

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2020

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-32501

REED'S, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of
incorporation)

35-2177773
(I.R.S. Employer
Identification No.)

201 Merritt 7, Norwalk, CT. 06851
(Address of principal executive offices) (Zip Code)

(800) 997-3337
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Names of each exchange on which registered
Common Stock	REED	NASDAQ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: There were a total of 62,933,070 shares of Common Stock outstanding as of July 31, 2020.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer (do not check if Smaller Reporting Company)
Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I of this report includes forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “proposed,” “intended,” or “continue” or the negative of these terms or other comparable terminology. You should read statements that contain these words carefully, because they discuss our expectations about our future operating results or our future financial condition or state other “forward-looking” information. There may be events in the future that we are not able to accurately predict or control. Before you invest in our securities, you should be aware that the occurrence of any of the events described in this Quarterly Report could substantially harm our business, results of operations and financial condition, and that upon the occurrence of any of these events, the trading price of our securities could decline and you could lose all or part of your investment. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, growth rates, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report to conform these statements to actual results.

TABLE OF CONTENTS

<u>PART I - FINANCIAL INFORMATION</u>	F-1
<u>Item 1. Condensed Financial Statements</u>	F-1
<u>Condensed Balance Sheets – June 30, 2020 (unaudited) and December 31, 2019</u>	F-1
<u>Condensed Statements of Operations for the three and six months ended June 30, 2020 and 2019 (unaudited)</u>	F-2
<u>Condensed Statements of Changes in Stockholders' Equity (Deficit) for the three and six months ended June 30, 2020 and 2019 (unaudited)</u>	F-3
<u>Condensed Statements of Cash Flows for the six months ended June 30, 2020 and 2019 (unaudited)</u>	F-4
<u>Notes to Condensed Financial Statements (unaudited)</u>	F-5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	1
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	11
<u>Item 4. Controls and Procedures</u>	11
<u>PART II - OTHER INFORMATION</u>	12
<u>Item 1. Legal Proceedings</u>	12
<u>Item 1A. Risk Factors</u>	12
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	14
<u>Item 3. Defaults Upon Senior Securities</u>	14
<u>Item 4. Mine Safety Disclosures</u>	14
<u>Item 5. Other Information</u>	14
<u>Item 6. Exhibits</u>	14

Part I – FINANCIAL INFORMATION

Item 1. Financial Statements

REED'S INC.
CONDENSED BALANCE SHEETS
(Amounts in thousands, except share amounts)

	<u>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
	<u>(Unaudited)</u>	
ASSETS		
Current assets:		
Cash	\$ 1,112	\$ 913
Accounts receivable, net of allowance for doubtful accounts and returns and discounts of \$259 and \$375, respectively	5,295	2,099
Receivable from related party	230	356
Inventory, net of reserve for obsolescence of \$437 and \$646, respectively	8,411	10,508
Prepaid expenses and other current assets	939	420
<i>Total current assets</i>	<u>15,987</u>	<u>14,296</u>
Property and equipment, net of accumulated depreciation of \$501 and \$482, respectively	1,023	1,053
Equipment held for sale, net of impairment reserves of \$96 and \$96, respectively	67	67
Intangible assets	590	576
Total assets	<u>\$ 17,667</u>	<u>\$ 15,992</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,129	\$ 5,539
Accrued expenses	555	646
Revolving line of credit	2,638	3,177
Current portion of note payable	342	-
Convertible note to a related party	4,977	-
Current portion of leases payable	89	49
<i>Total current liabilities</i>	<u>13,730</u>	<u>9,411</u>
Leases payable, less current portion	628	737
Convertible note to a related party	-	4,689
Note payable	428	-
Warrant liability	15	8
Total liabilities	<u>14,801</u>	<u>14,845</u>
Stockholders' equity:		
Series A Convertible Preferred stock, \$10 par value, 500,000 shares authorized, 9,411 shares issued and outstanding	94	94
Common stock, \$.0001 par value, 100,000,000 and 100,000,000 shares authorized, respectively; 62,928,540 and 47,595,206 shares issued and outstanding, respectively	6	5
Common stock issuable, 350,000 shares at June 30, 2020	285	-
Additional paid in capital	83,364	77,596
Accumulated deficit	(80,883)	(76,548)
Total stockholders' equity	<u>2,866</u>	<u>1,147</u>
Total liabilities and stockholders' equity	<u>\$ 17,667</u>	<u>\$ 15,992</u>

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

REED'S, INC.
CONDENSED STATEMENTS OF OPERATIONS
For the Three and Six Months Ended June 30, 2020 and 2019
(Unaudited)
(Amounts in thousands, except share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net Sales	\$ 10,853	\$ 9,480	\$ 20,376	\$ 17,929
Cost of goods sold	7,865	7,207	14,518	13,152
Gross profit	<u>2,988</u>	<u>2,273</u>	<u>5,858</u>	<u>4,777</u>
Operating expenses:				
Delivery and handling expense	1,480	1,436	2,743	2,466
Selling and marketing expense	1,585	3,194	3,510	5,208
General and administrative expense	1,348	1,749	3,295	4,120
Gain on sale of assets	9	-	(6)	(30)
Total operating expenses	<u>4,422</u>	<u>6,379</u>	<u>9,542</u>	<u>11,764</u>
Loss from operations	(1,434)	(4,106)	(3,684)	(6,987)
Interest expense	(303)	(294)	(639)	(629)
Change in fair value of warrant liability	(13)	(60)	(7)	(108)
Net loss	(1,750)	(4,460)	(4,330)	(7,724)
Dividends on Series A Convertible Preferred Stock	<u>(5)</u>	<u>(5)</u>	<u>(5)</u>	<u>(5)</u>
Net Loss Attributable to Common Stockholders	<u>\$ (1,755)</u>	<u>\$ (4,465)</u>	<u>\$ (4,335)</u>	<u>\$ (7,729)</u>
Loss per share – basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.13)</u>	<u>\$ (0.08)</u>	<u>\$ (0.25)</u>
Weighted average number of shares outstanding – basic and diluted	59,514,620	33,666,664	53,554,913	31,397,760

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

REED'S, INC.
CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
For the Three and Six months Ended June 30, 2020 and 2019
(Unaudited)
(Amounts in thousands except share amounts)

	Common Stock		Preferred Stock		Common Stock Issuable		Additional Paid In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, March 31, 2020	47,595,206	\$ 5	9,411	\$ 94	350,000	\$ 285	\$ 78,091	\$ (79,128)	\$ (653)
Fair value of vested options		-		-		-	(36)		(36)
Dividends on Series A Convertible Preferred Stock								(5)	(5)
Common shares issued pursuant to the rights offering, net of offering costs	15,333,334	1	-	-	-	-	5,309	-	5,310
Net Loss								(1,750)	(1,750)
Balance, June 30, 2020	<u>62,928,540</u>	<u>\$ 6</u>	<u>9,411</u>	<u>\$ 94</u>	<u>350,000</u>	<u>\$ 285</u>	<u>\$ 83,364</u>	<u>\$ (80,883)</u>	<u>\$ 2,866</u>

	Common Stock		Preferred Stock		Common Stock Issuable		Additional Paid In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2019	47,595,206	\$ 5	9,411	\$ 94	-	\$ -	\$ 77,596	\$ (76,548)	\$ 1,147
Fair value of vested options		-		-			459		459
Fair value of vested restricted shares granted to officers		-		-	350,000	285			285
Dividends on Series A Convertible Preferred Stock								(5)	(5)
Common shares issued pursuant to the rights offering, net of offering costs	15,333,334	1	-	-	-	-	5,309	-	5,310
Net Loss								(4,330)	(4,330)
Balance, June 30, 2020	<u>62,928,540</u>	<u>\$ 6</u>	<u>9,411</u>	<u>\$ 94</u>	<u>350,000</u>	<u>\$ 285</u>	<u>\$ 83,364</u>	<u>\$ (80,883)</u>	<u>\$ 2,866</u>

	Common Stock		Preferred Stock		Common Stock Issuable		Additional Paid In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, March 31, 2019	33,513,947	\$ 3	9,411	\$ 94	-	\$ -	\$ 69,110	\$ (63,695)	\$ 5,512
Fair value of vested options		-		-			442		442
Shares granted to Directors for services	8,072	-	-	-	-	-	42		42
Dividends on Series A Convertible Preferred Stock								(5)	(5)
Fair value of vested restricted shares granted to an officer for services		-		-			139		139
Exercise of warrants	186,807						318		318
Net Loss								(4,460)	(4,460)
Balance, June 30, 2019	<u>33,708,826</u>	<u>\$ 3</u>	<u>9,411</u>	<u>\$ 94</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 70,051</u>	<u>\$ (68,160)</u>	<u>\$ 1,988</u>

	Common Stock		Preferred Stock		Common Stock Issuable		Additional Paid In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2018	25,729,461	\$ 3	9,411	\$ 94	-	\$ -	\$ 53,591	\$ (60,431)	\$ (6,743)
Fair value of vested options							854		854
Shares granted to Directors for services	25,724	-	-	-	-	-	86		86
Fair value of vested restricted shares granted to an officer for services		-					289		289
Dividends on Series A Convertible Preferred Stock								(5)	(5)
Common shares issued pursuant to the rights offering, net of offering costs	7,733,750	-	-	-	-	-	14,867	-	14,867
Exercise of warrants	219,891						364		364

Net Loss					-			(7,724)	(7,724)
Balance, June 30, 2019	<u>33,708,826</u>	<u>\$ 3</u>	<u>9,411</u>	<u>\$ 94</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 70,051</u>	<u>\$ (68,160)</u>	<u>\$ 1,988</u>

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

REED'S, INC.
CONDENSED STATEMENTS OF CASH FLOWS
For the Six months Ended June 30, 2020 and 2019
(Unaudited)
(Amounts in thousands)

	June 30, 2020	June 30, 2019
<i>Cash flows from operating activities:</i>		
Net loss	\$ (4,330)	\$ (7,724)
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Depreciation	24	25
(Gain)/loss on sale of property & equipment	-	(30)
(Gain)/loss on termination of leases	(6)	7
Amortization of debt discount	193	150
Amortization of right of use assets	62	45
Fair value of vested options	459	854
Fair value of vested restricted shares granted to officers	285	-
Common stock issued for services	-	375
Decrease in allowance for doubtful accounts	(116)	(189)
Decrease (increase) in inventory reserve	(209)	205
Change in fair value of warrant liability	7	108
Accrual of interest on convertible note to a related party	288	256
Lease liability	(13)	(10)
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	(3,080)	(668)
Inventory	2,306	(2,106)
Prepaid expenses and other assets	(393)	(267)
Accounts payable	(410)	(1,816)
Accrued expenses	(95)	(735)
Net cash used in operating activities	(5,028)	(11,520)
<i>Cash flows from investing activities:</i>		
Trademark costs	(14)	-
Proceeds from sale of property and equipment	-	30
Purchase of property and equipment	(102)	(121)
Net cash used in investing activities	(116)	(91)
<i>Cash flows from financing activities:</i>		
Borrowings on line of credit	21,780	31,228
Repayments of line of credit	(22,512)	(34,030)
Proceeds from note payable	770	-
Repayment of amounts due to/from officers	-	195
Principal repayments on capital lease obligation	(5)	(33)
Exercise of warrants	-	364
Proceeds from sale of common stock	5,310	14,867
Net cash provided by financing activities	5,343	12,591
Net increase in cash	199	980
Cash at beginning of period	913	624
Cash at end of period	<u>\$ 1,112</u>	<u>\$ 1,604</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 157	\$ 222
Non Cash Investing and Financing Activities		
Dividends on Series A Convertible Preferred Stock	\$ 5	\$ 5

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

REED'S, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
Three and Six months Ended June 30, 2020 and 2019 (Unaudited)
(In thousands, except share and per share amounts)

1. Basis of Presentation and Liquidity

The accompanying interim condensed financial statements of Reed's, Inc. (the "Company", "we", "us", or "our"), are unaudited, but in the opinion of management contain all adjustments, including normal recurring adjustments, necessary to present fairly our financial position at June 30, 2020 and the results of operations and cash flows for the three and six months ended June 30, 2020 and 2019. The balance sheet as of December 31, 2019 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 accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. We believe that the disclosures contained in these condensed 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-K for the fiscal year ended December 31, 2019, as filed with the Securities and Exchange Commission on March 18, 2020 and amended on April 8, 2020.

The results of operations for the six months ended June 30, 2020 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2020.

COVID-19 Considerations

In the quarter ended June 30, 2020, the COVID-19 pandemic did not have a material net impact on our operating results. In the future, the pandemic may cause reduced demand for our products if, for example, the pandemic results in a recessionary economic environment which negatively effects the consumers who purchase our products. Based on the recent increase in demand for our products, we believe that over the long term, there will continue to be strong demand for our products.

Our ability to operate without significant negative operational impact from the COVID-19 pandemic will in part depend on our ability to protect our employees and our supply chain. The Company has endeavored to follow the recommended actions of government and health authorities to protect our employees. For the three months ended June 30, 2020, we maintained the consistency of our operations during the onset of the COVID-19 pandemic. We will continue to innovate in managing our business, coordinating with our employees and suppliers to do our part in the infection prevention and remain flexible in responding to our customers and suppliers. However, the uncertainty resulting from the pandemic could result in an unforeseen disruption to our workforce and supply chain (for example an inability of a key supplier or transportation supplier to source and transport materials) that could negatively impact our operations.

Through June 30, 2020, the COVID-19 pandemic has not negatively impacted the Company's liquidity position as of such date. Shipments to customers in the second quarter were up 16% from the first quarter of the year. Through June 30, 2020, we continue to generate cash flows to meet our short-term liquidity needs, and we expect to maintain access to the capital markets. We have also not observed any material impairments of our assets or a significant change in the fair value of our assets due to the COVID-19 pandemic.

For additional information on risk factors related to the pandemic or other risks that could impact our results, please refer to "Risk Factors" in Part II, Item 1A of this Form 10-Q.

Liquidity

The accompanying financial statements have been prepared under the assumption that the Company will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

For the six months ended June 30, 2020, the Company recorded a net loss of \$4,330 and used cash in operations of \$5,028. As of June 30, 2020, we had a cash balance of \$1,112 with borrowing capacity of \$6,704, a stockholder's equity of \$2,866 and a working capital of \$2,257, compared to a cash balance of \$913 with borrowing capacity of \$3,235, stockholders' equity of \$1,147 and a working capital of \$4,885 at December 31, 2019.

In April 2020, the Company conducted a public offering of 15,333,334 shares of its common stock at \$0.375 per share, resulting in net proceeds to the Company of \$5,310.

On April 20, 2020, the Company received loan proceeds in the amount of \$770 pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief and Economic Security Act (the "Cares Act") (see Note 8).

Historically, we have financed our operations through public and private sales of common stock, issuance of preferred and common stock, convertible debt instruments, term loans and credit lines from financial institutions, and cash generated from operations. We have taken decisive action to improve our margins, including fully outsourcing our manufacturing process, streamlining our product portfolio, negotiating improved vendor contracts and restructuring our selling prices.

2. Significant Accounting Policies

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Those estimates and assumptions include estimates for reserves of uncollectible accounts, inventory obsolescence, depreciable lives of property and equipment, analysis of impairments of recorded long-term tangible and intangible assets, realization of deferred tax assets, accruals for potential liabilities and assumptions made in valuing stock instruments issued for services.

Revenue Recognition

The Company recognizes revenue in accordance with ASU 2014-09, Revenue from Contracts with Customers (Topic 606), ("ASC 606"). The underlying principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. ASC 606 creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which include (1) identifying the contract or agreement with a customer, (2) identifying our performance obligations in the contract or agreement, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied.

The Company does not have any significant contracts with customers requiring performance beyond delivery, and contracts with customers contain no incentives or discounts that could cause revenue to be allocated or adjusted over time. Shipping and handling activities are performed before the customer obtains control of the goods and therefore represent a fulfillment activity rather than a promised service to the customer. Revenue and costs of sales are recognized when control of the products transfers to our customer, which generally occurs upon shipment from our facilities. The Company's performance obligations are satisfied at that time.

All of the Company's products are offered for sale as finished goods only, and there are no performance obligations required post-shipment for customers to derive the expected value from them.

The Company does not allow for returns, except for damaged products when the damage occurred pre-fulfillment. Damaged product returns have historically been insignificant. Because of this, the stand-alone nature of our products, and our assessment of performance obligations and transaction pricing for our sales contracts, we do not currently maintain a contract asset or liability balance for obligations. We assess our contracts and the reasonableness of our conclusions on a quarterly basis.

Loss per Common Share

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

For the periods ended June 30, 2020 and 2019, the calculations of basic and diluted loss per share are the same because potential dilutive securities would have had an anti-dilutive effect. The potentially dilutive securities consisted of the following:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Convertible note to a related party	2,266,667	2,266,667
Warrants	6,413,782	6,620,282
Common stock equivalent of Series A Convertible Preferred stock	37,644	37,644
Common stock issuable	350,000	-
Unvested restricted common stock	150,000	614,514
Options	4,777,907	4,365,566
Total	<u>13,996,000</u>	<u>13,904,673</u>

The Series A Convertible Preferred Stock is convertible into Common shares at the rate of 1:4.

Stock Compensation Expense

The Company periodically issues stock options and restricted stock awards to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for such grants issued and vesting based on ASC 718, whereby the value of the award is measured on the date of grant and recognized as compensation expense on the straight-line basis over the vesting period. The Company recognizes the fair value of stock-based compensation within its Statements of Operations with classification depending on the nature of the services rendered.

The fair value of the Company's stock options is estimated using the Black-Scholes-Merton Option Pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the stock options or restricted stock, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes-Merton Option Pricing model and based on actual experience. The assumptions used in the Black-Scholes-Merton Option Pricing model could materially affect compensation expense recorded in future periods.

Advertising Costs

Advertising costs are expensed as incurred and are included in selling and marketing expense. Advertising costs for the three months ended June 30, 2020 and 2019, aggregated \$303 and \$1,227, respectively. Advertising costs for the six months ended June 30, 2020 and 2019, aggregated \$606 and \$1,533, respectively.

Concentrations

Gross sales. During the three months ended June 30, 2020, two customers accounted for 26% and 13% of gross sales, respectively, and during the six months ended June 30, 2020, two customers accounted for 25% and 14% of gross sales, respectively. During the three months ended June 30, 2019, two customers accounted for 29% and 14% of gross sales, respectively, and during the six months ended June 30, 2019, two customers accounted for 28% and 12% of gross sales, respectively. No other customers exceeded 10% of sales in either period.

Accounts receivable. As of June 30, 2020, the Company had accounts receivable from one customer which comprised 23% of its gross accounts receivable. As of December 31, 2019, the Company had accounts receivable from one customer which comprised 14% of its gross accounts receivable.

Purchases from vendors. During the three months ended June 30, 2020, no vendor exceeded 10% of all purchases. During the six months ended June 30, 2020, one vendor accounted for 11% of all purchases. During the three months ended June 30, 2019, each of the Company's two largest vendors accounted for approximately 10% of all purchases. During the six months ended June 30, 2019, one vendor accounted for 13% of all purchases and another accounted for 10% of all purchases. No other vendors exceeded 10% of all purchases in either period.

Accounts payable. As of June 30, 2020, of the Company's three largest vendors, two each accounted for 12%, of the total accounts payable and the third, 11%. As of December 31, 2019, of the Company's largest three vendors, one accounted for 19% of the total accounts payable, the second, 15%, and the third, 14%.

Fair Value of Financial Instruments

The Company uses various inputs in determining the fair value of its financial assets and liabilities and measures these assets on a recurring basis. Financial assets recorded at fair value are categorized by the level of subjectivity associated with the inputs used to measure their fair value. ASC 820 defines the following levels of subjectivity associated with the inputs:

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

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

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

The carrying amounts of financial assets and liabilities, such as cash and cash equivalents, accounts receivable, short-term bank loans, accounts payable, notes payable and other payables, approximate their fair values because of the short maturity of these instruments. The carrying values of capital lease obligations and long-term financing obligations approximate their fair values because interest rates on these obligations are based on prevailing market interest rates.

As of June 30, 2020, and December 31, 2019, the Company's balance sheets included Level 2 liabilities comprised of the fair value of warrant liabilities aggregating \$15 and \$8, respectively (see Note 10).

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires entities to use a forward-looking approach based on current expected credit losses ("CECL") to estimate credit losses on certain types of financial instruments, including trade receivables. This may result in the earlier recognition of allowances for losses. ASU 2016-13 is effective for the Company beginning January 1, 2023, and early adoption is permitted. The Company does not believe the potential impact of the new guidance and related codification improvements will be material to its financial position, results of operations and cash flows.

Other recent accounting pronouncements issued by the FASB, its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future financial statements.

3. Inventory

Inventory is valued at the lower of cost (first-in, first-out) or net realizable value, and net of reserves is comprised of the following (in thousands):

	June 30, 2020	December 31, 2019
Raw materials and packaging	\$ 4,576	\$ 4,261
Finished products	3,835	6,247
Total	\$ 8,411	\$ 10,508

The Company has recorded a reserve for slow moving and potentially obsolete inventory. The reserve at June 30, 2020, and December 31, 2019, was \$437 and \$646, respectively.

4. Property and Equipment

Property and equipment is comprised of the following (in thousands):

	June 30, 2020	December 31, 2019
Right-of-use assets under operating leases	\$ 730	\$ 730
Right-of-use assets under finance leases	66	179
Computer hardware and software	637	543
Machinery and equipment	91	83
Total cost	1,524	1,535
Accumulated depreciation and amortization	(501)	(482)
Net book value	\$ 1,023	\$ 1,053

Depreciation expense for the three months ended June 30, 2020 and 2019 was \$12 and \$12, respectively. Depreciation expense for the six months then June 30, 2020 and 2019 was \$24 and \$25, respectively. During the six months ended June 30, 2020, the Company disposed of right-of-use assets under finance leases with a net book value of \$45, and terminated \$51 of related finance leases (see Note 9), resulting in a gain on sale of assets of \$6.

Equipment held for sale consists of the following (in thousands):

	June 30, 2020	December 31, 2019
Equipment held for sale	\$ 163	\$ 163
Reserve	(96)	(96)
Net book value	\$ 67	\$ 67

The balance as of June 30, 2020, and December 31, 2019, consists of residual manufacturing equipment, at estimated net realizable value, which management anticipates selling during 2020.

5. Intangible Assets

Intangible assets are comprised of brand names acquired, specifically Virgil's, and costs related to trademarks. They have been assigned an indefinite life, as we currently anticipate that they will contribute cash flows to the Company perpetually. These indefinite-lived intangible assets are not amortized but are assessed for impairment annually and evaluated annually to determine whether the indefinite useful life remains appropriate. We first assess qualitative factors to determine whether it is more likely than not that the asset is impaired. If further testing is necessary, we compare the estimated fair value of our asset with its book value. If the carrying amount of the asset exceeds its fair value, as determined by the discounted cash flows expected to be generated by the asset, an impairment loss is recognized in an amount equal to that excess. Based on management's measurement, there were no indications of impairment at June 30, 2020.

Intangible assets consists of the following (in thousands):

	June 30, 2020	December 31, 2019
Brand names	\$ 576	\$ 576
Trademarks	14	-
Total	<u>\$ 590</u>	<u>\$ 576</u>

6. Line of Credit

Amounts outstanding under the Company's credit facilities are as follows (in thousands):

	June 30, 2020	December 31, 2019
Line of Credit	\$ 2,929	\$ 3,661
Capitalized finance costs	(291)	(484)
Net balance	<u>\$ 2,638</u>	<u>\$ 3,177</u>

On October 4, 2018, the Company entered into a financing agreement with Rosenthal & Rosenthal, Inc. The financing agreement provides a maximum borrowing capacity of \$13,000. Borrowings are based on a formula of eligible accounts receivable and inventories (the "permitted borrowings") plus advances (an "over-advance" of up to \$4,000) in excess of permitted borrowings. At June 30, 2020, the unused borrowing capacity under the financing agreement was \$6,704. The line of credit matures on March 30, 2021.

Borrowings under the Rosenthal financing agreement bear interest at the greater of prime or 4.75%, plus an additional 2% to 3.5% depending on whether the borrowing is based upon receivables, inventory or is an over-advance. The effective interest rate as of June 30, 2020 on outstanding borrowings was 6.8%. Additionally, the line of credit is subject to monthly facility and administration fees, and aggregate minimum monthly fees (including interest) of \$4.

The line of credit is secured by substantially all of the assets excluding intellectual property of the Company. The over-advance is secured by all of Reed's intellectual property collateral. Additionally, any over-advance is guaranteed by an irrevocable stand-by letter of credit in the amount of \$1,500, issued by Daniel J. Doherty III and the Daniel J. Doherty, III 2002 Family Trust, affiliates of Raptor/Harbor Reeds SPV LLC ("Raptor"). As of June 30, 2020, Raptor beneficially owns 11.6% of the Company's outstanding common stock and Mr. Doherty is a member of the Company's Board of Directors. In the event of a default under the financing agreement, Raptor has a put option to purchase from Rosenthal the entire amount of any outstanding over-advance plus accrued interest, prior to Rosenthal declaring an event of default under the financing agreement.

The financing agreement with Rosenthal includes customary restrictions that limit our ability to engage in certain types of transactions, including our ability to utilize tangible and intangible assets as collateral for other indebtedness. Additionally, the agreement contains a financial covenant that requires us to meet certain minimum working capital and tangible net worth thresholds as of the end of each quarter. We were in compliance with the terms of our agreement with Rosenthal as of June 30, 2020.

Amortization of debt discount was \$193 and \$150 for the six months ended June 30, 2020 and 2019, respectively.

7. Convertible Note to a Related Party

The Convertible Note to a Related Party consists of the following (in thousands):

	June 30, 2020	December 31, 2019
12% Convertible Note Payable	\$ 3,400	\$ 3,400
Accrued Interest	1,577	1,289
Total obligation	<u>\$ 4,977</u>	<u>\$ 4,689</u>

On April 21, 2017, the Company issued a secured, convertible, subordinated, non-redeemable note in the principal amount of \$3,400 and warrants to purchase 1,416,667 shares of common stock to Raptor. Raptor beneficially owned approximately 11.6% and 14.9% of the Company's common stock at June 30, 2020 and December 31, 2019, respectively.

The Raptor Note bears interest at a rate of 12% per annum, compounded monthly, and is secured by the Company's assets, subordinate to the first priority security interest of Rosenthal & Rosenthal (see Note 6). The note may not be prepaid and matures on April 21, 2021. It may be converted, at any time and from time to time, into shares of common stock of the Company, at a revised conversion price of \$1.50.

The warrants expire on April 21, 2022, and have an adjusted exercise price of \$1.50 per share. The note and warrants contain customary anti-dilution provisions, and the shares of common stock issuable upon conversion of the note and exercise of the warrants have been registered on Form S-3.

8. Note Payable

On April 20, 2020, the Company was granted a loan (the "PPP loan") from City National Bank in the aggregate amount of \$770, pursuant to the Paycheck Protection Program (the "PPP") under the CARES Act.

The PPP loan agreement is dated April 20, 2020, matures on April 20, 2022, bears interest at a rate of 1% per annum, with the first six months of interest deferred, is payable monthly commencing on November 2020, and is unsecured and guaranteed by the U.S. Small Business Administration. The loan term may be extended to April 20, 2025, if mutually agreed to by the Company and lender. We applied ASC 470, *Debt*, to account for the PPP loan. The PPP loan may be prepaid at any time prior to maturity with no prepayment penalties. Funds from the PPP loan may only be used for qualifying expenses as described in the CARES Act, including qualifying payroll costs, qualifying group health care benefits, qualifying rent and debt obligations, and qualifying utilities. The Company intends to use the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses. The Company intends to apply for forgiveness of the PPP loan with respect to these qualifying expenses, however, we cannot assure that such forgiveness of any portion of the PPP loan will occur. As for the potential loan forgiveness, once the PPP loan is, in part or wholly, forgiven and a legal release is received, the liability would be reduced by the amount forgiven and a gain on extinguishment would be recorded. The terms of the PPP loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The Company was in compliance with the terms of the PPP loan as of June 30, 2020.

9. Leases Payable

The Company adopted ASU 2016-02, *Leases*, effective October 1, 2018. The standard requires a lessee to record a right-of-use asset and a corresponding lease liability at the inception of the lease, initially measured at the present value of the lease payments. The Company leases its Norwalk office, and certain office equipment and automobiles. The Company analyzes all leases at inception to determine if a right-of-use asset and lease liability should be recognized. Leases with an initial term of 12 months or less are not included on the condensed consolidated balance sheets. The lease liability is measured at the present value of future lease payments as of the lease commencement date.

ASU 2016-02 requires recognition in the statement of operations of a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. During the six months ended June 30, 2020, the Company disposed of right-of-use assets of \$45, and reflected amortization of right of use asset of \$62 related to these leases, resulting in a net asset balance of \$590 as of June 30, 2020.

As of December 31, 2019, liabilities recorded under finance leases and operating leases were \$89 and \$697, respectively. During the six months ended June 30, 2020, the Company terminated \$51 of finance leases, and made payments of \$5 towards finance lease liability and \$13 towards operating lease liability. As of June 30, 2020, liability under finance lease amounted to \$33 and liability under operating lease amounted to \$684, of which \$56 and \$33 were reflected as current due, under finance leases and operating leases, respectively.

As of June 30, 2020, the weighted average remaining lease terms for operating lease and finance lease are 4.51 years and 0.50 years, respectively. The weighted average discount rate for operating lease is 12.6% and 9.0% for finance lease.

10. Warrant Liability

Various sales of common stock made by the Company to finance operations have been accompanied by the issuance of warrants. Some of these warrant agreements contain fundamental transaction provisions which may give rise to an obligation of the Company to pay cash to the warrant holders. For accounting purposes, in accordance with ASC 480, *Distinguishing Liabilities from Equity*, those warrants with fundamental transaction terms are accounted for as liabilities given the terms may give rise to an obligation of the Company to the warrant holders. These liabilities are measured at fair value at each reporting period and the change in the fair value is recognized in earnings in the accompanying Statements of Operations.

The fair value of the warrant liability was determined using the Black-Scholes-Merton option pricing model at June 30, 2020 and December 31, 2019, using the following assumptions:

	June 30, 2020	December 31, 2019
Stock Price	\$ 0.96	\$ 0.91
Risk free interest rate	1.16%	1.95%
Expected volatility	119.25%	83.36%
Expected life in years	0.92	1.42
Expected dividend yield	0%	0%
Number of Warrants containing fundamental transaction provisions	138,762	138,762
Fair Value of Warrants	\$ 15	\$ 8

The risk-free interest rate is based on rates established by the Federal Reserve Bank. The Company uses the historical volatility of its common stock to estimate its future volatility. The expected life of the warrant is based upon its remaining contractual life. The expected dividend yield reflects that the Company has not paid dividends to its common stockholders in the past and does not expect to do so in the foreseeable future.

The following table sets forth a summary of the changes in the estimated fair value of the warrant liability during the three months ended June 30, 2020 and 2019:

	June 30, 2020	June 30, 2019
Beginning Balance	\$ 8	\$ 38
Change in fair value	7	108
Ending balance	<u>\$ 15</u>	<u>\$ 146</u>

11. Common Stock

Common stock issuance

In April 2020, the Company conducted a public offering of 15,333,334 shares of its common shares at a public offering price of \$0.375 per share. The net proceeds to the Company from this offering are \$5,310, after deducting underwriting discounts and commissions and other offering expenses. Proceeds from the offering will provide capital for working capital, and general corporate purposes.

12. Share-based payments

Restricted common stock

The following table summarizes restricted stock activity during the six months ended June 30, 2020:

	Unvested Shares	Issuable Shares	Fair Value at Date of Issuance	Weighted Average Grant Date Fair Value
Balance, December 31, 2019	-	-	\$ -	-
Granted	500,000	-	418	0.84
Vested	(350,000)	350,000	(285)	-
Issued	-	-	-	-
Balance, June 30, 2020	<u>150,000</u>	<u>350,000</u>	<u>\$ 133</u>	<u>\$ 0.84</u>

During the six months ended June 30, 2020, the Company issued 500,000 shares of restricted stock to a director and two executive employees. 350,000 of these shares vested immediately, 75,000 shares will vest in increments of 18,750 each over four years from the date of grant, and 75,000 shares will vest over four years based on performance criteria determined by the Board of Directors or Compensation Committee. Unvested shares remain subject to forfeiture if vesting conditions are not met. The aggregate fair value of the stock awards was \$418 based on the market price of our common stock price which ranged from \$0.81 to \$0.89 per share on the dates of grants and is amortized as shares vest. The total fair value of restricted common stock vesting during the six months ended June 30, 2020 and 2019 was \$285 and \$331, respectively, and is included in general and administrative expenses in the accompanying statements of operations. As of June 30, 2020, the amount of unvested compensation related to issuances of restricted common stock was \$133, which will be recognized as an expense in future periods as the shares vest. When calculating basic loss per share, these shares are included in weighted average common shares outstanding from the time they vest. When calculating diluted net income per share, these shares are included in weighted average common shares outstanding as of their grant date.

Stock options

The following table summarizes stock option activity during the six months ended June 30, 2020:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2019	3,265,630	\$ 2.19	7.09	\$ 6
Granted	2,067,800	\$ 0.67		
Exercised	-	-		
Unvested forfeited or expired	(367,480)	\$ 2.02		
Vested forfeited or expired	(188,043)	\$ 4.20		
Outstanding at June 30, 2020	<u>4,777,907</u>	<u>\$ 1.47</u>	<u>8.44</u>	<u>\$ 588</u>
Exercisable at June 30, 2020	<u>2,042,015</u>	<u>\$ 1.45</u>	<u>7.63</u>	<u>\$ 342</u>

During the six months ended June 30, 2020, the Company approved options exercisable into 2,067,800 shares to be issued pursuant to Reed's 2017 Incentive Compensation Plan. 1,732,800 options were issued to employees including 582,800 options that vested immediately, 575,000 options vesting annually over a four-year vesting period, and 575,000 options that will vest based on performance criteria to be established by the board. In addition, 335,000 options granted to consultants, board members, and former employees vest over various periods.

The stock options are exercisable at a price ranging from \$0.44 to \$0.89 per share and expire in ten years. The total fair value of these options at grant date was approximately \$1,168, which was determined using a Black-Scholes-Merton option pricing model with the following average assumption: stock price ranging from \$0.44 to \$0.89 per share, expected term of seven years, volatility of 120%, dividend rate of 0%, and risk-free interest rate ranging from 0.56% to 1.63%. The expected term represents the weighted-average period of time that share option awards granted are expected to be outstanding giving consideration to vesting schedules and historical participant exercise behavior; the expected volatility is based upon historical volatility of the Company's common stock; the expected dividend yield is based on the fact that the Company has not paid dividends in the past and does not expect to pay dividends in the future; and the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of measurement corresponding with the expected term of the share option award. The fair value of the options of \$1,168 will be amortized as the options vest in future periods through May 20, 2024.

During the six months ended June 30, 2020 and 2019, the Company recognized \$459 and \$854 of compensation expense relating to vested stock options. As of June 30, 2020, the aggregate amount of unvested compensation related to stock options was approximately \$1,851 which will be recorded as an expense in future periods as the options vest.

As of June 30, 2020, the outstanding options have an intrinsic value of \$588. The aggregate intrinsic value was calculated as the difference between the closing market price as of June 30, 2020, which was \$0.96, and the exercise price of the outstanding stock options.

13. Stock Warrants

As of June 30, 2020, the Company has issued warrants to purchase an aggregate of 6,413,782 shares of common stock. The Company's warrant activity during the six months ended June 30, 2020 is as follows:

	<u>Shares</u>	<u>Weighted- Average Exercise Price</u>	<u>Weighted- Average Remaining Contractual Terms (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2019	6,413,782	\$ 2.06	1.52	\$ -
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at June 30, 2020	<u>6,413,782</u>	\$ 2.06	1.02	\$ -
Exercisable at June 30, 2020	<u>6,413,782</u>	\$ 2.06	1.02	\$ -

There were no warrant transactions during the six months ended June 30, 2020. As of June 30, 2020, the outstanding warrants have no intrinsic value. The intrinsic value was calculated as the difference between the closing market price as of June 30, 2020, which was \$0.96, and the exercise price of the Company's warrants to purchase common stock.

14. Related Party Activities

On December 31, 2018, the Company completed the sale of its Los Angeles manufacturing plant to CCB, an entity owned by Chris Reed, a related party, and CCB assumed the monthly payments on our lease obligation for the Los Angeles manufacturing plant. Our release from the obligation by the lessor, however, is dependent upon CCB's deposit of \$1,200 of security with the lessor. As of June 30, 2020, \$800 has been deposited with the lessor and Mr. Reed has placed approximately 363,000 shares of the Company's common stock valued at \$348 that he owns into escrow with the lessor. Mr. Reed expects to deposit the proceeds from the sale of the shares with the lessor in 2020, at which time we expect to be released from the lease obligation.

Beginning in 2019, we are to receive a 5% royalty on CCB's private label sales to existing customers for three years and a 5% referral fee on CCB's private label sales to referred customers for three years. During the six months ended June 30, 2020, the Company recorded royalty revenue from CCB of \$5. During the six months ended June 30, 2019, the Company did not record any royalty revenue from CCB.

At December 31, 2019, the Company had royalty revenue receivable from CCB of \$128. In addition, at December 31, 2019, the Company has outstanding receivable from CCB of \$228 consisting of inventory advances to CCB. The aggregate receivable from CCB at December 31, 2019 was \$356. During the six months ended June 30, 2020, the Company received payment of \$126, leaving an aggregate receivable balance of \$230 at June 30, 2020.

15. Subsequent Events

On July 2, 2020, the Company issued 4,530 shares of common stock as a dividend to preferred shareholders. The aggregate fair value of the common stock issued was \$5 based on an average market price of \$1.04 per share.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes appearing elsewhere in this report. This discussion and analysis may contain forward-looking statements based on assumptions about our future business.

Overview

During the second quarter of 2020, the Company fully utilized their expanded network of co-packers and implemented an upgraded set of quality protocols. We also launched our Reed’s Really Real Ginger Ale and Reed’s Wellness Shots. In addition to our traditional sales channels, the Company is utilizing their ecommerce platform that includes their branded web sites and Amazon to offer its line of shots, ginger candy and drinks packaged in cans.

A public equity offering, which closed on April 20, 2020, provided the Company with funds for working capital and general corporate purposes. These funds will provide the support necessary to execute our 2020 strategy that includes driving growth while strategically reducing operating costs.

The Company remains focused on driving sales growth and improving margin. The sales growth focus is on channel expansion, new product introduction and improved sales execution. The margin enhancement initiative is driven by co-packer upgrades, better leveraged purchasing and improved efficiency. Underpinning these initiatives is a focus on strategically reducing operating costs.

COVID-19 Considerations

In the quarter ended June 30, 2020, the COVID-19 pandemic did not have a material net impact on our operating results. In the future, the pandemic may cause reduced demand for our products if, for example, the pandemic results in a recessionary economic environment which negatively effects the consumers who purchase our products. Based on the recent increase in demand for our products, we believe that over the long term, there will continue to be strong demand for our products.

Our ability to operate without significant negative operational impact from the COVID-19 pandemic will in part depend on our ability to protect our employees and our supply chain. The Company has endeavored to follow the recommended actions of government and health authorities to protect our employees. For the three months ended June 30, 2020, we maintained the consistency of our operations during the onset of the COVID-19 pandemic. We will continue to innovate in managing our business, coordinating with our employees and suppliers to do our part in the infection prevention and remain flexible in responding to our customers and suppliers. However, the uncertainty resulting from the pandemic could result in an unforeseen disruption to our workforce and supply chain (for example an inability of a key supplier or transportation supplier to source and transport materials) that could negatively impact our operations.

Through June 30, 2020, the COVID-19 pandemic has not negatively impacted the Company’s liquidity position as of such date. Shipments to customers in the second quarter were up 16% from the first quarter of the year. Our working capital on June 30, 2020 improved to \$7,576, as compared to \$3,173 on March 31, 2020. Lastly, our unused borrowing capacity under our line of credit improved to \$6,704, as compared to \$2,961 at March 31, 2020. Through June 30, 2020, we continue to generate cash flows to meet our short-term liquidity needs, and we expect to maintain access to the capital markets. We have also not observed any material impairments of our assets or a significant change in the fair value of our assets due to the COVID-19 pandemic.

For additional information on risk factors related to the pandemic or other risks that could impact our results, please refer to “Risk Factors” in Part II, Item 1A of this Form 10-Q.

Results of Operations – Three months ended June 30, 2020

The following table sets forth key statistics for the three months ended June 30, 2020 and 2019, respectively, in thousands.

	Three Months Ended June 30,		Pct. Change
	2020	2019	
Gross sales (A)	\$ 12,229	\$ 10,758	14%
Less: Promotional and other allowances (B)	1,376	1,278	8%
Net sales	\$ 10,853	\$ 9,480	14%
Cost of goods produced (C)	7,865	7,048	12%
% of Gross sales	64%	66%	
% of Net sales	72%	74%	
Cost of goods sold – idle capacity (D)	-	159	-100%
% of Net sales	-%	2%	
Gross profit	\$ 2,988	\$ 2,273	31%
% of Net sales	28%	24%	
Expenses			
Delivery and handling	\$ 1,480	\$ 1,436	3%
% of Net sales	14%	15%	
Dollar per case (\$)	2.3	2.4	
Selling and marketing	1,585	3,194	-50%
% of Net sales	15%	34%	
General and administrative	1,348	1,749	-23%
% of Net sales	12%	18%	
(Gain)/Loss on sales of assets	9	-	100%
Total Operating expenses	4,422	6,379	-31%
Loss from operations	\$ (1,434)	\$ (4,106)	-65%
Interest expense and other expense	(316)	(354)	-11%
Net loss	\$ (1,750)	\$ (4,460)	-61%
Loss per share – basic and diluted	\$ (0.03)	\$ (0.13)	-77%
Weighted average shares outstanding - basic & diluted	59,514,620	33,666,664	77%

(A) Gross sales are used internally by management as an indicator of and to monitor operating performance, including sales performance of particular products, salesperson performance, product growth or declines and overall Company performance. The use of gross sales allows evaluation of sales performance before the effect of any promotional items, which can mask certain performance issues. We therefore believe that the presentation of gross sales provides a useful measure of our operating performance. Gross sales are not a measure that is recognized under GAAP and should not be considered as an alternative to net sales, which is determined in accordance with GAAP, and should not be used alone as an indicator of operating performance in place of net sales. Additionally, gross sales may not be comparable to similarly titled measures used by other companies, as gross sales have been defined by our internal reporting practices. In addition, gross sales may not be realized in the form of cash receipts as promotional payments and allowances may be deducted from payments received from certain customers.

(B) Although the expenditures described in this line item are determined in accordance with GAAP and meet GAAP requirements, the disclosure thereof does not conform to GAAP presentation requirements. Additionally, our definition of promotional and other allowances may not be comparable to similar items presented by other companies. Promotional and other allowances primarily include consideration given to the Company's distributors or retail customers including, but not limited to the following: (i) reimbursements given to the Company's distributors for agreed portions of their promotional spend with retailers, including slotting, shelf space allowances and other fees for both new and existing products; (ii) the Company's agreed share of fees given to distributors and/or directly to retailers for in-store marketing and promotional activities; (iii) the Company's agreed share of slotting, shelf space allowances and other fees given directly to retailers; (iv) incentives given to the Company's distributors and/or retailers for achieving or exceeding certain predetermined sales goals; and (v) discounted or free products. The presentation of promotional and other allowances facilitates an evaluation of their impact on the determination of net sales and the spending levels incurred or correlated with such sales. Promotional and other allowances constitute a material portion of our marketing activities. The Company's promotional allowance programs with its numerous distributors and/or retailers are executed through separate agreements in the ordinary course of business. These agreements generally provide for one or more of the arrangements described above and are of varying durations, ranging from one week to one year.

(C) Cost of goods produced: Cost of goods produced consists of the costs of raw materials and packaging utilized in the manufacture of products, co-packing fees, repacking fees, in-bound freight charges, inventory adjustments, as well as certain internal transfer costs. Cost of goods produced is used internally by management to measure the direct costs of goods sold, aside from unallocated plant costs. Cost of goods produced is not a measure that is recognized under GAAP and should not be considered as an alternative to cost of goods sold, which is determined in accordance with GAAP, and should not be used alone as an indicator of operating performance in place of cost of goods sold.

(D) Cost of goods sold – idle capacity: Cost of goods sold – idle capacity consists of direct production costs in excess of charges allocated to our finished goods in production. Plant costs in excess of production allocations are expensed in the period incurred rather than added to the cost of finished goods produced. Plant costs include labor costs, production supplies, repairs and maintenance, and inventory write-off. Our charges for labor and overhead allocated to our finished goods are determined on a market cost basis, which is lower than our actual costs incurred. Cost goods sold – idle capacity is not a measure that is recognized under GAAP and should not be considered as an alternative to cost of goods sold, which is determined in accordance with GAAP, and should not be used alone as an indicator of operating performance in place of cost of goods sold.

Sales, Cost of Sales, and Gross Margins

The following chart sets forth key statistics for the transition of the Company's top line activity from the second quarter of 2019 through the second quarter of 2020.

	2020					2019			Q2 Per Case			H1 Per Case		
	Q1	Q2	H1	Q2 vs PY	H1 vs PY	Q1	Q2	H1	2020	2019	vs PY	2020	2019	vs PY
Cases:														
Reed's	288	335	623	19%	20%	238	281	519						
Virgil's	262	308	570	4%	3%	257	296	553						
Total Core	550	643	1,193	12%	11%	495	577	1,072						
Non Core	2	-	2	-100%	-91%	20	2	22						
Candy	8	8	16	-11%	-11%	9	9	18						
Total	560	651	1,211	11%	9%	524	588	1,112						
Gross Sales:														
Core	\$ 10,175	\$ 11,940	\$ 22,115	14%	13%	\$ 9,098	\$ 10,455	\$ 19,553	\$ 18.5	\$ 18.1	2%	\$ 18.5	\$ 18.2	2%
Non Core	102	33	136	14%	-36%	181	29	211	-	14.5	-100%	67.5	9.5	607%
Candy	274	256	530	-7%	3%	241	274	515	32.0	30.4	5%	33.1	28.6	16%
Total	\$ 10,551	\$ 12,229	\$ 22,781	14%	12%	\$ 9,520	\$ 10,758	\$ 20,279	\$ 18.8	18.3	3%	18.8	18.2	3%
Discounts:														
Total	\$ (1,028)	\$ (1,376)	\$ (2,405)	8%	2%	\$ (1,071)	\$ (1,278)	\$ (2,349)	\$ (2.1)	\$ (2.2)	-3%	\$ (2.0)	\$ (2.1)	-6%
COGS:														
Core	\$ (6,414)	\$ (7,674)	\$ (14,088)	12%	14%	\$ (5,469)	\$ (6,843)	\$ (12,312)	\$ (11.9)	\$ (11.9)	2%	\$ (11.8)	\$ (11.1)	7%
Non Core	(59)	(15)	(74)	-46%	-62%	(167)	(28)	(195)	-	(14.0)	-100%	(37.0)	(8.9)	317%
Candy	(180)	(176)	(356)	-1%	6%	(159)	(177)	(336)	(22.0)	(19.7)	12%	(22.3)	(18.7)	19%
Idle Plant	-	-	-	-100%	6%	(150)	(159)	(309)	-	(0.3)	-100%	-	(0.3)	-100%
Total	\$ (6,653)	\$ (7,865)	\$ (14,518)	9%	10%	\$ (5,945)	\$ (7,207)	\$ (13,152)	\$ (12.1)	\$ (12.3)	-3%	\$ (12.0)	\$ (11.8)	0%
Gross Margin:														
as % Net Sales	30%	28%	29%	31%	23%	30%	24%	27%	4.6	3.9	19%	4.8	4.3	13%

As part of the Company's ongoing initiative to simplify and streamline operations by reducing the number of SKUs, the Company has identified core products on which to place its strategic focus. These core products consist of Reed's and Virgil's branded beverages. Beginning in 2020, our Wellness Shots are captured in Non-core products. Non-core products for 2019 consist primarily of slower selling discontinued Reed's and Virgil's SKUs.

Sales

As a result of our decision to focus on the core Reed's and Virgil's beverage brands and simplify operations by reducing the overall number of SKUs that we offer, the Company's core beverage volume for the quarter ended June 30, 2020, represents 99% of all beverage volume.

Core brand gross revenue increased by 14% to \$11,940 compared to the same period last year, driven by Reed's volume growth of 19%. The result is an increase in total gross revenue of 14%, to \$12,229 from \$10,758 during the same period last year. Price on our core brands increased \$0.40 per case or 2% year over year, while volume grew 12% as compared to the same period last year.

Discounts as a percentage of gross sales decreased to 11% in the second quarter of 2020 from 12% in the same period last year. As a result, net sales revenue grew 14% in the second quarter of 2020 to \$10,853, compared to \$9,480 in the same period last year.

Cost of Goods Sold and Produced

Cost of goods sold increased \$658 during the second quarter of 2020 as compared to the same period last year. As a percentage of net sales, cost of goods sold in the second quarter of 2020 improved to 72% as compared to 76% for the same period last year.

The total cost of goods per case decreased to \$12.06 per case in the second quarter of 2020 from \$12.25 per case for the same period last year. The cost of goods sold per case on core brands increased to \$11.92 during the second quarter of 2020, from the \$11.86 for the same period last year. Then increase on core brands is driven by \$198 reserve related to packing material from the transition to the FDA mandated nutritional fact requirements disclosure. We are continuing to work with suppliers and co-packers to improve our processes and maximize cost efficiencies.

Gross Margin

Gross margin increased to 28% for the second quarter of 2020, compared to 24% during the same period last year.

Operating Expenses

Delivery and Handling Expenses

Delivery and handling expenses consist of delivery costs to customers and warehousing costs incurred for handling our finished goods after production. Delivery and handling expenses increased by \$44 in the second quarter of 2020 to \$1,480 from \$1,436 in the same period last year, driven by increased volumes. Delivery costs in the second quarter of 2020 were 14% of net sales and \$2.27 per case, compared to 15% of net sales and \$2.44 per case during the same period last year.

Selling and Marketing Expenses

Marketing expenses consist of direct marketing, marketing labor, and marketing support costs. Selling expenses consist of all other selling-related expenses including personnel and contractor support.

Total selling and marketing expenses were \$1,585 during the second quarter of 2020, compared to \$3,194 during the same period last year. As a percentage of net sales, selling and marketing costs decreased to 15% during the second quarter of 2020, as compared to 34% during the same period last year. The decrease represents a lapping of the "Fooled Your Mom" campaign in the second quarter of 2019 and a lower level of digital advertising, event sampling and agency fees. In addition, personnel and travel related costs declined.

General and Administrative Expenses

General and administrative expenses consist primarily of the cost of executive, administrative, and finance personnel, as well as professional fees. General and administrative expenses decreased in the second quarter of 2020 to \$1,348 from \$1,749, a decrease of \$401 over the same period last year. Decrease was driven by \$365 for option forfeiture/expiration and lower personnel and travel related costs.

Loss from Operations

The loss from operations was \$1,434 for the second quarter of 2020, as compared to a loss of \$4,106 in the same period last year driven by increase gross profit and reductions in operating expenses discussed above.

Interest and Other Expense

Interest and other expense for the second quarter of 2020, consisted of \$303 of interest expense and expenses related to the change in fair value of our warrant liability of \$13. During the same period last year, interest expense was \$294, and expense related to the change in fair value of our warrant liability was \$60.

Modified EBITDA

In addition to our GAAP results, we present Modified EBITDA as a supplemental measure of our performance. However, Modified EBITDA is not a recognized measurement under GAAP and should not be considered as an alternative to net income, income from operations or any other performance measure derived in accordance with GAAP, or as an alternative to cash flow from operating activities as a measure of liquidity. We define Modified EBITDA as net income (loss), plus interest expense, depreciation and amortization, stock-based compensation, changes in fair value of warrant expense, and one-time restructuring-related costs including employee severance and asset impairment.

Management considers our core operating performance to be that which our managers can affect in any particular period through their management of the resources that affect our underlying revenue and profit generating operations during that period. Non-GAAP adjustments to our results prepared in accordance with GAAP are itemized below. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Modified EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Modified EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

Set forth below is a reconciliation of net loss to Modified EBITDA for the three months ended June 30, 2020 and 2019 (unaudited; in thousands):

	<u>Three Months Ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
Net loss	\$ (1,750)	\$ (4,460)
Modified EBITDA adjustments:		
Depreciation and amortization	37	34
Interest expense	303	294
Stock option and other noncash compensation	(36)	623
Change in fair value of warrant liability	13	60
Severance	-	6
Total EBITDA adjustments	\$ 317	\$ 1,017
Modified EBITDA	\$ (1,433)	\$ (3,443)

We present Modified EBITDA because we believe it assists investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. In addition, we use Modified EBITDA in developing our internal budgets, forecasts and strategic plan; in analyzing the effectiveness of our business strategies in evaluating potential acquisitions; making compensation decisions; and in communications with our board of directors concerning our financial performance. Modified EBITDA has limitations as an analytical tool, which includes, among others, the following:

- Modified EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Modified EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Modified EBITDA does not reflect future interest expense, or the cash requirements necessary to service interest or principal payments, on our debts; and
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Modified EBITDA does not reflect any cash requirements for such replacements.

Results of Operations – Six months ended June 30, 2020

The following table sets forth key statistics for the six months ended June 30, 2020 and 2019, respectively, in thousands.

	Six Months Ended June 30,		Pct. Change
	2020	2019	
Gross sales (A)	\$ 22,781	\$ 20,279	12%
Less: Promotional and other allowances (B)	2,405	2,350	2%
Net sales	\$ 20,376	\$ 17,929	14%
Cost of goods produced (C)	14,518	12,843	13%
<i>% of Gross sales</i>	64%	63%	
<i>% of Net sales</i>	71%	72%	
Cost of goods sold – idle capacity (D)	-	309	-100%
<i>% of Net sales</i>	-%	2%	
Gross profit	<u>\$ 5,858</u>	<u>\$ 4,777</u>	23%
<i>% of Net sales</i>	29%	27%	
Expenses			
Delivery and handling	\$ 2,743	\$ 2,466	11%
<i>% of Net sales</i>	13%	14%	
<i>Dollar per case (\$)</i>	2.3	2.2	
Selling and marketing	3,510	5,208	-33%
<i>% of Net sales</i>	17%	29%	
General and administrative	3,295	4,120	-20%
<i>% of Net sales</i>	16%	23%	
(Gain)/Loss on sales of assets	(6)	(30)	-80%
Total Operating expenses	<u>9,542</u>	<u>11,764</u>	-19%
Loss from operations	\$ (3,684)	\$ (6,987)	-47%
Interest expense and other expense	(646)	(737)	-12%
Net loss	<u>\$ (4,330)</u>	<u>\$ (7,724)</u>	-44%
Loss per share – basic and diluted	<u>\$ (0.08)</u>	<u>\$ (0.25)</u>	-68%
Weighted average shares outstanding - basic & diluted	53,554,913	31,397,760	71%

(A) Gross sales are used internally by management as an indicator of and to monitor operating performance, including sales performance of particular products, salesperson performance, product growth or declines and overall Company performance. The use of gross sales allows evaluation of sales performance before the effect of any promotional items, which can mask certain performance issues. We therefore believe that the presentation of gross sales provides a useful measure of our operating performance. Gross sales are not a measure that is recognized under GAAP and should not be considered as an alternative to net sales, which is determined in accordance with GAAP, and should not be used alone as an indicator of operating performance in place of net sales. Additionally, gross sales may not be comparable to similarly titled measures used by other companies, as gross sales have been defined by our internal reporting practices. In addition, gross sales may not be realized in the form of cash receipts as promotional payments and allowances may be deducted from payments received from certain customers.

(B) Although the expenditures described in this line item are determined in accordance with GAAP and meet GAAP requirements, the disclosure thereof does not conform to GAAP presentation requirements. Additionally, our definition of promotional and other allowances may not be comparable to similar items presented by other companies. Promotional and other allowances primarily include consideration given to the Company's distributors or retail customers including, but not limited to the following: (i) reimbursements given to the Company's distributors for agreed portions of their promotional spend with retailers, including slotting, shelf space allowances and other fees for both new and existing products; (ii) the Company's agreed share of fees given to distributors and/or directly to retailers for in-store marketing and promotional activities; (iii) the Company's agreed share of slotting, shelf space allowances and other fees given directly to retailers; (iv) incentives given to the Company's distributors and/or retailers for achieving or exceeding certain predetermined sales goals; and (v) discounted or free products. The presentation of promotional and other allowances facilitates an evaluation of their impact on the determination of net sales and the spending levels incurred or correlated with such sales. Promotional and other allowances constitute a material portion of our marketing activities. The Company's promotional allowance programs with its numerous distributors and/or retailers are executed through separate agreements in the ordinary course of business. These agreements generally provide for one or more of the arrangements described above and are of varying durations, ranging from one week to one year.

(C) Cost of goods produced: Cost of goods produced consists of the costs of raw materials and packaging utilized in the manufacture of products, co-packing fees, repacking fees, in-bound freight charges, inventory adjustments, as well as certain internal transfer costs. Cost of goods produced is used internally by management to measure the direct costs of goods sold, aside from unallocated plant costs. Cost of goods produced is not a measure that is recognized under GAAP and should not be considered as an alternative to cost of goods sold, which is determined in accordance with GAAP, and should not be used alone as an indicator of operating performance in place of cost of goods sold.

(D) Cost of goods sold – idle capacity: Cost of goods sold – idle capacity consists of direct production costs in excess of charges allocated to our finished goods in production. Plant costs in excess of production allocations are expensed in the period incurred rather than added to the cost of finished goods produced. Plant costs include labor costs, production supplies, repairs and maintenance, and inventory write-off. Our charges for labor and overhead allocated to our finished goods are determined on a market cost basis, which is lower than our actual costs incurred. Cost goods sold – idle capacity is not a measure that is recognized under GAAP and should not be considered as an alternative to cost of goods sold, which is determined in accordance with GAAP, and should not be used alone as an indicator of operating performance in place of cost of goods sold.

Sales, Cost of Sales, and Gross Margins

The following chart sets forth key statistics for the transition of the Company's top line activity from the six-month period ending June 30, 2019 through the six-month period ending June 30, 2020.

As part of the Company's ongoing initiative to simplify and streamline operations by reducing the number of SKUs, the Company has identified core products on which to place its strategic focus. These core products consist of Reed's and Virgil's branded beverages. Beginning in 2020, our Wellness Shots are captured in Non-core products. Non-core products for 2019 consist primarily of slower selling discontinued Reed's and Virgil's SKUs.

Sales

As a result of our decision to focus on the core Reed's and Virgil's beverage brands and simplify operations by reducing the overall number of SKUs that we offer, the Company's core beverage volume for the first six months of 2020, represents 99% of all beverage volume.

Core brand gross revenue increased by 13% to \$22,115 compared to the same period last year, driven by Reed's volume growth of 20%. The result is an increase in total gross revenue of 12%, to \$22,781 from \$20,279 during the same period last year. Price on our core brands increased \$0.28 per case or 2% year over year, while volume grew 11% as compared to the same period last year.

Discounts as a percentage of gross sales decreased to 11% in the first six months of 2020 from 12% in the same period last year. The decrease in our promotions was driven by lower promotional activity primarily due to the impacts of COVID-19 as promotional execution became a lower priority at retail. As a result, net sales revenue grew 14% in the first six months of 2020 to \$20,376, compared to \$17,929 in the same period last year.

Cost of Goods Sold and Produced

Cost of goods sold increased \$1,366 during the first six months of 2020 as compared to the same period last year. As a percentage of net sales, cost of goods sold in the first six months of 2020 improved to 71% as compared to 73% for the same period last year.

The total cost of goods per case increased to \$11.99 per case in the first six months of 2020 from \$11.83 per case in the same period last year. The increase is driven by utilization of higher costed inventory remaining from 2019 in the first quarter and a \$198 reserve recorded related to packaging material from transition to the FDA mandated nutritional fact requirements disclosure. The cost of goods sold per case on core brands increased to \$11.80 during the first six months of 2020, from the \$11.07 for the same period last year. We are continuing to work with suppliers and co-packers to improve our processes and maximize cost efficiencies.

Gross Margin

Gross margin increased to 29% for the first six months of 2020, compared to 27% during the same period last year.

Operating Expenses

Delivery and Handling Expenses

Delivery and handling expenses consist of delivery costs to customers and warehousing costs incurred for handling our finished goods after production. Delivery and handling expenses increased by \$277 in the first six months of 2020 to \$2,743 from \$2,466 in the same period last year, driven by increased volumes. Delivery costs in the six months of 2020 were 13% of net sales and \$2.27 per case, compared to 14% of net sales and \$2.22 per case during the same period last year. The per case rate increase was driven by market forces impacted by COVID-19.

Selling and Marketing Expenses

Marketing expenses consist of direct marketing, marketing labor, and marketing support costs. Selling expenses consist of all other selling-related expenses including personnel and contractor support.

Total selling and marketing expenses were \$3,510 during the first six months of 2020, compared to \$5,208 during the same period last year. As a percentage of net sales, selling and marketing costs decreased to 17% during the first six months of 2020, as compared to 29% during the same period last year. The decrease represents a lapping of the "Fooled

Your Mom” campaign which ran in the second quarter of 2019 as well as the Catalina retail register coupon program, which has yet to be used in 2020 and a lower level of digital advertising, event sampling and agency fees. In addition, personnel and travel related costs declined.

General and Administrative Expenses

General and administrative expenses consist primarily of the cost of executive, administrative, and finance personnel, as well as professional fees. General and administrative expenses decreased in the first six months of 2020 to \$3,295 from \$4,120, a decrease of \$825 over the same period last year. The decrease was driven by forfeiture/expiration of options in the amount of \$365, the lapping of a \$220 one-time final transition cost incurred in 2019 related to our plant sale and a reduction temp staffing of \$146 and lower personnel and travel related costs.

Loss from Operations

The loss from operations was \$3,684 for the first six months of 2020, as compared to a loss of \$6,987 in the same period last year driven by increase gross profit and reductions in operating expenses discussed above.

Interest and Other Expense

Interest and other expense for the first six months of 2020, consisted of \$639 of interest expense and expense related to the change in fair value of our warrant liability of \$7. During the same period last year, interest expense was \$629, and expense related to the change in fair value of our warrant liability was \$108.

Modified EBITDA

In addition to our GAAP results, we present Modified EBITDA as a supplemental measure of our performance. However, Modified EBITDA is not a recognized measurement under GAAP and should not be considered as an alternative to net income, income from operations or any other performance measure derived in accordance with GAAP, or as an alternative to cash flow from operating activities as a measure of liquidity. We define Modified EBITDA as net income (loss), plus interest expense, depreciation and amortization, stock-based compensation, changes in fair value of warrant expense, and one-time restructuring-related costs including employee severance and asset impairment.

Management considers our core operating performance to be that which our managers can affect in any particular period through their management of the resources that affect our underlying revenue and profit generating operations during that period. Non-GAAP adjustments to our results prepared in accordance with GAAP are itemized below. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Modified EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Modified EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

Set forth below is a reconciliation of net loss to Modified EBITDA for the six months ended June 30, 2020 and 2019 (unaudited; in thousands):

	Six Months Ended June 30,	
	2020	2019
Net loss	\$ (4,330)	\$ (7,724)
Modified EBITDA adjustments:		
Depreciation and amortization	86	70
Interest expense	639	629
Stock option and other noncash compensation	744	1,229
Change in fair value of warrant liability	7	108
Severance	-	39
Total EBITDA adjustments	<u>\$ 1,476</u>	<u>\$ 2,075</u>
Modified EBITDA	<u>\$ (2,854)</u>	<u>\$ (5,649)</u>

We present Modified EBITDA because we believe it assists investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. In addition, we use Modified EBITDA in developing our internal budgets, forecasts and strategic plan; in analyzing the effectiveness of our business strategies in evaluating potential acquisitions; making compensation decisions; and in communications with our board of directors concerning our financial performance. Modified EBITDA has limitations as an analytical tool, which includes, among others, the following:

- Modified EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Modified EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Modified EBITDA does not reflect future interest expense, or the cash requirements necessary to service interest or principal payments, on our debts; and
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Modified EBITDA does not reflect any cash requirements for such replacements.

Liquidity and Capital Resources

The accompanying financial statements have been prepared under the assumption that the Company will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

For the six months ended June 30, 2020, the Company recorded a net loss of \$4,330 and used cash in operations of \$5,028. As of June 30, 2020, we had a cash balance of \$1,112 with borrowing capacity of \$6,704, a stockholder's equity of \$2,866 and a working capital of \$2,257, compared to a cash balance of \$913 with borrowing capacity of \$3,235, stockholders' equity of \$1,147 and a working capital of \$4,885 at December 31, 2019.

In April 2020, the Company conducted a public offering of 15,333,334 shares of its common stock at \$0.375 per share, resulting in net proceeds to the Company of \$5,310.

On April 20, 2020, the Company was granted a loan (the "PPP loan") from City National Bank in the aggregate amount of \$770, pursuant to the Paycheck Protection Program (the "PPP") under the CARES Act.

The PPP loan agreement is dated April 20, 2020, matures on April 20, 2022, bears interest at a rate of 1% per annum, with the first six months of interest deferred, is payable monthly commencing on November 2020, and is unsecured and guaranteed by the U.S. Small Business Administration. The loan term may be extended to April 20, 2025, if mutually agreed to by the Company and lender. We applied ASC 470, *Debt*, to account for the PPP loan. The PPP loan may be prepaid at any time prior to maturity with no prepayment penalties. Funds from the PPP loan may only be used for qualifying expenses as described in the CARES Act, including qualifying payroll costs, qualifying group health care benefits, qualifying rent and debt obligations, and qualifying utilities. The Company intends to use the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses. The Company intends to apply for forgiveness of the PPP loan with respect to these qualifying expenses, however, we cannot assure that such forgiveness of any portion of the PPP loan will occur. As for the potential loan forgiveness, once the PPP loan is, in part or wholly, forgiven and a legal release is received, the liability would be reduced by the amount forgiven and a gain on extinguishment would be recorded. The terms of the PPP loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The Company was in compliance with the terms of the PPP loan as of June 30, 2020.

Historically, we have financed our operations through public and private sales of common stock, issuance of preferred and common stock, convertible debt instruments, term loans and credit lines from financial institutions, and cash generated from operations. We have taken decisive action to improve our margins, including fully outsourcing our manufacturing process, streamlining our product portfolio, negotiating improved vendor contracts and restructuring our selling prices.

Critical Accounting Policies and Estimates

Revenue Recognition

The Company recognizes revenue in accordance with ASU 2014-09, Revenue from Contracts with Customers (Topic 606), (“ASC 606”). The underlying principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. ASC 606 creates a five-step model that requires entities to exercise judgment when considering the terms of contract(s), which include (1) identifying the contract or agreement with a customer, (2) identifying our performance obligations in the contract or agreement, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied.

The Company does not have any significant contracts with customers requiring performance beyond delivery, and contracts with customers contain no incentives or discounts that could cause revenue to be allocated or adjusted over time. Shipping and handling activities are performed before the customer obtains control of the goods and therefore represent a fulfillment activity rather than a promised service to the customer. Revenue and costs of sales are recognized when control of the products transfers to our customer, which generally occurs upon shipment from our facilities. The Company’s performance obligations are satisfied at that time.

All of the Company’s products are offered for sale as finished goods only, and there are no performance obligations required post-shipment for customers to derive the expected value from them.

The Company does not allow for returns, except for damaged products when the damage occurred pre-fulfillment. Damaged product returns have historically been insignificant. Because of this, the stand-alone nature of our products, and our assessment of performance obligations and transaction pricing for our sales contracts, we do not currently maintain a contract asset or liability balance for obligations. We assess our contracts and the reasonableness of our conclusions on a quarterly basis.

Recent Accounting Pronouncements

See Note 2 of the Notes to Condensed Financial Statements for a discussion of recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

A smaller reporting company is not required to provide the information required by this Item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Securities and Exchange Act of 1934 Rules 13a-15(f). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the Company’s disclosure controls and procedures were not effective as of June 30, 2020. As of June 30, 2020, management’s assessment identified the following material weaknesses in the Company’s internal control over financial reporting:

Outsourced IT Service Providers - The Company relies upon a variety of outsourced Information Technology (IT) service providers for key elements of the technology infrastructure impacting its financial reporting process. Certain of these outsourced IT service providers could not provide System and Organization Controls (SOC) reports. The Company did not have controls designed to assess the design and operation of internal controls pertaining to these outsourced IT service providers over the period of reliance. Given that management did not effectively assess the design and operation of certain outsourced IT service providers' internal controls, certain of the Company's controls over IT systems and business processes were also ineffective, to the extent that they rely upon information that was subject to the outsourced IT service providers' control environment.

Segregation of Duties - The Company did not maintain effective policies to ensure adequate segregation of duties within its accounting processes. Specifically, due to the size of the Company and the smaller nature of department teams, opportunities are limited to segregate duties, resulting in inability to soundly manage segregation of job responsibilities.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the three months ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Remediation Plans

As disclosed in the section titled "Risk Factors" in Part II, Item 1A of this Quarterly Report, we have begun, with the oversight of senior management and our audit committee, to implement measures to remediate the identified material weakness. The execution of our remediation is ongoing and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles. Management expects to complete its remediation plan during the year ending December 31, 2020.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to various legal proceedings from time to time in the ordinary course of business, none of which are required to be disclosed under this Item 1.

Item 1A. Risk Factors

In addition to the following risk factors and the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K (our Form 10-K) for the year ended December 31, 2019 and any subsequent filings with the Securities and Exchange Commission (SEC) made prior to the date hereof, which could materially affect our business, financial condition, results of operations or future results. The risks and uncertainties discussed below, in our Form 10-K and in any subsequent filings with the SEC made prior to the date hereof are not the only ones facing our business. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may materially adversely affect our business, cash flows, financial condition and/or results of operations. The risk factor below updates, and should be read together with, the risk factors disclosed in Part I, Item 1A of our Form 10-K. Please also read the Cautionary Notice Regarding Forward-Looking Statements in Part I, Item 2 of this Quarterly Report on Form 10-Q under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations".

COVID-19 and other pandemics, epidemics, or outbreaks of a contagious illness may adversely affect our operating results, cash flows and financial condition.

COVID-19 coronavirus outbreak and other pandemics, epidemics, or outbreaks of a contagious illness, and similar events, may cause harm to us, our employees, our customers, our vendors and supply chain partners, and financial institutions, which could have a material adverse effect on our results of operations, financial condition and cash flows. The impacts may include, but would not be limited to:

- Decreased availability and increased cost of supplies due to increased demand around food and food-related products due to increased global demand and disruptions along the global supply chains of these manufactures and distributors;
- Disruption to operations due to the unavailability of employees due to illness, quarantines, risk of illness, travel restrictions or factors that limit our existing or potential workforce;
- Elevated employee turnover which may increase payroll expense and recruiting-related expenses; and
- Significant disruption of global financial markets, which could have a negative impact on us or our customers' ability to access capital in the future.

In addition, we have taken and will continue to take temporary precautionary measures intended to help minimize the risk of COVID-19 to our employees, including requiring administrative and other groups of our employees to work remotely, suspending non-essential travel and restricting attendance at industry events and in-person work-related meetings. Such measures could have a material adverse effect on our business.

The further spread of COVID-19, and the requirements to take action to help limit the spread of the virus, could impact the resources required to carry out our business as usual and may have a material adverse effect on our results of operations, financial condition and cash flows. The extent to which COVID-19 will impact our business and our financial results will depend on future developments, which are highly uncertain and cannot be predicted. Such developments may include the ongoing geographic spread of the virus, the severity of the disease, the duration of the outbreak and the type and duration of actions that may be taken by various governmental authorities in response to the outbreak and the impact on the United States and the global economy. Any of these developments, individually or in aggregate, could materially impact our business and our financial results and condition.

We have identified material weaknesses in our disclosure controls and procedures and internal control over financial reporting. If not remediated, our failure to establish and maintain effective disclosure controls and procedures and internal control over financial reporting could result in material misstatements in our financial statements and a failure to meet our reporting and financial obligations, each of which could have a material adverse effect on our financial condition and the trading price of our common stock.

Maintaining effective internal control over financial reporting and effective disclosure controls and procedures are necessary for us to produce reliable financial statements. As discussed in Part I, Item 4 – “Controls and Procedures” of this Quarterly Report on Form 10-Q, we have re-evaluated our internal control over financial reporting and our disclosure controls and procedures and concluded that they were not effective as of June 30, 2020.

A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses we identified are (1) ineffective controls over outsourced IT systems and business processes and (2) inadequate segregation of duties within accounting processes.

The Company is committed to remediating its material weaknesses as promptly as possible. Implementation of the Company’s remediation plans has commenced and is being overseen by senior management and the audit committee. However, we cannot assure you that we can effectively remediate our reported weaknesses or that other significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in significant deficiencies or material weaknesses, cause us to fail to timely meet our periodic reporting obligations, or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations regarding disclosure controls and the effectiveness of our internal control over financial reporting required under Section 404 and the SEC’s rules. The existence of a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to timely meet our reporting obligations, and cause investors to lose confidence in our reported financial information. Continued determinations that there are material weaknesses in our internal controls could also reduce our ability to obtain financing or increase the cost of any financing we obtain and require additional expenditures of both money and our management’s time to comply with applicable requirements.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
10.1	Amended and Restated Employment Agreement by and between Reed's Inc. and Norman E. Snyder, Jr. dated June 24, 2020, filed herewith.
10.2	Form of Reed's, Inc. Promissory Note, in the principal amount of \$769,816 in favor of City National Bank, dated April 20, 2020, incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K dated April 29, 2020.
4.1	Form of Executive Incentive Stock Option Agreement, filed herewith
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

*filed herewith

+ Management Compensatory Agreement

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

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Reed's, Inc.
(Registrant)

Date: August 10, 2020

/s/ Norman E. Snyder, Jr.
Norman E. Snyder, Jr.
Chief Executive Officer
(Principal Executive Officer)

Date: August 10, 2020

/s/ Thomas J. Spisak
Thomas J. Spisak
Chief Financial Officer
(Principal Financial Officer)

EXECUTIVE INCENTIVE STOCK OPTION AGREEMENT

UNDER THE REED'S, INC.

SECOND AMENDED AND RESTATED 2017 INCENTIVE COMPENSATION PLAN

This EXECUTIVE INCENTIVE STOCK OPTION AGREEMENT (the "Agreement") is between Reed's Inc., a Delaware corporation (the "Company"), and _____ (the "Optionee") and is made and effective as of _____ 2020 (the "Effective Date"). Capitalized terms not defined herein shall have the meanings ascribed to them in the Reed's, Inc. Second Amended and Restated 2017 Incentive Compensation Plan, as amended through the date hereof (the "Plan").

1. Notice of Stock Option Grant. The Company, pursuant to action of the Committee and in accordance with the Plan, grants to Optionee an Incentive Stock Option to purchase common stock of the Company, \$0.0001 par value per share (the "Option Shares"), upon the terms and conditions set forth in the Agreement:

Name of Optionee

Total Number of Option Shares

Fair Market Value per Option Share on Grant Date and Option Price

Grant Date

Number of Option Shares Subject to Time-Based Vesting (the "Time-Based Option Shares")
Time-Based Vesting Schedule

Number of Option Shares Subject to Performance-Based Vesting (the "Performance-Based Option Shares")
Performance-Based Vesting Schedule

Expiration Date

No portion of this Option may be exercised until such portion shall have become exercisable. Subject to the discretion of the Committee to accelerate the exercisability schedule hereunder, this Option shall be exercisable with respect to the number of Option Shares on the dates indicated above so long as the Optionee remains an employee of the Company on such dates. Once exercisable, this Option shall continue to be exercisable at any time or times prior to the close of business on the Expiration Date (set forth above), subject to the provisions hereof and of the Plan. All or a portion of the Option Shares may vest based on length of Employment, as set forth above, and the remainder of the Option Shares may vest based upon achievement of performance goals, as specified above. If the number of Option Shares would result in the issuance of a fraction of a share, no fractional share shall be issued and instead the number of Option Shares shall be increased or decreased to the nearest whole number. Any Option Shares that vest contingent upon performance measures that fail to meet the performance goals set forth above shall be forfeited. In the event that the aggregate Fair Market Value of shares of Common Stock with respect to the Option exercisable by Optionee in any calendar year exceeds \$100,000, then the Option granted hereunder to Optionee shall, to the extent and in the order required by regulations promulgated under the Code (or any other authority having the force of regulations), automatically be deemed to be non-qualified Options, but all other terms and provisions of such Option shall remain unchanged.

2. Manner of Exercise.

(a) The Option may only be exercised in accordance with the terms of the Plan and the administrative procedures established by the Company and/or the Committee from time to time. The exercise of the Option is subject to the Optionee making appropriate tax withholding arrangements with the Company in accordance with the terms of the Plan and the administrative procedures established by the Company and/or the Committee from time to time.

(b) The transfer to the Optionee on the records of the Company or of the transfer agent of the Option Shares will be contingent upon (i) the Company's receipt from the Optionee of the full purchase price for the Option Shares (ii) the fulfillment of any other requirements prescribed by the Committee, contained herein and in the Plan or in any other agreement or provision of laws, and (iii) the receipt by the Company of any agreement, statement or other evidence that the Company may require to satisfy itself that the issuance of Option Shares to be purchased pursuant to the exercise of Options under the Plan and any subsequent resale of the Option Shares will be in compliance with applicable laws and regulations.

(c) The Option Shares purchased upon exercise of this Option shall be transferred to the Optionee on the records of the transfer agent upon compliance, to the satisfaction of the Committee, with all requirements prescribed by the Committee and required under applicable laws or regulations in connection with such transfer and with the requirements hereof and of the Plan. The determination of the Committee as to such compliance shall be final and binding on the Optionee. The Optionee shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any Option Shares subject to this Option unless and until this Option shall have been exercised pursuant to the terms hereof, the Company or the transfer agent shall have transferred the shares to the Optionee, and the Optionee's name shall have been entered as the stockholder of record on the books of the Company. Thereupon, the Optionee shall have full voting, dividend and other ownership rights with respect to such Option Shares.

(d) No partial exercise of an Option shall be for an aggregate exercise price of less than \$1,000.00, unless this minimum is waived by the Committee.

(e) Notwithstanding any other provision hereof or of the Plan, no portion of this Option shall be exercisable after the Expiration Date hereof.

3. Termination of Employment. If the Optionee's Employment by the Company is terminated, the period within which to exercise the Option may be subject to earlier termination as set forth below.

(a) If Optionee's termination of Employment occurs prior to the Option's Expiration Date, for any reason whatsoever other than death, any unexercised portion of the Option shall expire three months after the Optionee's termination date.

(b) If prior to the Expiration Date of the Option, the Optionee dies while employed or engaged by the Company, the Optionee's estate, heirs or legatees shall have the privilege of exercising all of the unexercised Option within six months after the Optionee's death.

Nothing contained in this Section shall extend the time for exercising all or any part of the then unexercised portion of an Option. The Committee's determination of the reason for termination of the Optionee's Employment shall be conclusive and binding on the Optionee and his or her representatives or legatees.

4. Acceleration of Vesting upon Change-in-Control. Upon the occurrence of a Change-in-Control, all unvested Option Shares then outstanding shall immediately become fully vested and fully exercisable as of the effective date of such Change-in-Control.

5. Adjustment upon Changes in Capitalization. The Option is subject to adjustment in the event of certain changes in the capitalization of the Company, to the extent set forth in Section 9 of the Plan.

6. Incorporation of Plan. Notwithstanding anything herein to the contrary, this Option shall be subject to and governed by all the terms and conditions of the Plan, including the powers of the Committee set forth in Section 4 of the Plan. Capitalized terms in this Agreement shall have the meaning specified in the Plan, unless a different meaning is specified herein. If there is a conflict between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan will govern.

7. Transferability. This Agreement is personal to the Optionee. The Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of an Optionee, only by Optionee. Upon the death of Optionee, the outstanding Option granted to such Optionee may be exercised only by the executors or administrators of the Optionee's estate or by any person or persons who shall have acquired such right to exercise by will or by the laws of descent and distribution. No transfer by will or the laws of descent and distribution of this Option, or the right to exercise any Option, shall be effective to bind the Company unless the Committee shall have been furnished with (a) written notice thereof and with a copy of the will and/or such evidence as the Committee may deem necessary to establish the validity of the transfer and (b) an agreement by the transferee to comply with all the terms and conditions of the Option that are or would have been applicable to the Option and to be bound by the acknowledgements made by the Optionee in connection with the grant of the Option.

8. Status of the Option. This Option is intended to qualify as an "incentive option" under Section 422 of the Code, but the Company does not represent or warrant that this Option qualifies as such. The Optionee should consult with his or her own tax advisors regarding the tax effects of this Option and the requirements necessary to obtain favorable income tax treatment under Section 422 of the Code, including, but not limited to, holding period requirements. To the extent any portion of this Option does not so qualify as an "incentive option," such portion shall be deemed to be a non-qualified option. If the Optionee intends to dispose or does dispose (whether by sale, gift, transfer or otherwise) of any Option Shares within the one-year period beginning on the date after the transfer of such shares to him or her, or within the two-year period beginning on the day after the grant of this Option, he or she will so notify the Company within 30 days after such disposition.

9. Tax Withholding. The Optionee shall, not later than the date as of which the exercise of this Option becomes a taxable event for Federal income tax purposes, pay to the Company or make arrangements satisfactory to the Committee for payment of any Federal, state, and local taxes required by law to be withheld on account of such taxable event. The Company shall have the authority to cause the required tax withholding obligation to be satisfied, in whole or in part, by withholding from Option Shares to be issued to the Optionee a number of Option Shares with an aggregate fair market value that would satisfy the withholding amount due; provided, however, that the amount withheld does not exceed the maximum statutory tax rate or such lesser amount as is necessary to avoid adverse accounting treatment or as determined by the Committee.

10. No Obligation to Continue Employment. The Company is not obligated by or as a result of the Plan or this Agreement to continue the Optionee in Employment and neither the Plan nor this Agreement shall interfere in any way with the right of the Company to terminate the Employment of the Optionee at any time.

11. Integration. This Agreement and the Plan constitute the entire agreement between the parties with respect to this Option and supersede all prior agreements and discussions between the parties concerning such subject matter.

12. Data Privacy Consent. In order to administer the Plan and this Agreement and to implement or structure future equity grants, the Company, its Subsidiaries and affiliates and certain agents thereof (together, the "Relevant Companies") may process any and all personal or professional data, including but not limited to social security or other identification number, home address and telephone number, date of birth and other information that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). By entering into this Agreement, the Optionee (i) authorizes the Company to collect, process, register and transfer to the Relevant Companies all Relevant Information; (ii) waives any privacy rights the Optionee may have with respect to the Relevant Information; (iii) authorizes the Relevant Companies to store and transmit such information in electronic form; and (iv) authorizes the transfer of the Relevant Information to any jurisdiction in which the Relevant Companies consider appropriate. The Optionee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

13. Notices. Notices hereunder shall be mailed or delivered to the Company at its principal place of business and shall be mailed or delivered to the Optionee at the address on file with the Company or, in either case, at such other address as one party may subsequently furnish to the other party in writing.

14. Governing Law. This Agreement and the rights of all persons claiming hereunder will be construed and determined in accordance with the laws of the State of Delaware without giving effect to the choice of law principles thereof.

15. Blackout Periods. The Optionee acknowledges that, from time to time as determined by the Company in its sole discretion, the Company may establish “blackout periods” during which this Option may not be exercised. The Company may establish a blackout period for any reason or for no reason.

16. Other Laws. The Company shall have the right to refuse to issue or transfer any Option Shares under this Agreement if the Company acting in its absolute discretion determines that the issuance or transfer of such Option Shares might violate any applicable law or regulation, and any payment tendered in such event to exercise this Option shall be promptly refunded to the Optionee.

17. Investment Intent. The Company may request the Optionee to hold any Option Shares received upon the exercise of all or part of the Option for personal investment and not for purposes of resale or distribution to the public and the Optionee shall, if so requested by the Company, deliver a certified statement to that effect to the Company as a condition to the transfer of such Option Shares to the Optionee.

18. Compliance. In addition to the remedies of the Company elsewhere provided for herein, failure by Optionee to comply with any of the terms and conditions of the Plan or this Agreement, unless such failure is remedied by such Optionee within ten days after having been notified of such failure by the Committee, shall be grounds for the cancellation and forfeiture of such Option, in whole or in part, as the Committee, in its absolute discretion, may determine.

19. Severability. If any provision hereof is found by a court of competent jurisdiction to be prohibited or unenforceable, it shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability, and such prohibition or unenforceability shall not invalidate the balance of such provision to the extent it is not prohibited or unenforceable, nor invalidate the other provisions hereof.

20. Arbitration. If at any time there shall be a dispute arising out of or relating to any provision of this Agreement or any agreement contemplated hereby, such dispute shall be submitted for binding and final determination by arbitration in accordance with the regulations then obtaining of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) resulting from such arbitration shall be in writing and shall be final and binding upon all involved parties. The site of any arbitration shall be within Norwalk, Connecticut.

By the Optionee's signature and the signature of the Company's representative below, the Optionee and the Company agree that this Option is granted under and governed by the terms and conditions of this Agreement and the Plan. The Optionee has reviewed this Agreement and the Plan in their entirety, has had an opportunity to obtain the advice of counsel before executing this Agreement and fully understands all provisions of this Agreement and the Plan. The Optionee hereby agrees to accept as binding, conclusive, and final all decisions or interpretations of the Committer upon any questions relating to this Agreement and the Plan.

REED'S, INC.

By: _____
Name: _____
Title: _____

The foregoing Agreement is hereby accepted, and the terms and conditions thereof hereby agreed to by the undersigned Optionee. Electronic acceptance of this Agreement pursuant to the Company's instructions to the Optionee (including through an online acceptance process) is acceptable. The Optionee further agrees that the Company may deliver all documents relating to the Plan or this Option (including prospectuses required by the Securities and Exchange Commission), and all other documents that the Company is required to deliver to its security holders or the Optionee (including annual reports, proxy statements and financial statements), either by e-mail or by e-mail notice of a web site location where those documents have been posted. The Optionee may at any time (i) revoke this consent to e-mail delivery of those documents; (ii) update the e-mail address for delivery of those documents; (iii) obtain at no charge a paper copy of those documents, in each case by writing the Company at its principal place of business. The Optionee may request an electronic copy of any of those documents by requesting a copy in writing from the Company. The Optionee understands that an e-mail account and appropriate hardware and software, including a computer or compatible cell phone and an Internet connection, will be required to access documents delivered by e-mail.

OPTIONEE

Signature: _____

Printed Name: _____

Optionee's address: _____

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (the “**Agreement**”) is dated June 24, 2020, by and between Reed’s, Inc., a Delaware corporation (“**Reed’s**” or the “**Company**”), and Norman E. Snyder, Jr. (the “**Executive**”). This Agreement amends, replaces and supersedes in its entirety that certain employment agreement by and between Executive and the Company dated September 30, 2019 (“**Original Agreement**”).

WHEREAS, Executive was promoted by the board of directors of Reed’s to Chief Executive Officer of the Company effective March 1, 2020 (“**Effective Date**”); and

WHEREAS, Reed’s and the Executive desire to enter amend and restate the Original Agreement to evidence the amended terms of the employment of the Executive by Reed’s for his service in his new position of Chief Executive Officer.

NOW, THEREFORE, intending to be legally bound and in consideration of the mutual provisions set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

Section 1 Employment. Reed’s hereby employs the Executive and the Executive hereby accepts such employment, in accordance with the terms and conditions set forth in this Agreement. By executing this Agreement, Executive represents and warrants to Reed’s that (i) the Executive is entering into this Agreement voluntarily and that his employment hereunder and compliance with the terms and conditions hereof will not conflict with or result in the breach by him of any agreement to which he is a party or by which he may be bound; (ii) the Executive has not violated, and in connection with his employment with Reed’s will not violate, any non-solicitation, non-competition, or other similar covenant or agreement of a prior employer by which he is bound; and (iii) in connection with his employment with Reed’s, the Executive will not use any confidential or proprietary information he may have obtained in connection with employment with any prior employer.

Section 2 Initial Term; Renewal Terms; Notice of Non-Renewal. The initial term of this Agreement shall be for a period of three (3) years (the “**Term**”), beginning on the Effective Date and ending on the third anniversary of the Effective Date or, if earlier, termination in accordance with Section 6 below. On the third anniversary of the Effective Date (the “**Renewal Date**”), the term of this Agreement shall automatically extend for an additional period of one (1) year, unless Executive’s employment has earlier terminated or either party hereto has given the other party written notice of non-renewal at least three (3) months prior to the Renewal Date. The first three (3)-year period of the term of this Agreement shall be the “**Initial Term**” and the one (1)-year period commencing on the first Renewal Date shall be the “**Renewal Term**.” The Initial Term and Renewal Term are collectively referred to herein as the “**Term**.”

Section 3 Position. The Executive will be employed as the Chief Executive Officer (“**CEO**”) of Reed’s and will report to the board of directors of Reed’s (“**Board**”). The Executive will have the duties and responsibilities customarily attendant to the position of CEO. The Board has appointed Employee to serve on the Board and will nominate Employee as part of slate of directors to be elected by the shareholders of the Company annually at the annual meeting of shareholders each year during the Term. Executive will also have such other duties and responsibilities that are commensurate with his position as specifically delegated to him from time to time by the Board. Executive shall be subject to the Bylaws, policies, practices, procedures and rules of the Company, currently existing and as may be modified from time to time, including those policies and procedures set forth in the Company’s Code of Conduct and Ethics. Executive’s principal office, and principal place of employment, shall be at the Company’s offices, currently in Norwalk, Connecticut, provided that Executive may be required under business circumstances to travel outside the location of his principal employment in connection with performing his duties under this Agreement.

Section 4 Restrictive Covenants; Representations.

4.1 **Loyal Performance.** During the Executive's employment with Reed's, the Executive will devote his full business time and attention to the performance of his duties as CEO and will perform his duties and carry out his responsibilities as CEO in a diligent and businesslike manner. Nothing in this Section 4.1, however, will prevent the Executive from engaging in additional activities in connection with personal investments or from serving in a non-management capacity with any for profit or not for profit organization that does not conflict with his duties under this Agreement, provided that the Executive shall give the Board prior notice of his service to any for profit or not for profit organization so that it may review the same for compliance with the terms of this Agreement.

4.2 **Confidential Information.** Executive acknowledges that the information, observations and data (including, without limitation, trade secrets, know-how, research and inventions, processes, formulas, technology, designs, drawings, specifications, marketing and advertising materials, distribution and sales methods and systems, sales and profit figures and other technical and business information) concerning the business or affairs of the Company or any of its affiliates obtained by him while employed by the Company ("**Confidential Information**") are the property of the Company or such affiliate. Therefore, Executive agrees that he shall not disclose to any unauthorized person or use for his own purposes any Confidential Information without the prior written consent of the Company, unless and to the extent that the aforementioned matters become generally known to and available for use by the public other than as a result of Executive's acts or omissions to act. Executive will deliver to the Company at the termination of the Term, or at any other time the Company may request, all memoranda, notes, plans, records, reports, computer tapes, printouts and software and other documents and data (and copies thereof) to the extent containing Confidential Information or Work Product (as defined below) of the Company or any of its affiliates which he may then possess or have under his control.

4.3 **Inventions and Patents.** Executive acknowledges that all inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports and all similar or related information (whether or not patentable) which relate to the Company's or any of its affiliates' actual or anticipated business, research and development or existing or future products or services and which are conceived, developed or made by Executive while employed by the Company ("**Work Product**") belong to the Company or such affiliate. Executive shall promptly disclose such Work Product to the Company and perform all actions requested by the Company (whether during or after the Term) to establish and confirm such ownership (including, without limitation, assignments, consents, powers of attorney and other instruments).

4.4 Unfair Competitive Activities; Protection of Trade Secrets.

(a) Executive acknowledges that Executive's services to the Company require the use of information including a formula, pattern, compilation, program, device, method, technique, or process that the Company has made reasonable efforts to keep confidential and that derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use ("**Trade Secrets**"). Executive further acknowledges and agrees that the Company would be irreparably damaged if Executive were to provide similar services requiring the use of such Trade Secrets to any person or entity competing with the Company or engaged in a similar business. Therefore, Executive agrees that during the period of Executive's employment with the Company or any of its affiliates and thereafter until the later of (i) three (3) month period immediately thereafter and (ii) the expiration of the Severance Period, if applicable, (the later of (i) and (ii), the "**Protection Period**"), he will not, either directly or indirectly, for himself or any other person or entity (i) induce or attempt to induce any employee of the Company or any of its affiliates to leave the employ of the Company or such affiliate, or in any way interfere with the relationship between the Company or any affiliate and any employee thereof, (ii) induce or attempt to induce any customer, supplier, licensee, licensor or other business relation of the Company or any affiliate to cease doing business with the Company or such affiliate, or in any way interfere with the relationship between any such customer, supplier, licensee, licensor or business relation and the Company or any affiliate (including, without limitation, making any negative statements or communications about the Company or its affiliates) or (iii) participate in any business in the United States that is directly and materially competitive with the material business of the Company, the innovation, sale and distribution of ginger beer and craft soda, in which he would be reasonably likely to employ, reveal, or otherwise utilize Trade Secrets used by the Company prior to the Executive's termination. "**Participate**" includes any direct or indirect interest in any enterprise, whether as an officer, director, employee, partner, sole proprietor, agent, representative, independent contractor, consultant, executive, franchisor, franchisee, creditor, owner or otherwise; provided that the foregoing activities shall not include the passive ownership (i.e., Executive does not directly or indirectly participate in the business or management of the applicable entity) of less than 5% of the stock of a publicly-held corporation whose stock is traded on a national securities exchange.

(b) Executive agrees that the aforementioned covenant contained in Section 4.4(a) is reasonable with respect to its duration, geographical area and scope. In particular, Executive acknowledges and agrees that the Company and its affiliates conduct their businesses on a worldwide basis and that the geographic scope of the covenant contained in Section 4.4(a) is necessary to protect the goodwill and Confidential Information of the Company and its affiliates. Executive further acknowledges that the restrictions contained in Section 4.4(a) do not impose an undue hardship on him due to the fact that he has general business skills which may be used in industries other than those in which each of the Company and its affiliates conduct their businesses and do not deprive Executive of his livelihood. Executive agrees that the covenants made in Section 4.4(a) shall be construed as agreements independent of any other provision(s) of this Agreement and shall survive any order of a court terminating any other provision(s) of this Agreement.

(c) If, at the time of enforcement of Sections 4 of this Agreement, a court holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope or geographical area reasonable under such circumstances shall be substituted for the stated period, scope or area.

(d) Because Executive's services are unique and because Executive has access to Confidential Information and Work Product, the parties hereto agree that money damages may not be an adequate remedy for any breach of this Agreement. Therefore, in the event a breach or threatened breach of this Agreement, the Company or its successors or assigns may, in addition to other rights and remedies existing in their favor, apply to any court for specific performance and/or injunctive or other relief in order to enforce, or prevent any violations of, the provisions hereof (without posting a bond or other security). In addition, in the event of an alleged breach or violation of this Section 4, the Protection Period will be tolled until such breach or violation has been duly cured. Executive agrees that the restrictions contained in Section 4 are reasonable.

4.5 Additional Acknowledgments. Executive acknowledges that the provisions of Section 4 are valuable consideration as set forth in this Agreement. Executive expressly agrees and acknowledges that the restrictions contained in Sections 4 do not preclude Executive from earning a livelihood, nor do they unreasonably impose limitations on Executive's ability to earn a living. Executive acknowledges that he has carefully read this Agreement and has given careful consideration to the restraints imposed upon Executive by this Agreement.

4.6 Other Businesses. As long as Executive is employed by the Company, Executive agrees that he will not, except with the express written consent of the Company, not to be unreasonably withheld, become engaged in, render services for, or permit his name to be used in connection with any business other than the business of the Company or any of its affiliates including activities on behalf of charitable, religious or other non-profit entities or serving on the board of directors of an entity that does not compete with the Company. For clarity, the Company hereby consents to Employee's service on the board of directors of (a) River Hospital (of Alexandria Bay, New York), and Stache Strong (of New York, NY), both of which Executive represents are charitable organizations.

4.7 Cooperation. Executive agrees that, following any termination of the Executive's employment, Executive will continue to provide reasonable cooperation to Reed's and/or any of its subsidiaries and its or their respective counsel in connection with any investigation, administrative proceeding, or litigation relating to any matter that occurred during Executive's employment, in which the Executive was involved or of which the Executive has knowledge. As a condition of such cooperation, Reed's shall reimburse the Executive for reasonable out-of-pocket expenses incurred at the request of Reed's and shall compensate Executive at a daily rate equal to his daily rate of compensation at the time of termination of his employment. Executive also agrees that, in the event that the Executive is subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony or provide documents (in a deposition, court proceeding, or otherwise) that in any way relates to the Executive's employment by Reed's, Executive will, if legally permitted, give prompt notice of such request to Reed's and, unless legally required to do so, will make no disclosure until Reed's subsidiaries has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

4.8 Pre-Existing and Third Party Materials. Executive will not, in the course of employment with Reed's, incorporate into or in any way use in creating any Work Product any pre-existing invention, improvement, development, concept, discovery, works, or other proprietary right or information owned by Executive or in which Executive has an interest without Reed's prior written permission. Executive hereby grants the Company a nonexclusive, royalty-free, fully-paid, perpetual, irrevocable, sublicensable, worldwide license to make, have made, modify, use, sell, copy, and distribute, and to use or exploit in any way and in any medium, whether or not now known or existing, such item as part of or in connection with such Work Product. Executive will not incorporate any invention, improvement, development, concept, discovery, intellectual property, or other proprietary information owned by any party other than Executive into any Work Product without the Company's prior written permission.

4.9 Attorney-in-Fact. Executive hereby irrevocably designates and appoints Reed's and its duly authorized officers and agents as Executive's agent and attorney-in-fact, to act for and on Executive's behalf to execute and file any such applications and to do all other lawfully permitted acts as contemplated by this Section 4 above to further the prosecution and issuance of patents, copyright, trademark, and mask work registrations with the same legal force and effect as if executed by Executive, if Reed's is unable because of Executive's unavailability, dissolution, mental or physical incapacity, or for any other reason, to secure Executive's signature for the purpose of applying for or pursuing any application for any United States or foreign patents or mask work or copyright or trademark registrations covering the Work Product owned by Reed's pursuant to this Section.

Section 5 Compensation.

5.1 Base Salary. The Executive will continue to be paid a base salary at the rate of \$300,000.00 per year (the "**Base Salary**") until increased as provided herein. Subject to achievement of performance goals set by the Board for fiscal 2020, attached hereto as Exhibit B and incorporated herein by reference, Executive's Base Salary will increase to \$350,000.00 per year on September 30, 2020. Base Salary shall be subject to annual review for additional increase, but not decrease, in the sole discretion of the Board. The Base Salary will be payable in equal periodic installments in accordance with Reed's customary payroll practices.

5.2 Annual Bonus. In addition to the Base Salary, the Executive will be eligible to receive an annual or other periodic bonus for each partial or full calendar year (which may, to the extent not relating to achievement of a specific objective established by the Board in consultation with the Executive as provided below, be pro-rated for partial calendar years) included in the Term at a target amount equal to 50% of the then current Base Salary payable and based upon performance criteria to be established by the Board in consultation with the Executive which are anticipated to consist of specific objectives for which specified portions of Bonus will be payable upon achievement and any remainder discretionary based on individual and Company performance as determined by the Board ("**Bonus**"). The Bonus may, at the sole discretion of Reed's, be paid in cash or as a restricted stock award (subject to the Reed's, Inc. Second Amended and Restated 2017 Incentive Compensation ("**Plan**"). Except as otherwise provided herein, in order to be eligible to receive the Bonus, the Executive must be employed at the time of achievement of the specific objective relating thereto. Any portion of Bonus relating to achievement of a specific objective will be paid upon or as soon as practicable after achievement of such objective, and all Bonus payments will in any event be paid not later March 15 of the calendar year following the full or partial calendar year to which they relate. The Board and the Executive will consult in good faith to establish the Bonus criteria for each full or partial year included in the Term starting with the Effective Date and with the commencement of each calendar year included in the Term commencing after the Effective Date.

Executive shall be permitted to establish a so-called “10B-5” plan with a licensed broker-dealer (the “10B-5 Plan”), which 10B-5 Plan shall be subject to review and approval by the Company, in order to allow Executive to sell Company stock in a manner that is consistent with applicable laws given Executive’s position with the Company.

5.3 Benefits. The Executive will be entitled to four weeks of paid vacation per calendar year in accordance with the Company’s vacation and paid time off policy, inclusive of vacation days and sick days and excluding standard paid Company holidays, in the same manner as paid time off days for employees of the Company generally accrue. The Executive and his dependents will be entitled to participate in all medical insurance and other benefit programs in effect from time to time and available to senior executives of Reed’s at levels commensurate with Executive’s position as CEO. Executive has been granted equity incentive compensation awards set forth in Section 5.4 and will be entitled to additional incentive equity compensation awards as may be approved by the Board from time to time and made available to senior executives of Reed’s at levels commensurate with Executive’s position as CEO. Executive will be entitled to reimbursement for expenses incurred in connection with performance of services to Reed’s, including, without limitation, mobile phone and other communications equipment and travel expenses, in accordance with Reed’s expense reimbursement policies as in effect from time to time. Reed’s will also provide Executive with a car allowance initially at \$900.00 per month and subject to increase in the discretion of the Company. Upon submission of invoice, Reed’s will reimburse the Executive for or pay directly all costs up to \$2,500.00 incurred in connection with the negotiation and preparation of this Agreement.

5.4 Equity Incentive Compensation.

(a) Restricted Stock Award. Concurrently with his promotion to the position of CEO, on February 25, 2020, the Executive was awarded a restricted stock award consisting of 150,000 shares of the Company’s common stock (“**RSA Award**”), which award is evidenced by that certain Restricted Stock Award Agreement dated March 4, 2020. The RSA Award vested in full on March 1, 2020.

(b) Incentive Stock Option Awards. The Executive was awarded incentive stock option awards to purchase an aggregate of up to 696,000 shares of the Company’s common stock pursuant to Executive Incentive Stock Option Agreements dated February 25, 2020 and May 27, 2020, respectively. Vesting of one-half of each award is time based (collectively, “**Time Based Options**”) and vesting of the remainder of each award is contingent upon achievement of performance goals set by the Board, in its sole discretion (“**Performance Based Options**”). Vesting in the entirety of the Time Based Options and Performance Based Options (and related payment rights) shall accelerate upon any Change in Control. “**Change in Control**” for this purpose means any (i) any individual, entity or group (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1933) (a “**Person**”) acquires beneficial ownership, directly or indirectly (within the meaning of Rule 13d-3 promulgated under the Exchange Act) (a “**Beneficial Owner**”), of more than fifty percent of the combined voting power of the then issued and outstanding shares of the voting common stock of the Company (the “**Voting Stock**”), (ii) the occurrence of a merger, consolidation, reorganization, share exchange or similar corporate transaction, whether or not the Company is the surviving corporation, other than a transaction which would result in the Voting Stock outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent of the voting stock of the Company or such surviving entity immediately after such transaction, or (iii) the sale, transfer or disposition of all or substantially all of the business and assets of the Company to any Person. The Executive may also make equity investments in Reed’s on terms that may be agreed upon by the Executive and Reed’s.

Section 6 Termination of Employment.

6.1 **Termination by Reed's.** Reed's may terminate the Executive's employment with Reed's for Cause or without Cause, effective immediately on the day Reed's gives notice of such termination to the Executive. For purposes of this Agreement, "**Cause**" means (i) a breach by Executive of his fiduciary duties to the Company; (ii) Executive's breach of this Agreement, which, if curable, remains uncured or continues after thirty (30) days' notice by the Company thereof; (iii) the commission of (A) any crime, other than motor vehicle crimes, constituting a felony in the jurisdiction in which committed, (B) any felony involving moral turpitude, or (C) any other criminal act involving embezzlement, misappropriation of money, fraud, theft, or bribery (whether or not a felony); (iv) illegal or controlled substance abuse or insobriety while on the Company's premises, with an employee, customer or vendor, or while on Company business by Executive; (v) Executive's material negligence or dereliction in the performance of, or failure to perform Executive's duties of employment with the Company, which remains uncured or continues after thirty (30) days' notice by the Company thereof; (vi) any conduct, action or behavior by Executive that is, or is reasonably expected to be, materially damaging to the Company, whether to the business interests, finance or reputation; or (vii) any disqualifying event causing Company "bad actor" disqualification under Rule 506(d) of the Securities Act of 1933, as amended. The cure periods set forth in Sections 6.1(ii) and 6.1(v) shall be extended if (x) Executive commenced such cure within the aforesaid thirty (30) day period, (y) Executive pursues such cure to completion, and (z) such further cure period does not cause material harm to the Company.

6.2 **Termination by the Executive.** The Executive may terminate the Executive's employment with Reed's for Good Reason or without Good Reason, by written notice to Reed's effective no earlier than ninety (90) days after the date of such notice if termination is other than for Good Reason (provided that Reed's shall have the right to waive such ninety (90) day notice period and accelerate termination to any date on or after the date of such notice) and effective upon the expiration of the cure period described below in this Section 6.2 if termination is for Good Reason. During any period between receipt of notice of termination from the Executive, Reed's may suspend, reduce, or otherwise modify any or all of Executive's authority, duties, and responsibilities, and may require the Executive's absence from Reed's offices without any such suspension, reduction, modification, or requirement constituting grounds for Good Reason. "**Good Reason**" means any (i) material breach (whether or not specified above) of this Agreement by Reed's, (ii) change in Executive's title, duties, or status within the Company that differ materially from Executive's title, duties and status hereunder, and/or (iii) actual or de facto change in the Company's principal executive office headquarters and personnel to a location that is more than 60 miles from the Company's present headquarters in Norwalk, Connecticut. An event described in this Section 6.2 will not constitute Good Reason unless the Executive provides written notice to Reed's of the Executive's intention to resign for Good Reason and specifying the event or circumstance giving rise to Good Reason within ninety (90) days of its initial existence and Reed's does not cure such breach or action within thirty (30) days after the date of the Executive's notice.

6.3 Death and Disability. The Executive's employment under this Agreement will terminate upon the Executive's death. In addition, Reed's may terminate the Executive's employment with Reed's by written notice to the Executive due to Disability. For purposes of this Agreement, "**Disability**" means that the Executive has been unable, with or without reasonable accommodation and due to physical or mental incapacity, to substantially perform the essential functions of his duties for one hundred twenty (120) days, whether consecutive or non-consecutive, within any calendar year.

6.4 Termination of Agreement. This Agreement will terminate when all obligations of the parties under this Agreement have been satisfied.

6.5 Resignations. Upon any termination of the Executive's employment hereunder for any reason, except as may otherwise be requested by Reed's in writing, the Executive agrees that he will resign from any and all directorships, committee memberships and any officer positions that he holds with Reed's or any of its subsidiaries.

Section 7 Remuneration upon Termination of Employment

7.1 Termination by Reed's without Cause or by the Executive for Good Reason. If the Executive's employment with Reed's is terminated pursuant to Section 6.1 by Reed's without Cause or pursuant to Section 6.2 by the Executive for Good Reason, the Executive will be entitled to the following:

(a) accrued and unpaid compensation and benefits (including, without limitation, accrued vacation or paid time off, and then unreimbursed expenses) through the date of termination of Employment (the "**Accrued Benefits**");

(b) installment payments equal to the Executive's Base Salary in effect immediately prior to the Executive's termination of employment with Reed's, less applicable taxes and withholdings, for six (6) months (the "**Severance Period**"), plus any Bonus earned and unpaid as well as a prorated Bonus for the year of termination, vested portion of Time Based Options and acceleration of that portion of Time Based Options that would have otherwise vested during the Severance Period, calculated on a pro-rata, monthly basis and based on full calendar months (the "**Severance Amount**"). For clarity, the Performance Based Options will not be subject to acceleration. In addition, to the extent permitted by applicable law, subject to the Executive's election of COBRA continuation coverage under Reed's group health plan, on the first regularly scheduled payroll date of each month during the Severance Period, Reed's will pay the Executive an amount equal to the difference between the monthly COBRA premium cost and the premium cost to the Executive as if the Executive were an employee of Reed's; provided, that such payments shall cease earlier than the expiration of the Severance Period in the event that the Executive becomes eligible to receive any comparable health benefits, including through a spouse's employer, during the Severance Period (the "**COBRA Payments**"). Executive will notify Reed's of Executive's eligibility for health benefits during the Severance Period within fifteen (15) days of such eligibility; and

(c) any and all rights he may have as a holder of vested equity interests in Reed's or under any applicable plan, program, or arrangement of Reed's, including the vested awards under the Initial Option Award and RSA Award ("**Vested Equity Awards**").

(d) If Reed's elects not to renew this Agreement and Reed's does not provide at least three (3) months' advance written notice of non-renewal, same shall be deemed to be termination without cause and entitle the Executive to the same benefits as set forth in Sections 7.1(a), 7.1(b) and 7.1(c) hereinabove, except that the Severance Period will be reduced such that it will commence upon the expiration of the Term and terminate three (3) months from the date on which notice of non-renewal is given (pro-rated for partial months), instead of terminating six (6) months from the expiration of the Term. *By way of example, if Reed's gives Employee one (1) month's advance written notice of non-renewal, the Severance Period will be two (2) months.*

7.2 Termination by Reed's for Cause, by the Executive without Good Reason. If the Executive's employment with Reed's is terminated for Cause, or by the Executive without Good Reason, the Executive will be entitled to the Accrued Benefits and any and all rights he may have as a holder of vested equity interests in Reed's or under any applicable plan, program, or arrangement of Reed's, including Vested Equity Awards.

7.3 Termination as a Result of Death or Disability. In the event of the termination of the Executive's employment with Reed's pursuant to Section 6.3 as a result of death or Disability, the Executive or the Executive's heirs will be entitled to the Accrued Benefits and any and all rights Executive may have as a holder of vested equity interests in Reed's or under any applicable plan, program, or arrangement of Reed's, including Vested Equity Awards.

7.4 Obligations Absolute. The payment and other obligations of Reed's under this Agreement or in connection with the Incentive Equity are absolute and unconditional and not subject to offset or any other defense.

7.5 Deferred Compensation Matters.

(a) The intent of the parties is that payments and benefits under this Agreement comply with or be exempt from Internal Revenue Code Section 409A and the regulations and guidance promulgated thereunder (collectively “**Code Section 409A**”) and, accordingly, to the maximum extent permitted the Employment Agreement shall be interpreted to be in compliance therewith or exempt therefrom. In no event whatsoever shall the Company be liable for any additional tax, interest or penalty that may be imposed on Executive by Code Section 409A or damages for failing to comply with Code Section 409A.

(b) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a “separation from service” within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service.”

(c) To the extent that any payment of base salary or other compensation is to be paid for a specified continuing period of time beyond the date of the Executive’s separation from service in accordance with the Company’s payroll practices (or other similar term), the payments of such base salary or other compensation shall be made no event less frequently than monthly. Notwithstanding the foregoing, with respect to any payments that are intended to fall under the short-term deferral exemption from Code Section 409A, unless this Agreement provides a specified and objectively determinable payment schedule to the contrary, all payments due thereunder shall be made as soon as practicable after the right to payment vests and in all events by March 15 of the calendar year following the calendar year in which the right to payment vests. For purposes of this section, a right to payment will be treated as having vested when it is no longer subject to a substantial risk of forfeiture as determined by the Company in its sole discretion.

(d) Notwithstanding any other payment schedule provided herein to the contrary, if Executive is identified on the date of his separation from service a “specified employee” within the meaning of that term under Code Section 409A(a)(2)(B) (which generally means a key employee of a corporation any stock of which is publicly traded on an established securities market or otherwise), then, with regard to any payment or the provision of any benefit that is considered nonqualified deferred compensation subject to Code Section 409A and payable on account of a “separation from service,” (i) such payment or benefit shall not be made or provided until the date which is the earlier of (A) the expiration of the six (6) month period measured from the date of Executive’s “separation from service” and (B) the date of Executive’s death (the “Delay Period”) to the extent required under Code Section 409A and (ii) at the end of such six (6) month period, the Company shall make an additional payment to Executive equal to the amount interest accruing at the then-current short-term applicable federal rate published by the Internal Revenue Service on the value of any such payment or benefit, accruing from the date on which it would have otherwise been paid or provided. Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this Section (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to Executive in a lump sum, and all remaining payments due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them therein.

(e) To the extent that reimbursements or other in-kind benefits under this Agreement constitute “nonqualified deferred compensation” subject to Code Section 409A, (i) all such expenses or other reimbursements hereunder shall be paid on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by Executive, (ii) no such reimbursement, expenses eligible for reimbursement, or in-kind benefits provided in any taxable year shall in any way affect the expenses eligible for reimbursement, or in-kind benefits to provided, in any other taxable year, and (iii) Executive’s right to such reimbursement or in-kind benefits shall not be subject to liquidation or exchange for any other benefit.

(f) For purposes of Code Section 409A, Executive’s right to receive any installment payment pursuant to the Employment Agreement shall be treated as a right to receive a series of separate and distinct payments.

(g) Whenever a payment under this Agreement specifies a payment period with reference to a number of days, the actual date of payment within the specified period shall be within the sole discretion of the Company.

(h) Notwithstanding any other provision of this Agreement to the contrary, in no event shall any payment under this Agreement that constitutes nonqualified deferred compensation subject to Code Section 409A be subject to offset, counterclaim or recoupment by any other amount payable to Executive unless otherwise permitted by Code Section 409A.

7.6 Notwithstanding anything in this Agreement to the contrary, the Company will have no obligation to pay the Severance Amount and Cobra Payments payable under this Section 7 during such times as Executive is in breach of Sections 4 hereof. As a condition to the Company’s obligations (if any) to pay the Severance Amount and Cobra Payments described in this Section 7, Executive will execute and deliver a general release in the form attached hereto as Exhibit A (the “**General Release**”). Executive shall forfeit all rights to the Severance Amount and Cobra Payments described in this Section unless the General Release is signed and delivered (and no longer subject to revocation) within thirty (30) days following the date of Executive’s separation from service. To the extent any such cash payment or continuing benefit to be provided is not nonqualified deferred compensation subject to Code Section 409A, as determined by the Company in its sole discretion, then such payment or benefit shall commence upon the first scheduled payment date immediately after the date the release is executed and no longer subject to revocation (the “**Release Effective Date**”). The first such cash payment shall include payment of all amounts that otherwise would have been due prior to the Release Effective Date under the terms of this Section 7.6 applied as though such payments commenced immediately upon Executive’s separation from service, and any payments made thereafter shall continue as provided herein. The delayed benefits shall in any event expire at the time such benefits would have expired had such benefits commenced immediately following Executive’s separation from service. To the extent any such cash payment or continuing benefit to be provided is nonqualified deferred compensation subject to Code Section 409A, as determined by the Company in its sole discretion, then such payments or benefits shall be made or commence upon the sixtieth (60th) day following Executive’s separation from service. The first such cash payment shall include payment of all amounts that otherwise would have been due prior thereto under the terms of this Section 7 had such payments commenced immediately upon the Executive’s separation from service, and any payments made thereafter shall continue as provided therein. The delayed benefits shall in any event expire at the time such benefits would have expired had such benefits commenced immediately following the Executive’s separation from service. The Company may provide, in its sole discretion, that Executive may continue to participate in any benefits delayed pursuant to this Section during the period of such delay, provided that Executive shall bear the full cost of such benefits during such delay period. Upon the date such benefits would otherwise commence pursuant to this Section 7.6, the Company may reimburse Executive the Company’s share of the cost of such benefits, if any, had such benefits commenced immediately upon Executive’s separation from service. Any remaining benefits shall be reimbursed or provided by the Company in accordance with the schedule and procedures specified therein.

Section 8 Effect of Non-Renewal; End of Term. For clarity, non-renewal by either party pursuant to Section 2 shall constitute termination without cause. At the end of the Term of this Agreement, the Executive will be entitled to the Accrued Benefits and Vested Equity and Severance Amount with a Severance Period described in Section 7.1(d). In the event that either party has given written notice of non-renewal and Executive's employment with the Company continues after the expiration of the Initial Term or any Renewal Term, such post-expiration employment shall be "at-will" and either party may terminate such employment with or without notice and for any reason or no reason. Except as may otherwise be requested by Reed's in writing, the Executive agrees that he will resign from any and all directorships, committee memberships and any officer positions that he holds with Reed's or any of its subsidiaries effective at the end of Term of this Agreement.

Section 9 General Provisions.

9.1 Notices. All notices and other communications under this Agreement must be in writing and are deemed duly delivered when (a) delivered if delivered personally or by recognized overnight courier service (costs prepaid), (b) sent by facsimile with confirmation of transmission by the transmitting equipment (or, the first business day following such transmission if the date of transmission is not a business day) (c) sent by electronic mail with receipt acknowledged by the recipient via email reply, or (d) received or rejected by the addressee, if sent by certified or registered mail, return receipt requested; in each case to the following addresses or facsimile numbers and marked to the attention of the individual (by name or title) designated below (or to such other address, facsimile number or individual as a party may designate by notice to the other parties in writing):

If to the Executive:

Norman E. Snyder, Jr.
88 Grey Rocks Road
Wilton, CT 06897

If to Reed's:

Attention: Thomas J. Spisak
Chief Financial Officer
201 Merritt 7 Corporate Park
Norwalk CT 06851

9.2 Amendment. This Agreement may not be amended, supplemented or otherwise modified except in a writing signed by the Executive and a director or authorized officer of Reed's (other than the Executive).

9.3 Waiver and Remedies. The Executive and Reed's may (a) extend the time for performance of any of the obligations or other acts of the other party, (b) waive any inaccuracies in the representations and warranties of the other party contained in this Agreement or in any certificate, instrument or document delivered pursuant to this Agreement or (c) waive compliance with any of the covenants, agreements or conditions for the benefit of such party contained in this Agreement. Any such extension or waiver will be valid only if set forth in a written document signed on behalf of the party against whom the waiver or extension is to be effective. No extension or waiver will apply to any time for performance, inaccuracy in any representation or warranty, or noncompliance with any covenant, agreement or condition, as the case may be, other than that which is specified in the written extension or waiver. No failure or delay by a party in exercising any right or remedy under this Agreement or any of the documents delivered pursuant to this Agreement, and no course of dealing between the parties, operates as a waiver of such right or remedy, and no single or partial exercise of any such right or remedy precludes any other or further exercise of such right or remedy or the exercise of any other right or remedy. Any enumeration of a party's rights and remedies in this Agreement is not intended to be exclusive, and a party's rights and remedies are intended to be cumulative to the extent permitted by law and include any rights and remedies authorized in law or in equity. Because Executive's services are special, unique, and extraordinary and because Executive has access to Confidential Information and Work Product, the parties hereto agree that money damages may be an inadequate remedy for any breach of Section 4 of this Agreement. Therefore, in the event of a breach or threatened breach of Section 4 of this Agreement, the Company, or any of its successors or assigns may, in addition to other rights and remedies existing in their favor at law or in equity, apply to any court of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce, or prevent any violations of, the provisions hereof (without posting a bond or other security).

9.4 Entire Agreement. This Agreement, including the Exhibits attached hereto, amends, replaces and supersedes the Original Agreement in its entirety. This Agreement, including the Exhibits attached hereto, the Executive Incentive Stock Option Agreements dated February 25, 2020 and May 27, 2020 and the Restricted Stock Award Agreement dated May 4, 2020 form the entire agreement between the Executive and Reed's with respect to its subject matter hereof and supersede any prior understandings, agreements or representations between the parties, written or oral, with respect to the subject matter of this Agreement.

9.5 Assignment and Successors. This Agreement binds and benefits the parties and their respective heirs, executors, administrators, successors and assigns, except that the Executive may not assign any rights under this Agreement without the prior written consent of Reed's and Reed's may not assign this Agreement or any of its rights or obligations hereunder without the prior written consent of the Executive except in the case of an assignment of this Agreement to a successor to all or substantially all of the business and assets of Reed's and its subsidiaries or any business division thereof or a restructuring of Reed's. The Executive's obligations under this Agreement are personal to the Executive and may not be delegated.

9.6 Severability. If any provision of this Agreement is held invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this Agreement are not affected or impaired in any way and the parties agree to negotiate in good faith to replace such invalid, illegal and unenforceable provision with a valid, legal and enforceable provision that achieves, to the greatest lawful extent under this Agreement, the economic, business and other purposes of such invalid, illegal or unenforceable provision. A court of competent jurisdiction, if it determines any provision of this Agreement to be unreasonable in scope, time or geography, is hereby authorized by the Executive and Reed's to enforce the same in such narrower scope, shorter time or lesser geography as such court determines to be reasonable and proper under all the circumstances.

9.7 Governing Law; Mediation. The validity, interpretation, performance and enforcement of this Agreement shall be governed by the laws of the Connecticut without giving effect to any choice of law rules or other conflicting provision or rule that would cause the laws of any jurisdiction to be applied. Reed's and the Executive agree that any and all disputes arising out of the terms of this Agreement, the Executive's employment by Reed's, the Executive's service as an employee or officer of Reed's or any of its subsidiaries, or the Executive's compensation and benefits, will be litigated in the federal or state courts in Fairfield County, Connecticut; provided however, prior to the filing of any lawsuit, the parties agree to mediate any dispute, controversy, or claim between them arising out of this Agreement. Either party may commence mediation by providing the other parties involved with a written demand for mediation, setting forth the subject of the dispute and the relief requested. The mediation shall be administered by JAMS, AAA or some other neutral mediator designated by the party that first submits the demand for mediation. The mediation fees, if any, shall be divided equally among the parties involved. If a settlement is not reached by the parties within thirty (30) days of the demand for mediation, then the aggrieved party may then file for suit pursuant to this Agreement. The prevailing party's fees and costs resulting from litigation shall be paid by the non-prevailing party. Notwithstanding the foregoing, nothing in this subsection shall be construed as precluding the bringing an action for injunctive relief or specific performance as provided in this Agreement.

9.8 Survival. The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement to the extent necessary to the intended preservation of such rights and obligations and to the extent that any performance is required following termination or expiration of this Agreement.

9.9 Withholding. All amounts paid pursuant to this Agreement shall be subject to withholding for taxes (federal, state, local, non-U.S. or otherwise) to the extent required by applicable law.

9.10 Counterparts. The parties may execute this Agreement in multiple counterparts, each of which constitutes an original as against the party that signed it, and all of which together constitute one agreement. This Agreement is effective upon delivery of one executed counterpart from each party to the other party. The signatures of all parties need not appear on the same counterpart. The delivery of signed counterparts by facsimile or email transmission that includes a copy of the sending party's signature is as effective as signing and delivering the counterpart in person.

9.11 Voluntary Execution; Representations. Executive acknowledges that (a) he has consulted with or has had the opportunity to consult with independent counsel of his own choosing concerning this Agreement and has been advised to do so by the Company, and (b) he has read and understands this Agreement, is competent and of sound mind to execute this Agreement, is fully aware of the legal effect of this Agreement, and has entered into it freely based on his own judgment and without duress.

IN WITNESS WHEREOF, the parties have executed this Agreement (or caused this Agreement to be signed by their authorized representative) as of the date(s) set forth by their signatures below.

REED'S, INC.

By: /s/ Thomas J. Spisak

Name: Thomas J. Spisak

Title: Chief Financial Officer

Date: June 24, 2020

EXECUTIVE

/s/ Norman E. Snyder, Jr.

Norman E. Snyder, Jr.

Date: June 24, 2020

FORM OF GENERAL RELEASE

KNOW ALL MEN BY THESE PRESENTS: That the undersigned, _____ (“**Executive**”), on behalf of himself and his heirs, legal representatives, administrators, executors, successors and assigns, and each of them, for good and valuable consideration received as set forth in the Employment Agreement dated as of _____, 20__ (the “**Employment Agreement**”) between Reed’s, Inc., a Delaware corporation (the “**Company**”), does hereby unconditionally, knowingly, and voluntarily release and forever discharge the Company, and its present and former related companies, subsidiaries and affiliates, and all of their present and former executives, officers, managers, directors, owners, members, shareholders, partners, employees, agents, and attorneys, including in their individual capacity, and each of its and their successors and assigns (hereinafter collectively the “**Released Parties**”), from any and all known or unknown claims, demands, actions or causes of action that now exist or may arise in the future, based upon events occurring or omissions on or before the date of the execution of this Release, including, but not limited to any and all claims whatsoever pertaining in any way to Executive’s employment at the Company or with any of the Released Parties or the termination of Executive’s employment, including, but not limited to, any claims under: (1) the Americans with Disabilities Act; the Family and Medical Leave Act; Title VII of the Civil Rights Act; 42 U.S.C. Section 1981; the Older Workers Benefit Protection Act; the Age Discrimination in Employment Act of 1967, as amended (the “**ADEA**”); the Employee Retirement Income Security Act of 1974; the Civil Rights Act of 1866, 1871, 1964, and 1991; the Rehabilitation Act of 1973; the Equal Pay Act of 1963; the Vietnam Veteran’s Readjustment Assistance Act of 1974; the Occupational Safety and Health Act; and the Immigration Reform and Control Act of 1986; and any and all other federal, state, local or foreign laws, statutes, ordinances, or regulations pertaining to employment, discrimination or pay; (2) any state tort law theories under which an action could have been brought, including, but not limited to, claims of negligence, negligent supervision, training and retention or defamation; (3) any claims of alleged fraud and/or inducement, or alleged inducement to enter into this Release; (4) any and all other tort claims; (5) all claims for attorneys’ fees and costs; (6) all claims for physical, mental, emotional, and/or pecuniary injuries, losses and damages of every kind, including but not limited to earnings, punitive, liquidated and compensatory damages, and employee benefits; (7) any and all claims whatsoever arising under any of the Released Parties’ express or implied contract or under any federal, state, local, or foreign law, ordinance, or regulation, or the Constitution of any State or the United States; (8) any and all claims whatsoever against any of the Released Parties for wages, bonuses, benefits, fringe benefits, vacation pay, or other compensation or for any damages, fees, costs, or benefits, in each case, except to the extent Executive has vested rights in any of the same; and (9) any and all claims whatsoever to reinstatement (collectively, the “**Released Claims**”); provided, however, that, notwithstanding anything to the contrary contained herein, this Release shall not cover and the Released Claims shall extend to any rights or claims, if any, of Executive (A) as a holder of equity interests in the Company, (B) to indemnification or advancement of expenses, (C) under Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, (D) under any profit-sharing and/or retirement plans or benefits in which Executive has vested rights, or (E) under Section 7 of the Employment Agreement. Executive also intends that this Release operate as a general release of any and all claims to the fullest extent permitted by law and a waiver of all unknown claims of the type being released hereunder.

Notwithstanding the provisions of any state statute in effect that provides that a general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor, and for the purpose of implementing a full and complete release and discharge of all Releasees with respect to claims in all jurisdictions, Executive expressly acknowledges that this is intended to include not only claims that are known, anticipated, or disclosed, but also claims that are unknown, unanticipated, and undisclosed.

Executive acknowledges that the Severance Amount and the COBRA Payments are in addition to anything of value to which Employee already is entitled from the Company and constitutes good and valuable consideration for this Release.

Executive represents and warrants that he has not previously filed, and to the maximum extent permitted by law agrees that he will not file, a complaint, charge, or lawsuit against any member of the Released Parties regarding any of the claims released herein. If, notwithstanding this representation and warranty, the Executive has filed or files such a complaint, charge, or lawsuit, he agrees that he shall cause such complaint, charge, or lawsuit to be dismissed with prejudice and shall pay any and all costs required in obtaining dismissal of such complaint, charge, or lawsuit, including without limitation the attorneys' fees of any member of the Released Parties against whom he has filed such a complaint, charge, or lawsuit. This paragraph shall not apply, however, to a claim of age discrimination under the ADEA or to any non-waivable right to file a charge with the United States Equal Employment Opportunity Commission (the "EEOC"); provided, however, that if the EEOC were to pursue any claims relating to the Executive's employment with Company, the Executive agrees that he shall not be entitled to recover any monetary damages or any other remedies or benefits as a result and that this Release and Section 7 of the Employment Agreement will control as the exclusive remedy and full settlement of all such claims by the Executive.

Executive agrees not to make disparaging, critical or otherwise detrimental comments to any person or entity concerning the Released Parties; the products, services or programs provided or to be provided by the Released Parties; the business affairs or the financial condition of the Released Parties; or the circumstances surrounding Executive's employment and/or termination of employment from Company. Company agrees to cause its executive and senior management teams not to take any action, or encourage others to take any action, to disparage or criticize Executive. The Company agrees to instruct its personnel not to take any action, to disparage or criticize Executive.

Executive acknowledges that he has been given the opportunity to review and consider this Release for twenty-one (21) days from the date he received a copy. If he elects to sign before the expiration of the twenty-one (21) days, Executive acknowledges that he will have chosen, of his own free will without any duress, to waive his right to the full twenty-one (21) day period.

Executive may revoke this Release after signing it by giving written notice to the Company's Board of Directors, within seven (7) days after signing it (the "Revocation Period"). This Release, provided it is not revoked, will be effective on the eighth (8th) day after execution. The Executive acknowledges and agrees that if he revokes this Release during the Revocation Period, this Release will be null and void and of no effect, and neither the Company nor any other Released Party will have any obligations to pay the Executive the amounts under Section 7 of the Employment Agreement.

Executive acknowledges that he has consulted with an attorney prior to signing this Release and that he has no knowledge of any facts or circumstances that give rise or could give rise to any claims under any of the laws listed in this Release.

Executive is signing this Release knowingly, voluntarily and with full understanding of its terms and effects. Executive is signing this Release of his own free will without any duress, being fully informed and after due deliberation. Executive voluntarily accepts the consideration provided to him for the purpose of making full and final settlement of all claims referred to above. This Release shall be governed by and construed in accordance with the laws of the State of Connecticut.

SECTION 5.1 PERFORMANCE GOALS

	F20 Board Plan	Bonus Adj	F20 Bonus Plan
Gross Sales	\$45,645		\$45,645
<i>Discounts</i>	(5,417)		(5,417)
Net Sales	40,227		40,227
Discounts % of Gross sales	-12%		-12%
Total cost of goods sold	(26,750)		(26,750)
Gross profit	13,478		13,478
% gross margin	34%		34%
Delivery & handling expenses	(5,215)		(5,215)
Selling and marketing expense	(8,107)	557	(7,550)
Stock Option Expense	(1,391)	1,391	0
General and administrative expense	(6,260)	632	(5,628)
Total operating expenses	(20,973)	2,580	(18,393)
Income (loss) from operations	(7,496)	2,580	(4,915)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Norman E. Snyder, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Reed's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2020

/s/ Norman E. Snyder, Jr.

Norman E. Snyder, Jr.
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas J. Spisak, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Reed's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2020

/s/ Thomas J. Spisak

Thomas J. Spisak
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Reed's, Inc., a Delaware corporation (the "Company") for the period ending June 30, 2020 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), Norman E. Snyder, Jr., Interim Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

REED'S, INC.

Date: August 10, 2020

By: /s/ Norman E. Snyder, Jr.

Norman E. Snyder, Jr.
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Reed's, Inc., a Delaware corporation (the "Company") for the period ending June 30, 2020 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), Thomas J. Spisak, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge and belief:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

REED'S, INC.

Date: August 10, 2020

By: /s/ Thomas J. Spisak

Thomas J. Spisak
Chief Financial Officer
(Principal Financial Officer)
