the first three months of 2008 from 17.9% in the first three months of 2007. Fuel and commodity price increases have caused an increase in our costs of production from our co-packer. Fuel price increases have also increased our costs of delivery. In addition, we had increased costs of packaging costs. If fuel and commodity prices continue to increase, we will have more pressure on our margins.

To improve gross margins in 2008, we have raised prices on the Reed's Ginger Brew line by 20% bringing it more in line with our competitors in the natural soda category. In addition, we are implementing systems to track and manage the approval and use of promotions and discounting to maintain a higher net gross margin. Finally, we are performing a competitive bidding process for our third party co-packing production. We expect to select a co-packer by the third quarter 2008. We expect to lower our costs of production, thus further improving our gross margin while maintaining our product quality.

Operating expenses increased by $1,450,766, or 144.6%, to $2,454,274 in first three months ended 2008 from $1,003,508 in first three months ended 2007 and increased as a percentage of net sales to 68.9% in first three months ended 2008 from 33.3% in first three months ended 2007. The increase was primary the result of increased selling and general and administrative expenses. In March of 2008, we reduced our staff by 17 employees, mostly from the sales staff. During the first quarter of 2008, we implemented a cost reduction strategy to reduce unnecessary expenses and revised its budget for 2008. We reduced selling expenses by reducing our work force by 17 employees. We expect to save approximately $2,000,000 in annual expense with this reduction. We believe our operating expenses will decrease approximately $300,000 per month beginning in April,2008.

Selling expensed increased by $569,963 or 102.9%, to $1,124,128 in first three months ended 2008 from $554,165 in first three months ended 2007. The increase in selling expenses is due to increased salaries of sales personnel, general selling expenses, promotional costs, non-cash stock option amortization expense, recruiting costs of sales personnel and public relations. Salaries of sales personnel increased $411,495 or 135.2% to $715,889 in first three months ended 2008 from $304,394 in first three months ended 2007. This increase was due to increased personnel to support the initiative to increase sales of our product to the mainstream consumer through mainstream stores and distributors that support mainstream retailers. General selling expenses increased $133,953 or 115.9% to $249,502 in first three months ended 2008 from $115,549 in first three months ended 2007. The increase in general selling expenses was due to the increased support for the increased sales personnel such as travel and trade shows. Promotional expenses decreased $6,957 or 6.9%, to $93,965 in first three months ended 2008 from $100,922 in first three months ended 2007. The decrease in promotional expenses was due to decreased demonstrations and sampling. Non-cash stock option compensation expense decreased $55,110 or 203.2% to $(27,983) in first three months ended 2008 from $27,127 in first three months ended 2007. This decrease is due to options which were forfeited. This resulted in a cumulative adjustment, as discussed in Note 4. In March 2008, we announced our new strategic direction in sales, whereby our focus is to strengthen our product placements in our estimated 10,500 supermarkets nationwide. This strategy replaces our strategy in first three months ended 2007 that focused on both the supermarkets and a direct store delivery (DSD) effort. Since March 2008, our sales organization has been reduced by 16 compared to the level we had at December 31, 2007. We have found that the most effective sales efforts are to grocery stores. We have our products in more than 10,500 supermarket stores across the country and our new direction for 2008 is to remain focused on these accounts while opening new business with other grocery stores leveraging our brand equity. We feel that the trend in grocery stores to offer their customers natural products can be served with our products. Our sales personnel are leveraging our success at natural food grocery stores to establish new relationships with mainstream grocery stores

General and administrative expenses increased by $880,803 or 196.0% to $1,330,146 in first three months ended 2008 from $449,343 in the first three months of 2007. The increase in general and administrative expenses is due to increased legal, accounting and investor relations expenses, salaries, general office expenses and non-cash stock option amortization expense. Legal, accounting and investor relations expenses increased $297,568 or 312.9% to $392,656 in first three months ended 2008 from $95,088 in first three months ended 2007. The increase in legal, accounting and investor relation expenses was due to a new initiative in first three months ended 2008 for investor relations that resulted in an increase of general and administrative expenses of $121,694. The remaining increase in legal and accounting costs mostly related to the increased costs of reporting and compliance with the Securities and Exchange Commission and NASDAQ. Salaries increased by $243,914 or 219.6% to $354,981 in first three months ended 2008 from $111,067 in first three months ended 2007. The increase was due to additional personnel including the newly hired Chief Operating and Chief Financial Officers. General office expenses increased $116,761 or 68.6% to $286,626 in first three months ended 2008 from $169,865 in first three months ended 2007. This increase was mainly due to increased costs to support the additional personnel such as computers and telephones. In addition, we had a one-time non cash expense of $320,762 for consulting services, for which we issued stock.

Interest expense was $56,438 in first three months ended 2008, compared to interest expense of $47,551 in first three months ended 2007.

Interest income decreased because of our overall decrease in cash and corresponding decrease in interest bearing cash accounts.

**Liquidity and Capital Resources**

Historically, we have financed our operations primarily through the sale of common stock, preferred stock, convertible debt, a line of credit from a financial institution, and cash generated from operations. On December 12, 2006, we completed the sale of 2,000,000 shares of our common stock at an offering price of $4.00 per share in our initial public offering. The public offering resulted in gross proceeds of $8,000,000 to us. In connection with the public offering, we paid aggregate commissions, concessions and non-accountable expenses to the underwriters of $800,000, resulting in net proceeds of $7,200,000, excluding other expenses of the public offering. In addition, we issued, to the underwriters, warrants to purchase up to approximately an additional 200,000 shares of common stock at an exercise price of $6.60 per share (165% of the public offering price per share), at a purchase price of $0.001 per warrant. The underwriters' warrants are exercisable for a period of five years commencing on the final closing date of the public offering. From August 3, 2005 through April 7, 2006, we had issued 333,156 shares of our common stock in connection with the public offering. We sold the balance of the 2,000,000 shares in connection with the public offering (1,666,844 shares) following October 11, 2006.

From May 25, 2007 through June 15, 2007, we completed a private placement to accredited investors only, on subscriptions for the sale of 1,500,000 shares of common stock and warrants to purchase up to 749,995 shares of common stock, resulting in an aggregate of $9,000,000 of gross proceeds to us. We sold the shares at a purchase price of $6.00 per share. The warrants issued in the private placement have a five-year term and an exercise price of $7.50 per share. We paid cash commissions of $900,000 to the placement agent for the private placement and issued warrants to the placement agent to purchase up to 150,000 shares of common stock with an exercise price of $6.60 per share. We also issued additional warrants to purchase up to 15,000 shares of common stock with an exercise price of $6.60 per share and paid an additional $60,000 in cash to the placement agent as an investment banking fee. Total proceeds received, net of underwriting commissions and the investment banking fee and excluding other expenses of the private placement, was $8,040,000.

As of March 31, 2008, we had an accumulated deficit of $13,071,210. As of March 31, 2008, we had working capital of $2,211,872, compared to working capital of $2,942,909 as of December 31, 2007. Cash and cash equivalents were $111,022 as of March 31, 2008, as compared to $742,719 as December 31, 2007.

Net cash used in operating activities was $1,530,796 in the three months ended March 31, 2008 and resulted primarily from our net loss of $1,990,069 reduced by a non-cash expense of $320,762 pertaining to consulting services we issued stock for.

We used $81,558 in investing activities in the three months ended March 31, 2008. This use resulted in the purchase of brewing equipment and office equipment.

Cash flow provided from financing activities was $980,657 in the three months ended March 31, 2008 . This resulted from the Company obtaining a mortgage on its real estate for $1,770,000 and paying existing real estate and other term debt of $789,343.

We do not have a line of credit for our working capital, receivables or inventory. However, we are negotiating to obtain a line of credit facility secured by our receivables and inventory. There can be no assurance that we will be offered or accept the terms of a line of credit. However, we believe that we will be able to obtain a line of credit which would be based on the amount of our eligible receivables and inventory of up to $3 million. .

We recognize that operating losses negatively impact liquidity and are working on decreasing operating losses. In the first quarter of 2008, we implemented a cost reduction program, including a reduction of our staff. Our current business plan assumes an increase in sales. Assuming an increase in sales and a reduction in our operating costs, we expect to reduce our operating losses in 2008 compared to 2007. If the increase in sales does not materialize, we will need to further reduce our operating costs.

If we have an increase in sales in 2008 and a reduction in operating expenses, we believe our current working capital and cash position and our ability to obtain a new line of credit will be sufficient to enable us to meet our cash needs through December 2008.

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

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

In addition, some or all of the elements of our expansion plan may have to be curtailed or delayed unless we are able to find alternative external sources of working capital. We would need to raise additional funds to respond to business contingencies, which may include the need to:

- fund more rapid expansion,
- fund additional marketing expenditures,
- enhance our operating infrastructure,
- respond to competitive pressures, and
- acquire other businesses.

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

Recent Accounting Pronouncements:

References to the "FASB", "SFAS" and "SAB" herein refer to the "Financial Accounting Standards Board", "Statement of Financial Accounting Standards", and the "SEC Staff Accounting Bulletin", respectively.

In December 2007, the FASB issued FASB Statement No. 141 (R), "Business Combinations" (FAS 141(R)), which establishes accounting principles and disclosure requirements for all transactions in which a company obtains control over another business. Statement 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". SFAS No. 160 establishes accounting and reporting standards that require that the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity; the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; and changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. SFAS No. 160 also requires that any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value when a subsidiary is deconsolidated. SFAS No. 160 also sets forth the disclosure requirements to identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS No. 160 must be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements are applied retrospectively for all periods presented.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). The objective of SFAS No. 161 is to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 applies to all derivative financial instruments, including bifurcated derivative instruments (and nonderivative instruments that are designed and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS No. 133) and related hedged items accounted for under SFAS No. 133 and its related interpretations. SFAS No. 161 also amends certain provisions of SFAS No. 131. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company has not yet determined the effect on its consolidated financial statements, if any, upon adoption of SFAS No. 161.

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

Inflation

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4. CONTROLS AND PROCEDURES

(a) Management's Evaluation of Disclosure Controls and Procedures.

As of March 31, 2008, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our “disclosure controls and procedures,” as such term is defined under Exchange Act Rules 13a-15(e) and 15d-15(e).

Our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2008, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls.

There were no changes in our internal controls over financial reporting during the quarter ended March 31, 2008 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Part II**

Item 1. Legal Proceedings

There has been no change to our disclosure regarding legal proceeding as set forth in our Annual Report on Form 10-KSB for the year ended December 31, 2007.

Except as set forth in such disclosure, 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.

Item 1A. RISK FACTORS

Not applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

| Exhibit Number | Description of Document |
|---|---|
| 31 | Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Officer's Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**SIGNATURE**

In accordance with requirements of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Reeds, Inc.

By: /s/ Christopher Reed

Chief Executive Officer, President and Chief Financial Officer

May 20, 2008

17