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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 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	35-2177773
(State of incorporation)	(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)

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	REED	The NASDAQ Stock Market LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [X]

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 [X] 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 [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ]	Smaller reporting company [X]
	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 registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates (excluding voting shares held by officers and directors) as of June 28, 2019 was $80,097,411.

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 47,595,206 shares of Common Stock outstanding as of March 2, 2020.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This Annual Report on Form 10-K (“Annual Report”), the other reports, statements, and information that we have previously filed or that we may subsequently file with the Securities and Exchange Commission (“SEC”) and public announcements that we have previously made or may subsequently make include, may include, incorporate by reference or may incorporate by reference certain statements that may be deemed to be forward-looking statements. The forward-looking statements included or incorporated by reference in this Annual Report and those reports, statements, information and announcements address activities, events or developments that Reed’s, Inc. (hereinafter referred to as “we,” “us,” “our” or “Reed’s”) expects or anticipates will or may occur in the future. Any statements in this document about expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “will continue,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would” and “outlook” and similar expressions. Accordingly, these statements involve estimates, assumptions and uncertainties, which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document. All forward-looking statements concerning economic conditions, rates of growth, rates of income or values as may be included in this document are based on information available to us on the dates noted, and we assume no obligation to update any such forward-looking statements.

The risk factors referred to in this Annual Report beginning on page 13 could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us, and you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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

- Our ability to generate sufficient cash flow to support marketing and product development plans and general operating activities,
- Decreased demand for our products resulting from changes in consumer preferences,
- Competitive products and pricing pressures and our ability to gain or maintain our share of sales in the marketplace,
- The introduction of new products,
- Our being subject to a broad range of evolving federal, state and local laws and regulations including those regarding the labeling and safety of food products, establishing ingredient designations and standards of identity for certain foods, environmental protections, as well as worker health and safety. Changes in these laws and regulations could have a material effect on the way in which we produce and market our products and could result in increased costs,
- Changes in the cost and availability of raw materials and the ability to maintain our supply arrangements and relationships and procure timely and/or adequate production of all or any of our products,
- Our ability to penetrate new markets and maintain or expand existing markets,
- Maintaining existing relationships and expanding the distributor network of our products,

- Decline in global financial markets and economic downturn resulting from the coronavirus COVID-19 global pandemic,
- Business interruptions resulting from the coronavirus COVID-19 global pandemic,
- Our ability to remediate weaknesses we identified in our disclosure controls and procedures and our internal control over financial reporting in a timely enough manner to eliminate the risks posed by such material weaknesses in future periods,
- Maintaining the listing of our common stock on the Nasdaq Capital Market or other national securities exchange,
- The marketing efforts of distributors of our products, most of whom also distribute products that are competitive with our products,
- Decisions by distributors, grocery chains, specialty chain stores, club stores and other customers to discontinue carrying all or any of our products that they are carrying at any time,
- The availability and cost of capital to finance our working capital needs and growth plans,
- The effectiveness of our advertising, marketing and promotional programs,
- Changes in product category consumption,
- Economic and political changes,
- Consumer acceptance of new products, including taste test comparisons,
- Possible recalls of our products, and
- Our ability to make suitable arrangements for the co-packing of any of our products,

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements.

PART I

Item 1. Business

Overview

Reed's Inc., a Delaware corporation ("Reed's", the "Company," "we," or "us" throughout this report) owns a leading portfolio of handcrafted, all-natural beverages that is sold in over 30,000 outlets nationwide (including the natural and specialty food channel, grocery stores, mass merchants, drug stores, convenience stores, club stores and on-premise locations including bars and restaurants). Reed's two core brands are Reed's Craft Ginger Beer and Virgil's Handcrafted soda. Reed's Craft Ginger Beers are unique due to the proprietary process of using fresh ginger root combined with a Jamaican inspired recipe of natural spices, honey and fruit juices. Reed's uses this same handcrafted approach in its Virgil's line of great tasting, bold flavored craft sodas, including its award-winning Virgil's Root Beer.

Reed's is the leading ginger beer in the US; Virgil's is the leading independent (not aligned with Coca-Cola, Pepsi or Keurig Dr. Pepper) all-natural full line craft soda and is ranked fourth in the craft soda category.

Industry Overview

Reed's offers its portfolio of natural hand-crafted beverages in the craft specialty foods industry as natural alternatives to the estimated $90 billion mainstream carbonated soft drinks ("CSD") market in the United States. Reed's products are sold across the country and internationally in the following major channels: natural food, specialty food, grocery, mass merchant, convenience, club, drug, and on-premise bars and restaurants.

While Reed's is a top-seller in natural food store markets, it also sells nationally to major grocery chains. Sales growth of natural food and beverage products is presently outpacing sales growth for conventional products in every region in the United States. The trend in grocery stores is to expand offerings of natural products. We believe that as we continue to invest our attention and resources in driving accelerated growth and building our brands, we will have the ability to scale our business and continue to build our presence and distribution across all retail channels.

Carbonated Soft Drink Industry Overview

The CSD market continues to be a large category in the overall American consumer beverage industry. According to Chicago-based Mintel in April 2017, carbonated soft drinks enjoyed about a 90% household penetration. However, years of CSD decline (13 years of decline through 2018 according to Mintel) have resulted in an urgency to innovate within this category. The ginger ale category has experienced steady CAGR growth of more than 5% over the last 4 years and more than 3% over the latest 52 weeks (based on SPINS MULO/Natural/Specialty Sales ending 2/23/20. Consumers continue to increasingly embrace ginger ingredients and ginger products. More consumers are focused on digestive health and are likely opting for the functional and digestive health benefits of ginger-based beverages. While many consumers clearly still want to indulge in soft drinks, they are turning to ginger beverages as a way to impart some health benefits.

The biggest shift seen over the last decade is a redefinition of what it means to eat and drink healthfully. More consumers are opting for naturally healthful products touting organic and natural appeals. In addition, as the craft and natural soda segment is still underdeveloped at only 1% of the total CSD market, we believe there is significant growth potential to continue to market and sell our portfolio of branded products and encourage consumers to switch away from mainstream beverages that contain artificial colors, flavors, sweeteners and preservatives to great tasting natural alternatives.

Consumer Trends Driving Growth for Our Products

The following is a list of consumer trends that act as tailwinds as we sell and market our portfolio of ginger beer and handcrafted beverages:

- **Growing Consumer Interest in Better-for-You and Healthier Products**: According to a recent study, consumers reported that ‘healthy options,’ followed by ‘natural ingredients’ were the two top factors when considering purchasing new products.

- **Reducing Sugar and Artificial Sweeteners**: Consumers are moving away from high sugar beverages and artificially sweetened products.

- **Authentic and Distinct Brands**: There is a broad, cross-generational appeal (Millennials and Boomers alike) for brands with an authentic story, proprietary processes, higher quality ingredients and unique packaging.

- **Trading up to Premium and Craft**: The $500 million craft soda and premium mixer industry segments are growing. Consumers are looking for small batch, handcrafted brands that offer higher quality products and authentic bold flavors.

- **The Craft Soda Category is Underdeveloped**: The craft soda segment is underdeveloped relative to other super-premium food and beverage categories; it is currently less than 1% of the overall CSD category while craft beer accounts for over 20% of the total beer category.

- **Ginger Use in Beverages is Growing:** Ginger is showing up more and more in beverages, and we believe its momentum will continue.

- **Growth in Non-Alcoholic Alternatives (Mocktails) in On-Premise**: More consumers are seeking non-alcoholic alternatives with bold and unique flavors when they go out to bars and restaurants.

- **Demand for Premium Mixed Drinks**: Leading the way in demand has been the Moscow Mule and Mule related cocktails, growing 30% year over year in on-premise sales. They are now in the top five most popular cocktails in the United States according to both Nielsen and Cheers Magazine.

Our strategies will remain responsive to these macro consumer trends as we concentrate our efforts on developing the Company’s sales and marketing functions.

Our Products

Our hand-crafted natural beverages use only premium natural ingredients. Our products are free of genetically modified organisms ("GMOs") and are gluten free. Over the years, Reed's has developed several product offerings. In 2019, we streamlined our focus to our core product offerings of Reed's Craft Ginger Beer and Virgil's Craft Sodas and launched a new line of Virgil's Zero Sugar Sodas in twelve ounce cans.

Reed's Craft Ginger Beer

Reed's Craft Ginger Beer is distinguished from other ginger beers by its proprietary process of brewing fresh ginger root, its exclusive use of all-natural ingredients, and its authentic Jamaican-inspired recipe. We do not use preservatives, artificial flavors, or colors, and our Ginger Beer is certified kosher. We offer different levels of fresh ginger content, ranging from our lightest-spiced Original, to our medium-spiced Extra, and finally to our spiciest Strongest. We also offer two sweetener options: one with cane sugar, honey and fruit juices and another without sugar (Zero Sugar) made from an innovative blend of natural sweeteners (developed in 2018 and commercialized in 2019).

As of the end of 2019, the Reed's Craft Ginger Beer line included four major varieties in restaged packaging:

- **Reed's Original Ginger Beer –** Our first to market product uses a Jamaican-inspired recipe that calls for fresh ginger root, lemon, lime, honey, raw cane sugar, pineapple, herbs and spices.

- **Reed's Extra Ginger Beer –** Contains 100% more fresh ginger than Reed's Original recipe for extra spice.

- **Reed's Strongest Ginger Beer** – Contains 200% more fresh ginger than Reed's Original for the strongest spice.

- **NEW! Reed's Zero Sugar Ginger Beer** – launched in 2019 in bottles and cans uses a proprietary natural sweetening system that has no added sugars.

Virgil's Handcrafted Sodas

Virgil's is a premium handcrafted soda that uses only all-natural ingredients to create bold renditions of classic flavors. We don't use any preservatives, any artificial colors, or any GMO-sourced ingredients, and our Virgil's line is certified kosher.

The Virgil's line includes the following products:

Handcrafted Line: Virgil's first Handcrafted soda was launched in 1994. It began as one man's passion to create the finest root beer ever produced and has since won numerous awards. Virgil's difference is using all-natural ingredients to craft bold, classic soda flavors. Virgil's Handcrafted line includes Root Beer, Vanilla Cream, Black Cherry, and Orange.

Zero Sugar Line: Virgil's launched a new line of Zero Sugar, Zero Calorie craft sodas in 2019. Each Zero Sugar soda is sweetened with a proprietary blend of natural sweeteners with no added sugars. This all-natural line of Zero Sugar flavors includes Root Beer, Cola, Black Cherry, Vanilla Cream, Orange and Lemon-Lime. The product has recently been certified Keto compliant.

2020 Product Launches

During the second quarter of 2020, Reed's will launch the below:

- Reed's® Wellness Ginger Shots (Classic Ginger and Ginger Energize)
- Reed's ® Real Ginger Ale™ (Classic and Zero Sugar)
- Reed's ® Craft Ginger Mule. (Classic Zero Sugar)

Our Primary Markets

We target a smaller segment of the estimated $90 billion mainstream carbonated and non-carbonated soft drink markets in the U.S., Canada, and international markets. Our brands are generally considered premium and natural, with upscale packaging. They are loosely defined as the craft specialty bottled carbonated soft drink category.

We have an experienced and geographically diverse sales force promoting our products, with senior sales representatives strategically placed in multiple regions across the country, supported by local Reed’s sales staff. Additionally, we have sales managers handling national accounts for natural, specialty, grocery, mass, club, drug and convenience channels. Our sales managers are responsible for all activities related to the sales, distribution, and marketing of our brands to our entire retail partner and distributor network in North America. The Company not only employs an internal sales force but has partnered with independent sales brokers and outside representatives to promote our products in specific channels and key targeted accounts.

We sell to well-known popular natural food and gourmet retailers, large grocery store chains, mass merchants, club stores, convenience and drug stores, liquor stores, industrial cafeterias (corporate feeders), and to on-premise bars and restaurants nationwide and in some international markets. We also sell our products and promotional merchandise directly to consumers via the Internet through our Amazon storefront which can be accessed through our company web site www.drinkreeds.com.

Some of our representative key customers include:

- **Natural stores**: Whole Foods Market, Sprouts, Natural Grocers by Vitamin Cottage, Fresh Thyme Farmers Market
- **Gourmet & specialty stores**: Trader Joe’s, Bristol Farms, Lazy Acres, The Fresh Market, Central Market
- **Grocery and mass chains**: Kroger (and all Kroger banners), Safeway, Albertson’s, Publix, Food Lion, Stop & Shop, H.E.B., Wegmans, Target and now Walmart
- **Club stores**: Costco Wholesale
- **Liquor stores**: BevMo!, Total Wine & More, Spec’s
- **Convenience & drug stores**: Circle K, CVS Health

Our Distribution Network

Our products are brought to market through an extremely flexible and fluid hybrid distribution model, which is a mix of direct-store-delivery, customer warehouse, and distributor networks. The distribution system used depends on customer needs, product characteristics, and local trade practices.

Our product reaches the market in the following ways:

Direct to Natural & Specialty Wholesale Distributors

Our natural and specialty distributor partners operate a distribution network delivering thousands of SKUs of natural and gourmet products to thousands of small, independent, natural retail outlets around the U.S., along with national chain customers, both conventional and natural. This system of distribution allows our brands far reaching access to some of the most remote parts of North America.

Direct to Store Distribution (“DSD”) Through Non-Alcoholic Beverage Distributor Network

Our independent distributor partners operate DSD systems which deliver primarily beverages, foods, and snacks directly to retail stores where the products are merchandised by their route sales and field sales employees. DSD enables us to merchandise with maximum visibility and appeal. DSD is especially well-suited to products frequently restocked and responds to in-store promotion and merchandising.

Direct to Store Warehouse Distribution

Some of our products are delivered from our co-packers and warehouses directly to customer warehouses. Some retailers mandate we deliver directly to them, as it is more cost effective and allows them to pass savings along to their customers. Other retailers may not mandate direct delivery, but they recommend and prefer it as they have the capability to self-distribute and can realize significant savings with direct delivery.

Wholesale Distribution

Our Wholesale Distributor network handles the wholesale shipments of our products. These distributors have a warehouse and distribution center, and ship Reed's and Virgil's products directly to the retailer (or to customers who opt for drop shipping).

International Distribution

We presently export Reed's and Virgil's brands throughout international markets via US based exporters. Some markets where you'll find our brands present are France, UK, South Africa, portions of the Caribbean, Canada, Spain, Philippines, Israel and Australia. In the UK, our Virgil's brands can be found at Pizza Hut, Tesco Supermarket and Sainsbury.

International sales to some areas of the world are cost prohibitive, except for some specialty sales, since our premium sodas were historically packed in glass, which drives substantial freight costs when shipping overseas. Despite these cost challenges, we believe there are good opportunities to expand internationally and we are increasing our marketing focus on these areas by adding freight friendly packages such as aluminum cans. We are open to exporting and co-packing internationally and expanding our brands into foreign markets, and we have held preliminary discussions with trading companies and import/export companies for the distribution of our products throughout Asia, Europe, Australia, and South America. We believe these areas are a natural fit for Reed's ginger products because of the popularity and importance of ginger in international markets, especially the Asian market, where ginger is a significant part of the local diet and nutrition.

We believe the strength of our brands, innovation, and marketing, coupled with the quality of our products and flexibility of our distribution network, allows us to compete effectively.

Distribution Agreements

We have entered into agreements with some of our distributors that commit us to "termination fees" if we terminate our agreements early or without cause. These agreements provide for our distributor partners to have the right to distribute our products to a defined type of retailer within a defined geographic region. As is customary in the beverage industry, if we should terminate the agreement or not automatically renew the agreement, we would be obligated to make certain payments to our distributor partners. We constantly review our distribution agreements with our partners across North America.

Some of our outside distributors are not bound by written agreements with us and may discontinue their relationship with us on short notice. Most distributors handle a number of competitive products. In addition, our products are sometimes a small part of our distributors' businesses.

Competition

Nonalcoholic Beverages

The nonalcoholic beverage segment of the commercial beverage industry is highly competitive, consisting of numerous companies ranging from small or emerging to very large and well established. The principal areas of competition include pricing, packaging, development of new products and flavors, and marketing campaigns. Our products compete with a wide range of drinks produced by a relatively large number of manufacturers. Many of these brands have enjoyed broad, well-established national recognition for years, through well-funded ad and other branding campaigns. Competitors in the ginger beer category include Goslings, Fever Tree, Bundaberg, Cock 'n Bull and Q Tonic; in the craft soda category we compete with brands such as Stewart's, IBC, Zevia, Blue Sky, Hansen's, Henry Weinhard's, Boylan, and Jones Soda; In the Ginger Ale category we compete with Canada Dry, Schweppes, Seagram's and Zevia.

Important factors affecting our ability to compete successfully include the taste and flavor of products, trade and consumer promotions, rapid and effective development of new, unique cutting-edge products, attractive and different packaging, branded product advertising, and pricing. We also compete for distributors who will concentrate on marketing our products over those of our competitors, provide stable and reliable distribution, and secure adequate shelf space in retail outlets. Competitive pressures in the soft drink category could also cause our products to be unable to gain or even lose market share, or we could experience price erosion.

Despite our products having a relatively high price for a craft premium beverage product, minimal mass media advertising to date, and a small but growing presence in the mainstream market compared to many of our competitors, we believe our all-natural innovative beverage recipes, packaging, use of premium ingredients, and a proprietary ginger processing formula provide us with a competitive advantage. Our commitments to the highest quality standards and brand innovation are keys to our success.

Shot Category

Our ready Wellness Ginger Shot will be entering the energy shot category that many companies have already entered. A few mainstream companies drive the shelf stable category, but there is room for an all-natural alternative. Competition for market share and acceptance of new products is significant. Main competitors are 5-Hour Energy, Ginger Time, and Rescue Ginger Shots.

Candy

Reed's Craft Ginger is at the beginning of its restage. The category is small and there isn't a significant number of entrants. Key competition are Chimes and Gin Gins.

Manufacturing Our Products

Now, 100% of Reed's product is produced by our co-pack partners, which assemble our products and charge us a fee, generally by the case, for the products produced. We have a long-standing relationship with a co-packer in Pennsylvania and recently engaged an additional co-packer on the East Coast. Additionally, in conjunction with the sale of our plant, we entered into a three-year co-packing agreement with CCB, whereby CCB will produce Reed's Inc. beverages in glass bottles at prevailing West Coast market rates. During the first quarter of 2019, we also entered into a one-year co-packing agreement with Sonoma Beverage Company, also on the West Coast. We are in discussion and negotiations with additional co-packers to secure added capability for future production needs. We periodically review our co-packing relationships to ensure that they are optimal with respect to quality of production, cost and location.

Raw Materials

General

Substantially all of the raw materials used in the preparation, bottling and packaging of our products are purchased by Reed's or by our contract packers in accordance with our specifications.

Generally, the raw materials used in our products are obtained from domestic and foreign suppliers and many of the materials have multiple reliable suppliers. This provides a level of protection against a major supply constriction or adverse cost or supply impacts. Since our raw materials are common ingredients and supply is easily accessible, we have few long-term contracts in place with our suppliers.

A significant component of our product cost is the purchase of glass bottles and aluminum cans. In December 2017, we entered into an exclusive strategic partnership with Owens-Illinois (glass), and in February 2018 we entered into a strategic partnership with Crown Cork & Seal for aluminum cans. Both suppliers provide expertise in emerging package and material innovation that can be leveraged to further expand marketing and package offerings.

Production

As part of our ongoing initiative to simplify and streamline operations, we have identified approximately thirty-five core products on which to place our strategic focus. These core products consist of Reed’s and Virgil’s branded beverages, which accounted for approximately 96% of sales in 2019. Product innovation within these two major lines remains a top priority.

Warehousing and Distribution

Warehousing and Logistics are a significant portion of the Company’s operational costs. In order to drive efficiency and reduce costs, on February 1, 2019 we entered into a strategic partnership with Veritiv Logistics Solutions to manage all freight movement for the Company. Veritiv is one of the largest distribution service providers in North America and has expertise that will provide a competitive advantage in the movement of raw materials and finished goods. This partnership will support planning and execution of all inventory movement, assessment of storage needs and cost management.

We follow a “fill as needed” model to the best of our ability and have no significant order backlog.

New Product Development

While we have simplified our business and have streamlined a significant number of SKUs in order to further our primary objective of accelerating the growth of the Reed’s and Virgil’s core product offerings, we believe significant opportunity remains in the all-natural beverage space. Healthier alternatives will be the future for carbonated soft drinks. We will continue to drive product development in the all-natural, no and low sugar offerings in the “better for you” beverage categories. In addition, we believe there are powerful consumer trends that will help propel the growth of our brand portfolio including the increased consumption of ginger as a recognized superfood, the growing use of ginger beer in today’s popular cocktail drinks, and consumers’ increased demand for higher quality, all-natural handcrafted beverages.

Chris Reed, the Company’s founder and Chief Innovation Officer continues to support our new product development efforts in 2020. Mr. Reed possesses thirty years of product development and innovation experience. Recent innovations include our compelling line of full flavor, all-natural, zero sugar, zero calorie sodas. Reed’s has also begun to expand and broaden its product development capabilities by engaging and working with larger, experienced beverage flavor houses and innovative ingredient research and supply companies.

We believe our new business model enhances our ability to be nimble and innovative, producing category leading new products in a short period of time**.**

Licensing

We have entered into a licensing agreement with Full Sail Brewery headquartered in Hood River, Oregon to manufacture and sell our new line of Reed's Alcoholic Moscow Mule in 4 pack cans. Full Sail will manage all aspects of production and distribution.

Seasonality

Sales of our nonalcoholic beverages are somewhat seasonal with a higher than average volume in the warmer months. The volume of sales in the beverage business may be affected by weather conditions.

Proprietary Rights

We own copyrights, trademarks and trade secrets relating to our products and the processes for their production; the packages used for our products; and the design and operation of various processes and equipment used in our business. Some of our proprietary rights are licensed to our co-packers and suppliers and other parties. Reed's ginger processing and brewing process, finished beverage products and concentrate formulas are among its most valuable trade secrets.

We own trademarks in the United States that we consider material to our business. Trademarks in the United States are valid as long as they are in use and/or their registrations are properly maintained. Pursuant to our manufacturing and bottling agreements, we authorize our bottlers to use applicable Reed's trademarks in connection with their manufacture, sale and distribution of our products. We intend to obtain trademarks in international markets as may become necessary.

We use confidentiality and non-disclosure agreements with employees, manufacturers and distributors to protect our proprietary rights. Mr. Reed is also subject to an intellectual property agreement with Reed's restricting competition consistent with his fiduciary obligations to Reed's.

Regulation

General

The production, distribution and sale in the United States of many of our products are subject to the Federal Food, Drug, and Cosmetic Act, the Federal Trade Commission Act, the Lanham Act, state consumer protection laws, competition laws, federal, state and local workplace health and safety laws, various federal, state and local environmental protection laws, and various other federal, state and local statutes and regulations applicable to the production, transportation, sale, safety, advertising, labeling and ingredients of such products. Outside the United States, the distribution and sale of our many products and related operations are also subject to numerous similar and other statutes and regulations.

A California law known as Proposition 65 requires a specific warning to appear on any product containing a component listed by the state as having been found to cause cancer or birth defects. The state maintains lists of these substances and periodically adds other substances to these lists. Proposition 65 exposes all food and beverage producers to the possibility of having to provide warnings on their products in California because it does not provide for any generally applicable quantitative threshold below which the presence of a listed substance is exempt from the warning requirement. Consequently, the detection of even a trace amount of a listed substance can subject an affected product to the requirement of a warning label. However, Proposition 65 does not require a warning if the manufacturer of a product can demonstrate that the use of that product exposes consumers to a daily quantity of a listed substance that is:

- below a "safe harbor" threshold that may be established;
- naturally occurring;
- the result of necessary cooking; or
- subject to another applicable exemption.

No Company beverages produced for sale in California are currently required to display warnings under this law. We are unable to predict whether a component found in a Company product might be added to the California list in the future, although the state has initiated a regulatory process in which caffeine and other natural occurring substances will be evaluated for listing. Furthermore, we are also unable to predict when or whether the increasing sensitivity of detection methodology may become applicable under this law and related regulations as they currently exist, or as they may be amended, might result in the detection of an infinitesimal quantity of a listed substance in a beverage of ours produced for sale in California.

Bottlers of our beverage products presently offer and use non-refillable, recyclable containers in the United States. Some of these bottlers also offer and use refillable containers, which are also recyclable. Legal requirements apply in various jurisdictions in the United States and overseas requiring deposits or certain taxes or fees be charged for the sale, marketing and use of certain non-refillable beverage containers. The precise requirements imposed by these measures vary. Other types of beverage container-related deposit, recycling, tax and/or product stewardship statutes and regulations also apply in various jurisdictions in the United States and overseas. We anticipate additional, similar legal requirements may be proposed or enacted in the future at local, state and federal levels, both in the United States and elsewhere.

All of our facilities and other operations in the United States are subject to various environmental protection statutes and regulations, including those relating to the use of water resources and the discharge of wastewater. Our policy is to comply with all such legal requirements. Compliance with these provisions has not had, and we do not expect such compliance to have, any material adverse effect on our capital expenditures, net income or competitive position.

Environmental Matters

Our primary cost pertaining to environmental compliance activity is in recycling fees and redemption values. We are required to collect redemption values from our customers and remit those redemption values to the state, based upon the number of bottles or cans of certain products sold in the state.

Our Employees

As of December 31, 2019, we have 28 full-time equivalent employees on our corporate staff.

We employ additional people on a part-time basis as needed. We have never participated in a collective bargaining agreement. We believe relations with our employees are good.

Available Information

We are subject to the reporting requirements of the Exchange Act and, accordingly, we file annual reports, quarterly reports and other information with the Securities and Exchange Commission, or SEC. Access to copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings with the SEC, including amendments to such filings, may be obtained free of charge from our website, http://www.reedsinc.com. These filings are available promptly after we file them with, or furnish them to, the SEC. We are not incorporating our website or any information from the website into this annual report. The SEC also maintains a website, http://www.sec.gov, that contains our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Report on Form 8-K and other filings with the SEC. Access to these filings is free of charge.

Item 1A. Risk Factors

The following are some of the risks and uncertainties that could cause our actual results to differ materially from those presented in our forward-looking statements. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business. All forward-looking statements in this document are based on information available to us as of the date hereof, and we assume no obligations to update any such forward-looking statements.

Risks Relating to Our Business

We have a history of operating losses.

For the year ended December 31, 2019, the Company recorded a net loss of $16,112 and used cash in operations of $18,161. As of December 31, 2019, we had a cash balance of $913 with borrowing capacity of $3,235, stockholders' equity of $1,147 and a working capital of $4,885, compared to a cash balance of $624, stockholder's deficit of $6,743 and working capital shortfall of $3,297 at December 31, 2018.

During the years ended December 31, 2019 and 2018, the Company experienced significant financing shortages and engaged in two separate transactions to raise capital in 2019. Recently, the Company received net proceeds of $14,867,257 from an underwritten offering of common stock in February 2019 and $7,474,441 from an underwritten offering of common stock in October 2019.

If we continue to suffer losses from operations, our working capital may be insufficient to support our ability to expand our business operations as rapidly as we would deem necessary at any time, unless we are able to obtain additional financing. There can be no assurance that we will be able to obtain such financing on acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to pursue our business objectives and would be required to reduce our level of operations, including reducing infrastructure, promotions, sales and marketing programs, personnel and other operating expenses. These events could adversely affect our business, results of operations and financial condition. If adequate funds are not available or if they are not available on acceptable terms, our ability to fund the growth of our operations, take advantage of opportunities, develop products or services or otherwise respond to competitive pressures, could be significantly limited.

We may need additional financing in the future, which may not be available when needed or may be costly and dilutive.

We may require additional financing to support our working capital needs in the future. The amount of additional capital we may require, the timing of our capital needs and the availability of financing to fund those needs will depend on a number of factors, including our strategic initiatives and operating plans, the performance of our business and the market conditions for debt or equity financing. Additionally, the amount of capital required will depend on our ability to meet our case sales goals and otherwise successfully execute our operating plan. We believe it is imperative to meet these sales objectives in order to lessen our reliance on external financing in the future. Although we believe various debt and equity financing alternatives will be available to us to support our working capital needs, financing arrangements on acceptable terms may not be available to us when needed. Additionally, these alternatives may require significant cash payments for interest and other costs or could be highly dilutive to our existing shareholders. Any such financing alternatives may not provide us with sufficient funds to meet our long-term capital requirements. If necessary, we may explore strategic transactions that we consider to be in the best interest of the Company and our shareholders, which may include, without limitation, public or private offerings of debt or equity securities, and other strategic alternatives; however, these options may not ultimately be available or feasible.

Our indebtedness and liquidity needs could restrict our operations and make us more vulnerable to adverse economic conditions.

Our existing indebtedness may adversely affect our operations and limit our growth, and we may have difficulty making debt service payments on such indebtedness as payments become due. We may also experience the occurrence of events of default or breach of financial covenants. If market or other economic conditions deteriorate, our ability to comply with these covenants may be impaired. If we violate any of the restrictions or covenants, a significant portion of our indebtedness may become immediately due and payable, our lenders' commitment to make further loans to us may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments.

Our secured credit facility with Rosenthal and Rosenthal, Inc. contains financial covenants that, if breached, could trigger default.

Pursuant to our Financing Agreement with Rosenthal & Rosenthal, Inc. ("Rosenthal") dated October 4, 2018 for our secured credit facility, we are required to maintain at the end of each of our fiscal quarters, tangible net worth in an amount not less than negative $1,500,000 and working capital of not less than negative $2,500,000. We did not meet these requirements for the fiscal quarter ended December 31, 2018, and Rosenthal waived compliance with these covenants for this period for a $5,000 fee. We have been in compliance since. Any breach that is not waived by Rosenthal could trigger default.

The recent global coronavirus outbreak could harm our business and results of operations.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses, including ours. This outbreak could decrease spending, adversely affect demand for our product and harm our business and results of operations. It is not possible for us to predict the duration or magnitude of the adverse results of the outbreak and its effects on our business or results of operations at this time.

Disruption within our supply chain, contract manufacturing or distribution channels could have an adverse effect on our business, financial condition and results of operations.

Our ability, through our suppliers, business partners, contract manufacturers, independent distributors and retailers, to produce, transport, distribute and sell products is critical to our success.

Damage or disruption to our suppliers or to manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemics such as COVD-19 and influenza, labor strikes or other reasons, could impair the manufacture, distribution and sale of our products. Many of these events are outside of our control. Failure to take adequate steps to protect against or mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations.

Our reliance on distributors, retailers and brokers could affect our ability to efficiently and profitably distribute and market our products, maintain our existing markets and expand our business into other geographic markets.

Our ability to maintain and expand our existing markets for our products, and to establish markets in new geographic distribution areas, is dependent on our ability to establish and maintain successful relationships with reliable distributors, retailers and brokers strategically positioned to serve those areas. Most of our distributors, retailers and brokers sell and distribute competing products and our products may represent a small portion of their businesses. The success of this network will depend on the performance of the distributors, retailers and brokers of this network. There is a risk that the mentioned entities may not adequately perform their functions within the network by, without limitation, failing to distribute to sufficient retailers or positioning our products in localities that may not be receptive to our product. Our ability to incentivize and motivate distributors to manage and sell our products is affected by competition from other beverage companies who have greater resources than we do. To the extent that our distributors, retailers and brokers are distracted from selling our products or do not employ sufficient efforts in managing and selling our products, including re-stocking the retail shelves with our products, our sales and results of operations could be adversely affected. Furthermore, such third-parties' financial position or market share may deteriorate, which could adversely affect our distribution, marketing and sales activities.

Our ability to maintain and expand our distribution network and attract additional distributors, retailers and brokers will depend on a number of factors, some of which are outside our control. Some of these factors include:

- the level of demand for our brands and products in a particular distribution area;

- our ability to price our products at levels competitive with those of competing products; and

- our ability to deliver products in the quantity and at the time ordered by distributors, retailers and brokers.

We may not be able to successfully manage all or any of these factors in any of our current or prospective geographic areas of distribution. Our inability to achieve success with regards to any of these factors in a geographic distribution area will have a material adverse effect on our relationships in that particular geographic area, thus limiting our ability to maintain or expand our market, which will likely adversely affect our revenues and financial results.

We incur significant time and expense in attracting and maintaining key distributors.

Our marketing and sales strategy depends in large part on the availability and performance of our independent distributors. We currently do not have, nor do we anticipate in the future that we will be able to establish, long-term contractual commitments from some of our distributors. We may not be able to maintain our current distribution relationships or establish and maintain successful relationships with distributors in new geographic distribution areas. Moreover, there is the additional possibility that we may have to incur additional expenditures to attract and maintain key distributors in one or more of our geographic distribution areas in order to profitably exploit our geographic markets.

If we lose any of our key distributors or national retail accounts, our financial condition and results of operations could be adversely affected.

We depend in large part on distributors to distribute our beverages and other products. Some of our outside distributors are not bound by written agreements with us and may discontinue their relationship with us on short notice. Some distributors handle a number of competitive products. In addition, our products are a small part of our distributors' businesses.

We continually seek to expand distribution of our products by entering into distribution arrangements with regional bottlers or other direct store delivery distributors having established sales, marketing and distribution organizations. Many of our distributors are affiliated with and manufacture and/or distribute other soda and non-carbonated brands and other beverage products. In many cases, such products compete directly with our products.

The marketing efforts of our distributors are important for our success. If our brands prove to be less attractive to our existing distributors and/or if we fail to attract additional distributors, and/or our distributors do not market and promote our products above the products of our competitors, our business, financial condition and results of operations could be adversely affected.

It is difficult to predict the timing and amount of our sales because our distributors are not required to place minimum orders with us.

Our independent distributors and national accounts are not required to place minimum monthly or annual orders for our products. In order to reduce their inventory costs, independent distributors typically order products from us on a “just in time” basis in quantities and at such times based on the demand for the products in a particular distribution area. Accordingly, we cannot predict the timing or quantity of purchases by any of our independent distributors or whether any of our distributors will continue to purchase products from us in the same frequencies and volumes as they may have done in the past. Additionally, our larger distributors and partners may make orders that are larger than we have historically been required to fill. Shortages in inventory levels, supply of raw materials or other key supplies could negatively affect us.

If we do not adequately manage our inventory levels, our operating results could be adversely affected.

We need to maintain adequate inventory levels to be able to deliver products to distributors on a timely basis. Our inventory supply depends on our ability to correctly estimate demand for our products. Our ability to estimate demand for our products is imprecise, particularly for new products, seasonal promotions and new markets. If we materially underestimate demand for our products or are unable to maintain sufficient inventory of raw materials, we might not be able to satisfy demand on a short-term basis. If we overestimate distributor or retailer demand for our products, we may end up with too much inventory, resulting in higher storage costs, increased trade spending and the risk of inventory spoilage. If we fail to manage our inventory to meet demand, we could damage our relationships with our distributors and retailers and could delay or lose sales opportunities, which would unfavorably impact our future sales and adversely affect our operating results. In addition, if the inventory of our products held by our distributors and retailers is too high, they will not place orders for additional products, which would also unfavorably impact our sales and adversely affect our operating results.

Our dependence on independent contract manufacturers could make management of our manufacturing and distribution efforts inefficient or unprofitable.

We are expected to arrange for our contract manufacturing needs sufficiently in advance of anticipated requirements, which is customary in the contract manufacturing industry for comparably sized companies. Based on the cost structure and forecasted demand for the particular geographic area where our contract manufacturers are located, we continually evaluate which of our contract manufacturers to use. To the extent demand for our products exceeds available inventory or the production capacity of our contract manufacturing arrangements, or orders are not submitted on a timely basis, we will be unable to fulfill distributor orders on demand. Conversely, we may produce more product inventory than warranted by the actual demand for it, resulting in higher storage costs and the potential risk of inventory spoilage. Our failure to accurately predict and manage our contract manufacturing requirements and our inventory levels may impair relationships with our independent distributors and key accounts, which, in turn, would likely have a material adverse effect on our ability to maintain effective relationships with those distributors and key accounts.

Increases in costs of packaging, ingredients and contract manufacturing tolling fees may have an adverse impact on our gross margin.

Over the past few years, costs of organic and natural ingredients have increased due to increased demand and required the Company to obtain these ingredients from a wider population of qualified vendors. Packaging costs such as paper and aluminum cans have experienced industry wide price increases in the past and there is always the risk that the company’s co-packers increase their toll rates based on increases in their fixed and variable costs. If the Company is unable to pass on these costs, the gross margin will be significantly impacted.

Increased market spending may not drive volume growth

The Company's marketing efforts in the past have been limited. The current increase in marketing spending may not generate an increase in sales volume resulting in a net decrease in gross revenue.

Increases in costs of energy and freight may have an adverse impact on our gross and operating margins.

Over the past few years, volatility in the global oil markets has resulted in high fuel prices, which many shipping companies have passed on to their customers by way of higher base pricing and increased fuel surcharges. With recent declines in fuel prices, some companies have been slow to pass on decreases in their fuel surcharges. If fuel prices increase again, we expect to experience higher shipping rates and fuel surcharges, as well as energy surcharges on our raw materials. It is hard to predict what will happen in the fuel markets in 2020. Due to the price sensitivity of our products, we may not be able to pass such increases on to our customers.

If we are unable to attract and retain key personnel, our efficiency and operations would be adversely affected.

Our success depends on our ability to attract and retain highly qualified employees in such areas as sales, marketing, product development, supply chain, finance and accounting. In general, we compete to hire new employees, and, in some cases, must train them and develop their skills and competencies. Our operating results could be adversely affected by increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs. Any unplanned turnover, particularly involving our key personnel, could negatively impact our operations, financial condition and employee morale.

If we fail to protect our trademarks and trade secrets, we may be unable to successfully market our products and compete effectively.

We rely on a combination of trademark and trade secrecy laws, confidentiality procedures and contractual provisions to protect our intellectual property rights. Failure to protect our intellectual property could harm our brand and our reputation, and adversely affect our ability to compete effectively. Further, enforcing or defending our intellectual property rights, including our trademarks, copyrights, licenses and trade secrets, could result in the expenditure of significant financial and managerial resources. We regard our intellectual property, particularly our trademarks and trade secrets, to be of considerable value and importance to our business and our success, and we actively pursue the registration of our trademarks in the United States and internationally. However, the steps taken by us to protect these proprietary rights may not be adequate and may not prevent third parties from infringing or misappropriating our trademarks, trade secrets or similar proprietary rights. In addition, other parties may seek to assert infringement claims against us, and we may have to pursue litigation against other parties to assert our rights. Any such claim or litigation could be costly. In addition, any event that would jeopardize our proprietary rights or any claims of infringement by third parties could have a material adverse effect on our ability to market or sell our brands, profitably exploit our products or recoup our associated research and development costs.

Litigation or legal proceedings could expose us to significant liabilities and damage our reputation.

We may become party to litigation claims and legal proceedings. Litigation involves significant risks, uncertainties and costs, including distraction of management attention away from our business operations. We evaluate litigation claims and legal proceedings to assess the likelihood of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we establish reserves and disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from those envisioned by our current assessments and estimates. Our policies and procedures require strict compliance by our employees and agents with all U.S. and local laws and regulations applicable to our business operations, including those prohibiting improper payments to government officials. Nonetheless, our policies and procedures may not ensure full compliance by our employees and agents with all applicable legal requirements. Improper conduct by our employees or agents could damage our reputation or lead to litigation or legal proceedings that could result in civil or criminal penalties, including substantial monetary fines, as well as disgorgement of profits.

We are subject to risks inherent in sales of products in international markets.

Our operations outside of the United States contribute to our revenue and profitability, and we believe that developing and emerging markets present important future growth opportunities for us. However, there can be no assurance that existing or new products that we manufacture, distribute or sell will be accepted or be successful in any particular foreign market, due to local or global competition, product price, cultural differences, consumer preferences or otherwise. Here are many factors that could adversely affect demand for our products in foreign markets, including our inability to attract and maintain key distributors in these markets; volatility in the economic growth of certain of these markets; changes in economic, political or social conditions, imposition of new or increased labeling, product or production requirements, or other legal restrictions; restrictions on the import or export of our products or ingredients or substances used in our products; inflationary currency, devaluation or fluctuation; increased costs of doing business due to compliance with complex foreign and U.S. laws and regulations. If we are unable to effectively operate or manage the risks associated with operating in international markets, our business, financial condition or results of operations could be adversely affected.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results.

The United States generally accepted accounting principles and related pronouncements, implementation guidelines and interpretations with regard to a wide variety of matters that are relevant to our business, such as, but not limited to, stock-based compensation, trade spend and promotions, and income taxes are highly complex and involve many subjective assumptions, estimates and judgments by our management. Changes to these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported results.

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 Item 9A – "Controls and Procedures" of this Form 10-K, 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 December 31, 2019.

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 the audit committee. However, there can be no assurance as to when these material weaknesses will be remediated or that additional material weaknesses will not arise in the future. Even effective internal control can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. Any failure to remediate the material weaknesses, or the development of new material weaknesses in our internal control over financial reporting, could result in material misstatements in our financial statements, which in turn could have a material adverse effect on our financial condition and the trading price of our common stock and we could fail to meet our financial reporting obligations.

If we are unable to build and sustain proper information technology infrastructure, our business could suffer.

We depend on information technology as an enabler to improve the effectiveness of our operations and to interface with our customers, as well as to maintain financial accuracy and efficiency. If we do not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure, we could be subject to transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of or damage to intellectual property through security breaches.

We could be subject to cybersecurity attacks.

Cybersecurity attacks are evolving and include malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in business processes, unauthorized release of confidential or otherwise protected information and corruption of data. Such unauthorized access could subject us to operational interruption, damage to our brand image and private data exposure, and harm our business.

Risks Factors Relating to Our Industry

The current aluminum can shortage could harm our ability to meet consumer demand.

As a craft beverage company, we do not meet volume requirements to have a contract in place with our aluminum can supplier. Craft beverage companies such as us are facing an aluminum can shortage for certain sizes. While standard 12 ounce can supply is not in short supply, we will continue to see supply issues with non-standard cans such as slim cans in 8, 10, and 12 ounces. This aluminum can shortage could harm our ability to timely produce enough product to meet consumer demand.

We may experience a reduced demand for some of our products due to health concerns (including obesity) and legislative initiatives against sweetened beverages.

Consumers are concerned about health and wellness; public health officials and government officials are increasingly vocal about obesity and its consequences. There has been a trend among some public health advocates and dietary guidelines to recommend a reduction in sweetened beverages, as well as increased public scrutiny, potential new taxes on sugar-sweetened beverages, and additional governmental regulations concerning the marketing and labeling/packing of the beverage industry. Additional or revised regulatory requirements, whether labeling, tax or otherwise, could have a material adverse effect on our financial condition and results of operations. Further, increasing public concern with respect to sweetened beverages could reduce demand for our beverages and increase desire for more low-calorie soft drinks, water, enhanced water, coffee-flavored beverages, tea, and beverages with natural sweeteners. We are continuously working to launch new products that round out our diversified portfolio.

Legislative or regulatory changes that affect our products could reduce demand for products or increase our costs.

Taxes imposed on the sale of certain of our products by federal, state and local governments in the United States, Canada or other countries in which we operate could cause consumers to shift away from purchasing our beverages. Several municipalities in the United States have implemented or are considering implementing taxes on the sale of certain "sugared" beverages, including non-diet soft drinks, fruit drinks, teas and flavored waters to help fund various initiatives. These taxes could materially affect our business and financial results.

Additional taxes levied on us could harm our financial results.

Recent legislative proposals to reform U.S. taxation of non-U.S. earnings could have a material adverse effect on our financial results by subjecting a significant portion of our non-U.S. earnings to incremental U.S. taxation and/or by delaying or permanently deferring certain deductions otherwise allowed in calculating our U.S. tax liabilities.

We compete in an industry that is brand-conscious, so brand name recognition and acceptance of our products are critical to our success.

Our business is substantially dependent upon awareness and market acceptance of our products and brands by our targeted consumers. In addition, our business depends on acceptance by our independent distributors of our brands as beverage brands that have the potential to provide incremental sales growth rather than reduce distributors' existing beverage sales. Although we believe that we have been relatively successful towards establishing our brands as recognizable brands in the all-natural "better for you" beverage industry, it may be too early in the product life cycle of these brands to determine whether our products and brands will achieve and maintain satisfactory levels of acceptance by independent distributors, retail customers and consumers. We believe that the success of our brands will also be substantially dependent upon acceptance of our product name brands. Accordingly, any failure of our brands to maintain or increase acceptance or market penetration would likely have a material adverse effect on our revenues and financial results.

Competition from traditional non-alcoholic beverage manufacturers may adversely affect our distribution relationships and may hinder development of our existing markets, as well as prevent us from expanding our markets.

We target a niche in the estimated $90 billion carbonated and non-carbonated soft drink markets in the US, Canada and international markets. Our brands are generally regarded as premium and natural, with upscale packaging and are loosely defined as the artisanal (craft), premium bottled carbonated soft drink category. The soft drink industry is highly fragmented, and the craft soft drink category consists of such competitors as IBC, Stewart's, Zevia, Henry Weinhard's, Hansen's, Izze, Boylan and Jones Soda, to name a few. These brands have the advantage of being seen widely in the national market and being commonly known for years through well-funded ad campaigns. Our products have a relatively high price for an artisanal premium beverage product, minimal mass media advertising to date and a small but growing presence in the mainstream market compared to some of our larger competitors.

The beverage industry is highly competitive. We compete with other beverage companies not only for consumer acceptance but also for shelf space in retail outlets and for marketing focus by our distributors, all of which also distribute other beverage brands. Our products compete with a wide range of drinks produced by a relatively large number of manufacturers, most of which have substantially greater financial, marketing and distribution resources than ours. Some of these competitors are placing pressure on independent distributors not to carry competitive sparkling brands such as ours. We also compete with regional beverage producers and "private label" soft drink suppliers.

Increased competitor consolidations, market-place competition, particularly among branded beverage products, and competitive product and pricing pressures could impact our earnings, market share and volume growth. If, due to such pressure or other competitive threats, we are unable to sufficiently maintain or develop our distribution channels, we may be unable to achieve our current revenue and financial targets. As a means of maintaining and expanding our distribution network, we intend to introduce new, innovative products and packages. We may not be successful in doing this and other companies may be more successful in this regard over the long term. Competition, particularly from companies with greater financial and marketing resources than ours, could have a material adverse effect on our existing markets, as well as on our ability to expand the market for our products.

We compete in an industry characterized by rapid changes in consumer preferences and public perception, so our ability to continue developing new products to satisfy our consumers' changing preferences will determine our long-term success.

Failure to introduce new products or product extensions into the marketplace as current ones mature and to meet our consumers' changing preferences could prevent us from gaining market share and achieving long-term profitability. Product lifecycles can vary, and consumers' preferences and loyalties change over time. Although we try to anticipate these shifts and innovate new products to introduce to our consumers, we may not succeed. Customer preferences also are affected by factors other than taste, such as health and nutrition considerations and obesity concerns, shifting consumer needs, changes in consumer lifestyles, increased consumer information and competitive product and pricing pressures. Sales of our products may be adversely affected by the negative publicity associated with these issues. If we do not adequately anticipate or adjust to respond to these and other changes in customer preferences, we may not be able to maintain and grow our brand image and our sales may be adversely affected.

Global economic conditions may continue to adversely impact our business and results of operations.

The beverage industry, and particularly those companies selling premium beverages, can be affected by macro-economic factors, including changes in national, regional, and local economic conditions, unemployment levels and consumer spending patterns, which together may impact the willingness of consumers to purchase our products as they adjust their discretionary spending. Adverse economic conditions may negatively impact the ability of our distributors to obtain the credit necessary to fund their working capital needs, which could negatively impact their ability or desire to continue to purchase products from us in the same frequencies and volumes as they have done in the past. If we experience adverse economic conditions in the future, sales of our products could be adversely affected, collectability of accounts receivable may be compromised, and we may face obsolescence issues with our inventory, any of which could have a material adverse impact on our operating results and financial condition.

If we encounter product recalls or other product quality issues, our business may suffer.

Product quality issues, real or imagined, or allegations of product contamination, even when false or unfounded, could tarnish our image and could cause consumers to choose other products. In addition, because of changing government regulations or implementation thereof, or allegations of product contamination, we may be required from time to time to recall products entirely or from specific markets. Product recalls could affect our profitability and could negatively affect brand image.

We could be exposed to product liability claims.

Although we have product liability and basic recall insurance, insurance coverage may not be sufficient to cover all product liability claims that may arise. To the extent our product liability coverage is insufficient, a product liability claim would likely have a material adverse effect upon our financial condition. In addition, any product liability claim brought against us may materially damage the reputation and brand image of our products and business.

Our business is subject to many regulations and noncompliance is costly.

The production, marketing and sale of our beverages, including contents, labels, caps and containers, are subject to the rules and regulations of various federal, provincial, state and local health agencies. If a regulatory authority finds that a current or future product or production run is not in compliance with any of these regulations, we may be fined, or production may be stopped, which would adversely affect our financial condition and results of operations. Similarly, any adverse publicity associated with any noncompliance may damage our reputation and our ability to successfully market our products. Furthermore, the rules and regulations are subject to change from time to time and while we closely monitor developments in this area, we cannot anticipate whether changes in these rules and regulations will impact our business adversely. Additional or revised regulatory requirements, whether labeling, environmental, tax or otherwise, could have a material adverse effect on our financial condition and results of operations.

Significant additional labeling or warning requirements may inhibit sales of affected products.

Various jurisdictions may seek to adopt significant additional product labeling or warning requirements relating to the chemical content or perceived adverse health consequences of certain of our products. These types of requirements, if they become applicable to one or more of our products under current or future environmental or health laws or regulations, may inhibit sales of such products. In California, a law requires that a specific warning appear on any product that contains a component listed by the state as having been found to cause cancer or birth defects. This law recognizes no generally applicable quantitative thresholds below which a warning is not required. If a component found in one of our products is added to the list, or if the increasing sensitivity of detection methodology that may become available under this law and related regulations as they currently exist, or as they may be amended, results in the detection of an infinitesimal quantity of a listed substance in one of our beverages produced for sale in California, the resulting warning requirements or adverse publicity could affect our sales.

We may not be able to develop successful new beverage products, which are important to our growth.

An important part of our strategy is to increase our sales through the development of new beverage products. We cannot provide assurance that we will be able to continue to develop, market and distribute future beverage products that will enjoy market acceptance. The failure to continue to develop new beverage products that gain market acceptance could have an adverse impact on our growth and materially adversely affect our financial condition. We may have higher obsolescent product expense if new products fail to perform as expected due to the need to write off excess inventory of the new products.

Our results of operations may be impacted in various ways by the introduction of new products, even if they are successful, including the following:

- sales of new products could adversely impact sales of existing products;

- we may incur higher cost of goods sold and selling, general and administrative expenses in the periods when we introduce new products due to increased costs associated with the introduction and marketing of new products, most of which are expensed as incurred; and

- when we introduce new platforms and package sizes, we may experience increased freight and logistics costs as our co-packers adjust their facilities for the new products.

The growth of our revenues is dependent on acceptance of our products by mainstream consumers.

We have dedicated significant resources to introduce our products to the mainstream consumer. As such, we have increased our sales force and executed agreements with distributors who, in turn, distribute to mainstream consumers at grocery stores and other retailers. If our products are not accepted by the mainstream consumer, our business could suffer.

Our failure to accurately estimate demand for our products could adversely affect our business and financial results.

We may not correctly estimate demand for our products. Our ability to estimate demand for our products is imprecise, particularly with new products, and may be less precise during periods of rapid growth, particularly in new markets. If we materially underestimate demand for our products or are unable to secure sufficient ingredients or raw materials including, but not limited to, glass, cans, cartons, labels, flavors or packing arrangements, we might not be able to satisfy demand on a short-term basis. Furthermore, industry-wide shortages of certain juice concentrates and sweeteners have been and could, from time to time in the future, be experienced, which could interfere with and/or delay production of certain of our products and could have a material adverse effect on our business and financial results. We do not use hedging agreements or alternative instruments to manage this risk.

The loss of our largest customers would substantially reduce revenues.

Our customers are material to our success. If we are unable to maintain good relationships with our existing customers, our business could suffer.

During the year ended December 31, 2019, the Company had two broker/distributors that accounted for approximately 12% and 11% of its sales, respectively; and during the year ended December 31, 2018, the Company had two broker/distributors that accounted for 24% and 17% of its sales, respectively. These two broker/distributors serve hundreds if not thousands of various retail chains and end customers.

No other customer exceeded 10% of sales for either period.

The loss of our largest vendors would substantially reduce revenues.

Our vendors are important to our success. If we are unable to maintain good relationships with our existing vendors, our business could suffer.

During the year ended December 31, 2019, the Company's largest three vendors accounted for approximately 12%, 11%, and 10% of its purchases, respectively. During the year ended December 31, 2018, the Company's largest two vendors accounted for 16% and 13% of its purchases, respectively.

As of December 31, 2019, the Company's largest three vendors accounted for 19%, 15% and 14% of the total accounts payable, respectively. As of December 31, 2018, one vendor accounted for 24% of total accounts payable.

No other account was more than 10% of the balance of accounts payable in either period.

The loss of our third-party distributors could impair our operations and substantially reduce our financial results.

We depend in large part on distributors to distribute our beverages and other products. Some of our outside distributors are not bound by written agreements with the Company and may discontinue their relationship with us on short notice. Some distributors handle a number of competitive products. In addition, our products are a small part of our distributors' businesses.

We continually seek to expand distribution of our products by entering into distribution arrangements with regional bottlers or other direct store delivery distributors having established sales, marketing and distribution organizations. Many of our distributors are affiliated with and manufacture and/or distribute other soda and non-carbonated brands and other beverage products. In many cases, such products compete directly with our products.

The marketing efforts of our distributors are important for our success. If our brands prove to be less attractive to our existing distributors and/or if we fail to attract additional distributors, and/or our distributors do not market and promote our products above the products of our competitors, our business, financial condition and results of operations could be adversely affected.

Price fluctuations in, and unavailability of, raw materials and packaging that we use could adversely affect us.

We do not enter into hedging arrangements for raw materials. Although the prices of raw materials that we use have not increased significantly in recent years, our results of operations would be adversely affected if the price of these raw materials were to rise and we were unable to pass these costs on to our customers.

We depend upon an uninterrupted supply of the ingredients for our products, a significant portion of which we obtain overseas, principally from Peru, Fiji and Indonesia. We do not have agreements guaranteeing supply of our ingredients. Any decrease in the supply of these ingredients or increase in the prices of these ingredients as a result of any adverse weather conditions, pests, crop disease, interruptions of shipment or political considerations, among other reasons, could substantially increase our costs and adversely affect our financial performance.

We also depend upon an uninterrupted supply of packaging materials, such as glass, cans and paper items. We obtain bottles both domestically and internationally. Any decrease in supply of these materials or increase in the prices of the materials, as a result of decreased supply or increased demand, could substantially increase our costs and adversely affect our financial performance.

The loss of any of our co-packers could impair our operations and substantially reduce our financial results.

We rely on third parties, called co-packers in our industry, to produce our beverages.

During the years ended December 31, 2019 and 2018, the Company had utilized four and three, respectively, separate US based co-packers for most its production needs. Although there are other packers that could produce the Company's beverages, a change in packers may cause a delay in the production process, which could ultimately affect operating results.

Our co-packing arrangements with other companies are on a short-term basis and such co-packers may discontinue their relationship with us on short notice. Our co-packing arrangements expose us to various risks, including:

- if any of those co-packers were to terminate our co-packing arrangement or have difficulties in producing beverages for us, our ability to produce our beverages would be adversely affected until we were able to make alternative arrangements; and

- our business reputation would be adversely affected if any of the co-packers were to produce inferior quality.

We believe that we have substantially reduced this risk by reducing our reliance upon any single co-packer. We are in discussion and negotiation with additional co-packers to ensure added capability for future production needs.

We compete in an industry characterized by rapid changes in consumer preferences and public perception, so our ability to continue to market our existing products and develop new products to satisfy our consumers' changing preferences will determine our long-term success.

Consumers are seeking greater variety in their beverages. Our future success will depend, in part, upon our continued ability to develop and introduce different and innovative beverages. In order to retain and expand our market share, we must continue to develop and introduce different and innovative beverages and be competitive in the areas of quality and health, although there can be no assurance of our ability to do so. There is no assurance that consumers will continue to purchase our products in the future. Additionally, many of our products are considered premium products and to maintain market share during recessionary periods, we may have to reduce profit margins, which would adversely affect our results of operations. In addition, there is increasing awareness and concern for the health consequences of obesity. This may reduce demand for our non-diet beverages, which could affect our profitability. Product lifecycles for some beverage brands and/or products and/or packages may be limited to a few years before consumers' preferences change. The beverages we currently market are in varying stages of their lifecycles and there can be no assurance that such beverages will become or remain profitable for us. The beverage industry is subject to changing consumer preferences and shifts in consumer preferences may adversely affect us if we misjudge such preferences. We may be unable to achieve volume growth through product and packaging initiatives. We also may be unable to penetrate new markets. If our revenues decline, our business, financial condition and results of operations will be materially and adversely affected.

Our quarterly operating results may fluctuate because of the seasonality of our business.

Our highest revenues occur during the summer and fall, the third and fourth quarters of each fiscal year. These seasonality issues may cause our financial performance to fluctuate. In addition, beverage sales can be adversely affected by sustained periods of bad weather.

Our manufacturing process is not patented.

None of the manufacturing processes used in producing our products are subject to a patent or similar intellectual property protection. Our only protection against a third party using our recipes and processes is confidentiality agreements with the companies that produce our beverages and with our employees who have knowledge of such processes. If our competitors develop substantially equivalent proprietary information or otherwise obtain access to our knowledge, we will have greater difficulty in competing with them for business, and our market share could decline.

If we are not able to retain the full-time services of our management team, it will be more difficult for us to manage our operations and our operating performance could suffer.

Our business is dependent, to a large extent, upon the services of our management team. We do have a written employment agreement with two of five members of our management team. In addition, we do not maintain key person life insurance on any of our management team. Therefore, in the event of the loss or unavailability of any member of the management team to us, there can be no assurance that we would be able to locate in a timely manner or employ qualified personnel to replace him or her. The loss of the services of any member of our management team or our failure to attract and retain other key personnel over time would jeopardize our ability to execute our business plan and could have a material adverse effect on our business, results of operations and financial condition.

The price of our common stock may be volatile, and a shareholder's investment in our common stock could suffer a decline in value.

There has been significant volatility in the volume and market price of our common stock, and this volatility may continue in the future. In addition, factors such as quarterly variations in our operating results, litigation involving us, general trends relating to the beverage industry, actions by governmental agencies, national economic and stock market considerations as well as other events and circumstances beyond our control could have a significant impact on the future market price of our common stock and the relative volatility of such market price.

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. If we are unable to raise the funds required for all of our planned operations and key initiatives, we may be forced to allocate funds from other planned uses, which may negatively impact our business and operations, including our ability to develop new products and continue our current operations.

Many factors that are beyond our control may significantly affect the market price of our shares. These factors include:

- price and volume fluctuations in the stock markets;
- changes in our revenues and earnings or other variations in operating results;
- any shortfall in revenue or increase in losses from levels expected by us or securities analysts;
- changes in regulatory policies or law;
- operating performance of companies comparable to us; and
- general economic trends and other external factors.

Even if an active market for our common stock is established, stockholders may have to sell their shares at prices substantially lower than the price they paid for them or might otherwise receive than if a broad public market existed.

There has been a very limited public trading market for our securities and the market for our securities may continue to be limited, and be sporadic and highly volatile.

There is currently a limited public market for our common stock. Holders of our common stock may, therefore, have difficulty selling their shares, should they decide to do so. In addition, there can be no assurances that such markets will continue or that any shares which may be purchased, may be sold without incurring a loss. Any such market price of our shares may not necessarily bear any relationship to our book value, assets, past operating results, financial condition or any other established criteria of value, and may not be indicative of the market price for the shares in the future.

Future financings could adversely affect common stock ownership interest and rights in comparison with those of other security holders.

Our board of directors has the power to issue additional shares of common or preferred stock up to the amounts authorized in our certificate of incorporation without stockholder approval, subject to restrictive covenants contained in the Company's contracts. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our existing stockholders will be reduced, and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we issue any additional common stock or securities convertible into common stock, such issuance will reduce the proportionate ownership and voting power of each other stockholder. In addition, such stock issuances might result in a reduction of the book value of our common stock. Any increase of the number of authorized shares of common stock or preferred stock would require board and shareholder approval and subsequent amendment to our certificate of incorporation.

Alcohol Risk Factors

Demand for our products may be adversely affected by many factors, including changes in consumer preferences and trends.

Consumer preferences may shift due to a variety of factors including changes in demographic and social trends, public health initiatives, product innovations, changes in vacation or leisure activity patterns and a downturn in economic conditions, which may reduce consumers' willingness to purchase distilled spirits or cause a shift in consumer preferences away from ginger beer based cocktails toward beer, wine or non-alcoholic beverages. Our success depends in part on fulfilling available opportunities to meet consumer needs and anticipating changes in consumer preferences with successful new products and product innovations. The competitive position of our brands could also be affected adversely by any failure to achieve consistent, reliable quality in the product or in service levels to customers.

We face substantial competition in our industry and many factors may prevent us from competing successfully.

We compete based on product taste and quality, brand image, price, service and ability to innovate in response to consumer preferences. The global spirits industry is highly competitive and is dominated by several large, well-funded international companies. It is possible that our competitors may either respond to industry conditions or consumer trends more rapidly or effectively or resort to price competition to sustain market share, which could adversely affect our sales and profitability.

Adverse public opinion about alcohol could reduce demand for our products.

Anti-alcohol groups have, in the past, advocated successfully for more stringent labeling requirements, higher taxes and other regulations designed to discourage alcohol consumption. More restrictive regulations, negative publicity regarding alcohol consumption and/or changes in consumer perceptions of the relative healthfulness or safety of beverage alcohol could decrease sales and consumption of alcohol and thus the demand for our products. This could, in turn, significantly decrease both our revenues and our revenue growth, causing a decline in our results of operations.

Class action or other litigation relating to alcohol abuse or the misuse of alcohol could adversely affect our business.

Companies in the beverage alcohol industry are, from time to time, exposed to class action or other litigation relating to alcohol advertising, product liability, alcohol abuse problems or health consequences from the misuse of alcohol. It is also possible that governments could assert that the use of alcohol has significantly increased government funded health care costs. Litigation or assertions of this type have adversely affected companies in the tobacco industry, and it is possible that we, as well as our suppliers, could be named in litigation of this type.

Also, lawsuits have been brought in a number of states alleging that beverage alcohol manufacturers and marketers have improperly targeted underage consumers in their advertising. Plaintiffs in these cases allege that the defendants' advertisements, marketing and promotions violate the consumer protection or deceptive trade practices statutes in each of these states and seek repayment of the family funds expended by the underage consumers. While we have not been named in these lawsuits, we could be named in similar lawsuits in the future. Any class action or other litigation asserted against us could be expensive and time-consuming to defend against, depleting our cash and diverting our personnel resources and, if the plaintiffs in such actions were to prevail, our business could be harmed significantly.

Regulatory decisions and legal, regulatory and tax changes could limit our business activities, increase our operating costs and reduce our margins.

Our business is subject to extensive regulation in all of the countries in which we operate. This may include regulations regarding production, distribution, marketing, advertising and labeling of beverage alcohol products. We are required to comply with these regulations and to maintain various permits and licenses. We are also required to conduct business only with holders of licenses to import, warehouse, transport, distribute and sell beverage alcohol products. We cannot assure you that these and other governmental regulations applicable to our industry will not change or become more stringent. Moreover, because these laws and regulations are subject to interpretation, we may not be able to predict when and to what extent liability may arise. Additionally, due to increasing public concern over alcohol-related societal problems, including driving while intoxicated, underage drinking, alcoholism and health consequences from the abuse of alcohol, various levels of government may seek to impose additional restrictions or limits on advertising or other marketing activities promoting beverage alcohol products. Failure to comply with any of the current or future regulations and requirements relating to our industry and products could result in monetary penalties, suspension or even revocation of our licenses and permits. Costs of compliance with changes in regulations could be significant and could harm our business, as we could find it necessary to raise our prices to maintain profit margins, which could lower the demand for our products and reduce our sales and profit potential.

Also, the distribution of beverage alcohol products is subject to extensive taxation both in the U.S. and internationally (and, in the U.S., at both the federal and state government levels), and beverage alcohol products themselves are the subject of national import and excise duties in most countries around the world. An increase in taxation or in import or excise duties could also significantly harm our sales revenue and margins, both through the reduction of overall consumption and by encouraging consumers to switch to lower-taxed categories of beverage alcohol.

CBD/Hemp Extract Risk Factors

Our CBD initiative may not materialize or develop as planned due to business and regulatory factors.

Our CBD initiative may not materialize or develop as planned due a myriad of business and regulatory factors. For example, many companies are entering the CBD space and competition for market share and acceptance of new products will be significant.

Negative press from having a hemp or cannabis-related line of business could have a material adverse effect on our business, financial condition, and results of operations.

There is a misconception that hemp and marijuana, which both belong to the cannabis family, are the same thing, but industrial hemp is roughly defined as a cannabis plant with not more than 0.3 percent THC content on a dry-weight basis. Any hemp oil or hemp derivative we use will comport with this definition of less than 0.3% THC. Despite this, we may still receive negative attention from regulatory bodies, the press, business clients, or partners, grounded in these broad misconceptions, and this in turn can materially adversely affect our business.

Possible yet unanticipated changes in federal law could cause our products which include cannabis/industrial hemp CBD extracts to be illegal, or could otherwise prohibit, limit or restrict our business and products, forcing us to abandon our business activities or reduce our financial prospects.

The move toward ending hemp prohibition and the reemergence of a hemp economy began with the 2014 Farm Bill, which provided states with opportunities to create pilot programs for hemp research. The Agricultural Improvement Act of 2018 ("2018 Bill") was signed into law at the end of December 2018 and expands on the 2014 Farm Bill. The 2018 Bill removes "hemp" from the definition of "Marihuana" in the Controlled Substances Act, decriminalizes the plant and its components, and as a result, transfers oversight of the cultivation and sale of the crop from the Drug Enforcement Administration to the Department of Agriculture. The net result of the 2018 Bill's passage is that farmers and entrepreneurs gain several significant benefits, in addition to ending the uncertainty of criminal exposure for growing, processing or selling hemp:

- Federal licensing for farmers wishing to grow hemp in states that don't have a pilot program
- Clarification that interstate commerce in hemp is permitted
- Placing oversight of hemp with the USDA
- Including hemp in the Federal Crop Insurance Act.

These provisions will go a long way toward helping the industry by clarifying existing gray areas of law, creating certainty around transport and interstate sale, and normalizing hemp as an industrial crop. However, there can be no assurance that Federal laws ending hemp prohibition will not be modified or repealed. In the event of either repeal of Federal regulations, or of amendments thereto which are adverse to our business and products, we may be required to cease operations or restrict or limit our products or the distribution thereof, which could be expected to have adverse consequences to our business, operations, revenues and profitability.

Sources of our key ingredient, CBD extracts from cannabis/industrial hemp plants, depend upon legality of cultivation, processing, marketing and sales of products derived from those plants.

Our key ingredient is broad spectrum CBD extracts derived from cannabis/industrial hemp plants. CBD may be legally produced in states which have laws and regulations that qualify under 7 US Code §5940 for implementation of "agricultural pilot programs to study the growth, cultivation or marketing of industrial hemp", apart from state laws legalizing and regulating medical and recreational cannabis or marijuana which remains illegal under federal law. In addition, Federal licensing for farmers wishing to grow hemp in states that don't have a pilot program is now available as a result of the 2018 Bill. If we were to be unsuccessful in arranging new sources of supply of our raw ingredients, or if our raw ingredients were to become legally unavailable, our business and operations could be limited, restricted or entirely prohibited, which could be expected to have adverse consequences to our business, operations, revenues and profitability.

We may have difficulty accessing the service of banks which may make it difficult for us to operate.

Many banks have not historically accepted deposits from and credit card processors will not clear transactions for businesses involved with the broadly defined cannabis industry, notwithstanding the legality of cannabis/industrial hemp derived products. While the 2018 Bill is expected to alleviate this hindrance, we may still have difficulty finding a bank and credit card processor willing to accept our business. The inability to open or maintain bank accounts or accept credit card payments from customers could be expected to cause us difficulty processing transactions in the ordinary course of business, including paying suppliers, employees and landlords, which could have a significant negative effect on our operations and your investment in our common stock.

Risk Factors Related to Our Common Stock

If we are not able to achieve our objectives for our business, the value of an investment in our Company could be negatively affected.

In order to be successful, we believe that we must, among other things:

- increase the volume for our products
- continue to find savings in our cost of goods (co-packer fees, packaging and ingredients);
- expand the number of co-packers for our core and innovation products;
- continue to recruit and retain top talent;
- drive increased awareness through our brand pull campaigns, and trial and repeat purchase of our core brands;
- drive increased SKU placement on shelf, and open new outlets of retail distribution through our investment in sales resources, partnerships and trade marketing support;
- manage our operating expenses to sufficiently support operating activities and
- avoid significant increases in variable costs relating to production, marketing and distribution.

We may not be able to meet these objectives, which could have a material adverse effect on our results of operations. We have incurred significant operating expenses in the past and may do so again in the future and, as a result, will need to increase revenues in order to improve our results of operations. Our ability to increase sales volume will depend primarily on success in marketing initiatives with industry brokers, improving our distribution base with DSD companies, introducing new no sugar brands, and focusing on the existing core brands in the market. Our ability to successfully enter new distribution areas and obtain national accounts will, in turn, depend on various factors, many of which are beyond our control, including, but not limited to, the continued demand for our brands and products in target markets, the ability to price our products at competitive levels, the ability to establish and maintain relationships with distributors in each geographic area of distribution and the ability in the future to create, develop and successfully introduce one or more new brands, products, and product extensions.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, shares of undesignated preferred stock;
- specify that special meetings of our stockholders can be called only upon the request of a majority of our board of directors or our Chief Executive Officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors; and
- prohibit cumulative voting in the election of directors.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management, and may discourage, delay or prevent a transaction involving a change of control of our Company that is in the best interest of our minority stockholders. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging future takeover attempts.

Furthermore, we are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a three-year period following the time that this stockholder becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A “business combination” includes, among other things, a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. An “interested stockholder” is a person who, together with affiliates and associates, owns, or did own within three years prior to the determination of interested stockholder status, 15% or more of the corporation’s voting stock. Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions:

- before the stockholder became interested, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, shares owned by persons who are directors and also officers, and employee stock plans, in some instances; or

- at or after the time the stockholder became interested, the business combination was approved by the board of directors of the corporation and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

The existence of this provision may have an anti-takeover effect with respect to transactions the Company’s board of directors does not approve in advance. Section 203 may also discourage attempts that might result in a premium over the market price for the shares of Common Stock held by stockholders.

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

Raptor/ Harbor Reeds SPV LLC (“Raptor), our largest shareholder, holds approximately 5% of our outstanding common stock and beneficially owns approximately 15% of our common stock and may greatly influence the outcome of all matters on which stockholders vote.

Because Raptor holds approximately 5% of our outstanding common stock and beneficially owns approximately 15% of our common stock, it may greatly influence the outcome of all matters on which stockholders vote. Daniel J. Doherty III, a principal and shareholder of Raptor also serves as a director of Reed’s. Raptor is a secured creditor of Reed’s and its interests may not always coincide with the interests of other holders of our common stock. (Beneficial ownership is calculated pursuant to Section 13d-3 of the Securities Exchange Act of 1934, as amended, and includes shares underlying derivative securities which may be exercised or converted within 60 days.)

Collectively, members of our board of directors and our executive officers hold approximately 17% of the Company’s outstanding common stock, beneficially own approximately 26% of our common stock and may greatly influence the outcome of all matters on which stockholders vote.

Collectively, members of our board of directors and our executive officers hold approximately 17% of our outstanding common stock and beneficially own approximately 26% of our common stock. Of these percentages, Daniel J. Doherty III, a director of Reed’s, as principal and shareholder of Raptor beneficially owns approximately 15% of our common stock. Members of our board of directors and our executive officers may influence the outcome of certain matters on which stockholders vote. (Beneficial ownership is calculated pursuant to Section 13d-3 of the Securities Exchange Act of 1934, as amended, and includes shares underlying derivative securities which may be exercised or converted within 60 days.)

Raptor's interests may not always coincide with the interests of other holders of our common stock.

Raptor is a secured creditor of Reed's, holding a subordinated note with a principal balance of $3,400,000 and additional reserved principal amount of $4,000,000 to cover the permitted over-advance under Rosenthal's $13,000,0000 credit facility. Raptor's security interest is subordinate to Rosenthal's first priority security interest. The $4,000,000 permitted over-advance is guaranteed by Daniel J. Doherty III and Daniel J. Doherty III 2002 Family Trust through the issuance of an irrevocable stand-by-letter of credit in favor of Rosenthal, in amount not less than $1,500,000. The permitted over-advance is secured by all of Reed's intellectual property collateral. In the event of default under Reed's financing agreement with Rosenthal, Raptor has a put option to purchase the entire aggregate amount of the outstanding permitted over-advance of up to $4,000,000 at par plus accrued interest (without regard to any prepayment penalty or premium) from Rosenthal, prior to Rosenthal declaring a default under the financing agreement. If Raptor exercises the option, Rosenthal will release its first priority security interest on all intellectual property collateral of the Company to Raptor and terminate the letter of credit. As such, Raptor's interests may not always coincide with the interests of other holders of Reed's common stock.

If securities analysts or industry analysts downgrade our shares, publish negative research or reports, or do not publish reports about our business, our share price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us, our business and our industry. If one or more analysts adversely change their recommendation regarding our shares or our competitors' stock, our share price would likely decline. If one or more analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our share price or trading volume to decline. As a result, the market price for our common stock may decline.

We have the ability to issue additional shares of our common stock and shares of preferred stock without asking for stockholder approval, which could cause your investment to be diluted.

Our Articles of Incorporation authorize the Board of Directors to issue up to 100,000,000 shares of common stock and up to 500,000 shares of preferred stock. The power of the Board of Directors to issue shares of common stock, preferred stock or warrants or options to purchase shares of common stock or preferred stock is generally not subject to stockholder approval. Accordingly, any additional issuance of our common stock, or preferred stock that may be convertible into common stock, may have the effect of diluting your investment, and the new securities may have rights, preferences and privileges senior to those of our common stock.

Substantial sales of our stock may impact the market price of our common stock.

Future sales of substantial amounts of our common stock, including shares that we may issue upon exercise of options and warrants, could adversely affect the market price of our common stock. Further, if we raise additional funds through the issuance of common stock or securities convertible into or exercisable for common stock, the percentage ownership of our stockholders will be reduced, and the price of our common stock may fall.

Our common stock is thinly traded, and investors may be unable to sell some or all of their shares at the price they would like, or at all, and sales of large blocks of shares may depress the price of our common stock.

Our common stock has historically been sporadically or "thinly-traded," meaning that the number of persons interested in purchasing shares of our common stock at prevailing prices at any given time may be relatively small or nonexistent. As a consequence, there may be periods of several days or more when trading activity in shares of our common stock is minimal or non-existent, as compared to a seasoned issuer that has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. This could lead to wide fluctuations in our share price. Investors may be unable to sell their common stock at or above their purchase price, which may result in substantial losses. Also, as a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of shares of our common stock in either direction. The price of shares of our common stock could, for example, decline precipitously in the event a large number of shares of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer that could better absorb those sales without adverse impact on its share price.

We do not intend to pay any cash dividends on our shares of common stock in the near future, so our shareholders will not be able to receive a return on their shares unless they sell their shares.

We intend to retain any future earnings to finance the development and expansion of our business. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. There is no assurance that future dividends will be paid, and if dividends are paid, there is no assurance with respect to the amount of any such dividend. Unless we pay dividends, our shareholders will not be able to receive a return on their shares unless they sell such shares.

Item 2. Property

Effective September 1, 2018, the Company leases 8,620 square feet of office space in Norwalk, Connecticut, which serves as our principal executive offices. The lease is for a period of 6.5 years.

Item 3. Legal Proceedings

From time to time, we are a party to claims and legal proceedings arising in the ordinary course of business. Our management evaluates our exposure to these claims and proceedings individually and in the aggregate and provides for potential losses on such litigation if the amount of the loss is estimable and the loss is probable.

We believe that there are no material litigation matters at the current time. Although the results of such litigation matters and claims cannot be predicted with certainty, we believe that the final outcome of such claims and proceedings will not have a material adverse impact on our financial position, liquidity, or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

We voluntarily withdrew the principal listing of our common stock, par value $0.0001 per share from the NYSE American, LLC and transferred the listing to The Nasdaq Stock Market, LLC. The listing and trading of our common stock on the NYSE American, LLC ended at market close on May 9, 2019 and that trading began on the Nasdaq Capital Market at market open on May 10, 2019 under the stock symbol “REED”.

On December 16, 2019, the shareholders of the Company approved an increase in the number of authorized shares of common stock from 70 million to 100 million. As of December 31, 2019, there were approximately 5,000 holders of record of the common stock (including only non-objecting beneficial owners of record) and 47,595,206 outstanding shares of common stock.

Unregistered Sales of Equity Securities

During the year ended December 31, 2019, we paid dividends on Series A Preferred Stock through the issuance of 4,254 shares of common stock. These equity securities were not registered under the Securities Act.

Securities Authorized for Issuance under Equity Compensation Plans

2007 Stock Option Plan, 2015 Incentive and Non-statutory and Stock Option Plan, and the Second Amended and Restated 2017 Incentive Compensation plan

On October 8, 2007, our board of directors adopted the 2007 Stock Option Plan for 1,500,000 shares and the plan was approved by our stockholders on November 19, 2007. On December 30, 2015, the 2015 Incentive and Non-statutory Stock Option Plan for 500,000 shares was approved by our shareholders. Options issued and subsequently forfeited under the 2015 plan cannot be reissued. In 2017 the 2007 plan expired, and no new options will be granted under the plan. On September 29, 2017, the 2017 Compensation Plan for 3,000,000 shares was approved by our shareholders. On December 13, 2018 the Amended and Restated 2017 Incentive Compensation Plan was approved by our shareholders increasing the number of shares issuable by 3,500,000 to 6,500,000. On December 16, 2019, the Second Amended and Restated 2017 Incentive Compensation Plan was approved by our shareholders, increasing the number of shares issuable by 1,000,000 to 7,500,000. Options issued and forfeited under the Second Amended and Restated 2017 Incentive Compensation Plan contain an evergreen provision and cannot be re-priced without shareholder approval.

The plans permit the grant of options and stock awards to our employees, directors and consultants. The options may constitute either "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code or "non-qualified stock options". The primary difference between "incentive stock options" and "non-qualified stock options" is that once an option is exercised, the stock received under an "incentive stock option" has the potential of being taxed at the more favorable long-term capital gains rate, while stock received by exercising a "non-qualified stock option" is taxed according to the ordinary income tax rate schedule.

The plans are currently administered by the compensation committee of the board of directors. The plan administrator has full and final authority to select the individuals to receive options and to grant such options as well as a wide degree of flexibility in determining the terms and conditions of options, including vesting provisions.

The exercise price of an option granted under the plan cannot be less than 100% of the fair market value per share of common stock on the date of the grant of the option. The exercise price of an incentive stock option granted to a person owning more than 10% of the total combined voting power of the common stock must be at least 110% of the fair market value per share of common stock on the date of the grant. Options may not be granted under the plan on or after the tenth anniversary of the adoption of the plan. Incentive stock options granted to a person owning more than 10% of the combined voting power of the common stock cannot be exercisable for more than five years.

When an option is exercised, the purchase price of the underlying stock will be paid in cash, except that the plan administrator may permit the exercise price to be paid in any combination of cash, shares of stock having a fair market value equal to the exercise price, or as otherwise determined by the plan administrator.

If an optionee ceases to be an employee, director, or consultant with us, other than by reason of death, disability or retirement, all vested options must be exercised within three months following such event. However, if an optionee's employment or consulting relationship with us terminates for cause, or if a director of ours is removed for cause, all unexercised options will terminate immediately. If an optionee ceases to be an employee or director of, or a consultant to us, by reason of death, disability, or retirement, all vested options may be exercised within one year following such event or such shorter period as is otherwise provided in the related agreement.

For the 2015 plan, when a stock option expires or is terminated before it is exercised, the shares are canceled and cannot be reissued. For the Second Amended and Restated 2017 Incentive Compensation Plan, when a stock option expires or is terminated before it is exercised, the shares are not replenished. The option strike price cannot be re-priced without shareholder approval.

No option can be granted under any plan after ten years following the earlier of the date the plan was adopted by the board of directors or the date the plan was approved by our stockholders.

Equity Compensation Plan

The following table provides information, as of December 31, 2019, with respect to equity securities authorized for issuance under compensation plans:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in Column (a)
Equity compensation plans approved by security holders	3,265,580	$ 2.19	3,436,864
Equity compensation plans not approved by security holders	-	$ -	-
TOTAL	3,265,580	$ 2.19	3,436,864

During 2020, our independent directors are expected to be issued restricted stock awards valued at $25,000 pursuant to the Second Amended and Restated 2017 Incentive Compensation Plan, in quarterly installments.

Item 6. Selected Financial Data

As a smaller reporting company, Reed’s is not required to provide the information required by this Item 6.

Item 7. 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 Annual Report. This discussion and analysis may contain forward-looking statements based on assumptions about our future business. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to those set forth under “Risk Factors” and elsewhere in this Annual Report.

Amounts presented in the discussion below are in thousands, except share and per share amounts.

Results of Operations

Overview

We began 2019 positioned as an asset-light company, with a significantly enhanced sales and marketing infrastructure capable of driving accelerated growth. The Company is better positioned to focus on driving growth and building its brands, with capital flexibility, a reduced need for capital expenditures, and an improved operating model.

Public equity offerings, which closed on February 20, 2019 and October 25, 2019, respectively, provided the Company with funds to invest in additional sales support and marketing initiatives as well as working capital to drive brand awareness and support accelerated growth as the Company’s expands its co-packing capabilities and flexibility. Reed’s first ever, fully integrated marketing campaign and accelerated new product innovation has driven incremental demand, and the company is now focused on broadening its supply chain capabilities to support the increased demand and improve fulfillment rates.

The Company continues to focus on increasing core brands’ sales and improved gross margins through both pricing and COGS reduction. Reed’s launched several new SKUs in the 3rd quarter of 2019 such as Reed’s cans and Zero Sugar Reed’s in both cans and bottles.

Results of Operations – Year Ended December 31, 2019

The following table sets forth key statistics for the years ended December 31, 2019 and 2018, in thousands:

	Year Ended December 31, 2019	Year Ended December 31, 2018	Pct. Change
Gross sales (A)	$ 39,300	$ 41,974	-6%
Less: Promotional and other allowances (B)	5,480	3,872	42%
Net sales	$ 33,820	$ 38,102	-11%
Cost of goods produced (C)	25,635	24,996	3%
% of Gross sales	*65%*	*60%*	
% of Net sales	*76%*	*66%*	
Cost of goods sold – idle capacity (D)	309	2,428	-100%
% of Net sales	*1%*	*6%*	
Gross profit	$ 7,876	$ 10,678	-26%
% of Net sales	*23%*	*28%*	
Expenses			
Delivery and handling	$ 5,993	$ 5,489	9%
% of Net sales	*18%*	*14%*	
Dollar per case ($)	*2.8*	*2.4*	
Selling and marketing	9,188	4,879	88%
% of Net sales	*27%*	*13%*	
General and administrative	7,596	8,388	-9%
% of Net sales	*22%*	*22%*	
Impairment of assets	-	229	-100%
(Gain)/Loss on sales of assets	(45)	(185)	-76%
Total Operating expenses	22,732	18,800	21%
Loss from operations	$ (14,856)	$ (8,122)	83%
Interest expense and other expense	$ (1,256)	$ (2,203)	-43%
Net loss	$ (16,112)	$ (10,325)	56%
Loss per share – basic and diluted	$ (0.46)	$ (0.41)	13%
Weighted average shares outstanding - basic & diluted	35,058,004	25,357,566	38%

(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 of 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.

	Total 2019	Total 2018	vs PY	Per Case 2019	Per Case 2018	vs PY
Cases:						
Reed's	970	1,005	-3%			
Virgil's	1,083	878	23%			
Total Core	2,053	1,883	9%			
Non Core	33	401	-92%			
Candy	34	41	-17%			
Total	**2,120**	**2,324**	**-9%**			
Gross Sales:						
Core	$ 37,769	$ 34,746	9%	$ 18.4	$ 18.5	0%
Non Core	560	6,001	-91%	16.9	15.0	13%
Candy	971	1,227	-21%	28.6	29.9	-4%
Total	**$ 39,300**	**$ 41,974**	**-6%**	**18.5**	**18.1**	**3%**
Discounts: Total	**$ (5,480)**	**$ (3,872)**	**42%**	**$ (2.6)**	**$ (1.7)**	**55%**
COGS:						
Core	$ (24,286)	$ (19,771)	23%	$ (11.8)	$ (10.5)	13%
Non Core	(678)	(4,460)	-85%	(20.5)	$ (11.1)	84%
Candy	(671)	(765)	-12%	(19.8)	$ (18.6)	6%
Idle Plant	(309)	(2,428)	-87%	(0.1)	(1.0)	-86%
Total	**$ (25,944)**	**$ (27,424)**	**-5%**	**$ (12.2)**	**$ (11.8)**	**3%**
Gross Margin:	**$ 7,876**	**$ 10,678**	**-26%**	$ 3.7	$ 4.6	-19%
as % Net Sales	23%	28%				

Sales, Cost of Sales, and Gross Margin

The following chart sets forth key statistics for the transition of the Company's top line activity from the year ending December 31, 2018 through the year ending December 31, 2019.

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 to place its strategic focus on. These core products consist of Reed's and Virgil's branded beverages. Non-core products consist primarily of slower selling discontinued Reed's and Virgil's SKUs, discontinued brands such as China Cola and Sonoma Sparklers, as well private label SKUs which were sold to California Custom Beverage as part of the plant sale on December 31, 2018.

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 year ended December 31, 2019 represented approximately 96% of gross revenue.

Core brand gross revenue increased 9% during the year ended December 31, 2019 as compared to the year ended December 31, 2018, to $37,769 from $34,746, driven by Virgil's volume growth of 23%. This increase was reduced by lapping $3,757 of discontinued and private label sales which are no longer part of our portfolio. The result is a decrease of total gross revenue of 6%, to $39,300 from $41,974 during the prior year. Our gross sales were impacted as we short shipped approximately $2,751 of orders to customers during the year ended December 31, 2019 due to product availability challenges related to lower than expected co-packer production and innovation production delays.

On a 12-ounce case basis, price on our core brands remained flat year over year, while core volume grew 9% vs the year-ago period.

Discounts as a percentage of gross sales increased to 14% in the year ended December 31, 2019 from 9% in the prior year. The increase in our promotions was due to the activation of new promotions for our existing Reed's and Virgil's SKUs as well as the incremental promotional and slotting spend related to product introduction of our innovation SKUs such as Reed's Zero sugar bottles and cans and Reed's cans. As a result, net sales revenue decreased 11% for the year ended December 31, 2019 to $33,820, compared to $38,102 for the year ended December 31, 2018.

Cost of Goods Sold and Produced

Cost of goods sold decreased $1,480 during the year ended December 31, 2019 as compared to the prior year. As a percentage of net sales, cost of goods sold increased 5 percentage points during the year ended December 31, 2019, to 77% from 72% in the prior year. Idle and other costs were reduced to $309, down from $2,428 in the prior year. The plant sale has significantly reduced our idle costs, while the remaining other costs were related to completing the transition of the plant to California Custom Beverages. We do not anticipate idle charges to be incurred going forward. The increase in cost of goods sold was driven by an increase in inventory obsolescence reserves and write offs related to our rebranding efforts and formulation enhancements, mostly offset by the reduction in idle costs.

Idle and other costs were reduced to $309, down from $2,428 in the prior year. The plant sale has significantly reduced our idle costs, while the remaining other costs were related to completing the transition of the plant to California Custom Beverages. We do not anticipate any more idle plant costs now that we have exited the Los Angeles facility.

Total cost of goods per case increased from to $12.2 per case in the year ended December 31, 2019 from $11.8 per case during the prior year driven by increased efficiencies having exited the Los Angeles facility. We are continuing to work with suppliers and co-packers to improve our processes and maximize cost efficiencies as the company's new product offerings continue to grow and scale.

Gross Margin

The impact of the increase in inventory obsolescence reserves and write offs resulted in a reduction in gross margin in the year ended December 31, 2019, to 23% compared to 28% in the prior 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 $504 in the year ended December 31, 2019 to $5,993 from $5,489 in the prior year driven by increased volumes. The increase in the rate per case to $2.8 per case this year from $2.4 per case in the prior year is driven by additional freight required to rebalance inventory at the needed warehouse locations, shipping innovation products produced in limited locations and higher than expected less than truck load shipments to support of the launch of new retail accounts. As we work to expand our copacker footprint and capabilities later this year, we anticipate transportation costs to reduce.

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 $9,188 during the year ended December 31, 2019, compared to $4,879 during the prior year. As a percentage of net sales, selling and marketing costs increased to 27% during the year ended December 31, 2019, as compared to 13% of net revenue during the prior year. The increased investment in sales and marketing is consistent with the Company's strategy to refresh the brands, launch new products into the market, open new doors of distribution, create new communication campaigns to increase core brands sales velocity and lay the groundwork to re-accelerate growth of the core brands. The increase is due to additional personnel and broker selling network, integrated marketing campaign creative and production, and innovation development (product, research, and packaging).

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 year ended December 31, 2019 from $8,388 to $7,596, a decrease of $792 from the prior year. Our general and administrative expense decrease was largely driven by the exit of the Los Angeles facility and reduction of office expenses, leases, and utilities.

Loss from Operations

The loss from operations was $14,856 for the year ended December 31, 2019, as compared to a loss of $8,122 in the prior year driven by increase investment in sales and marketing initiatives as well as delivery and handling expenses.

Interest and Other Expense

Interest and other expense for the years ended December 31, 2019 and 2018 consisted of the following (in thousands):

	2019	2018	$ Change	% Change
Interest expense	$ 1,286	$ 2,201	$ (915)	(42)%
Change in fair value of warrant liability	(30)	2	(32)	(1,600)%

Interest and other expense for the year ended December 31, 2019 consisted of $1,286 of interest expense as well as the income related to the change in fair value of our warrant liability of $30. During the prior year, interest expense was $2,201, and expense related to the change in fair value of our warrant liability was $2. The decrease in interest expense is the result of lower borrowings as well as lower rates on our revolving line of credit.

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 year ended December 31, 2019 and 2018 (in thousands):

	Year Ended December 31,	
	2019	2018
Net loss	$ (16,112)	$ (10,325)
Modified EBITDA adjustments:		
Depreciation and amortization	152	108
Interest expense	1,286	2,201
Stock option and other noncash compensation	1,296	2,081
Change in fair value of warrant liability	(30)	2
Gain on Plant Sale	-	(180)
Impairment and severance costs	643	1,156
Total EBITDA adjustments	$ 3,347	$ 5,368
Modified EBITDA	$ (12,765)	$ (4,957)

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 year ended December 31, 2019, the Company recorded a net loss of $16,112 and used cash in operations of $18,161. As of December 31, 2019, we had a cash balance of $913 with borrowing capacity of $3,235, stockholders' equity of $1,147 and a working capital of $4,885, compared to a cash balance of $624 stockholders' deficit of $6,743 and working capital shortfall of $3,297 at December 31, 2018. Notwithstanding the loss for 2019, management projects adequate cash from operations and available line of credit in 2020 to ensure continuation of the Company as a going concern.

On February 20, 2019, the Company conducted a public offering of 7,733,750 shares of its common stock at $2.10 per share resulting to net proceeds to the Company of $14,867. In October 2019, the Company conducted a public offering of 13,416,667 shares of its common stock at $0.60 per share resulting in net proceeds to the Company of $7,474.

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

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

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

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

Intangible Assets and Impairment Policy. Intangible assets are comprised of indefinite-lived brand names acquired, so classified because we anticipate that these brand names will contribute cash flows to the Company perpetually. Indefinite-lived intangible assets are not amortized but are assessed for impairment annually and evaluated annually to determine whether the indefinite useful life is appropriate. As part of our impairment test, we first assess qualitative factors to determine whether it is more likely than not 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 its discounted cash flows, an impairment loss is recognized in an amount equal to that excess.

Management believes the accounting estimates related to impairment of our long lived assets, including our intangibles, are "critical accounting estimates" because: (1) they are highly susceptible to change from period to period because it requires an estimate of fair value, which is based on assumptions about cash flows and discount rates; and (2) the impact of an impairment on our balance sheet and net income could be material. Management's assumptions about cash flows and discount rates require significant judgment because actual revenues and expenses have fluctuated in the past and we expect they will continue to do so. In estimating future revenues, we use internal budgets. Internal budgets are developed based on recent revenue data for existing product lines and planned timing of future introductions of new products and their impact on our future cash flows.

Revenue Recognition. The Company recognizes revenue when risk of loss transfers to our customers and collection of the receivable is reasonably assured, which generally occurs when product is shipped. A written order from the customer must be received and credit acceptance procedures performed prior to shipment of product. 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. 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.

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 to employees 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 value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. On January 1, 2019, the Company adopted Accounting Standards Update (ASU) 2018-07 which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. 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 adoption of the new standard had no cumulative effect on previously reported amounts. Awards granted to non-employees are revalued each reporting period to determine the amount to be recorded as an expense in the respective period. As the awards vest, they are valued on each vesting date and an adjustment is recorded for the difference between the value already recorded and the then current value on the date of vesting. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested, and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's stock option and restricted stock grants 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.

Warrant Liabilities. Various stock sales 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. 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. Fair value is estimated using the Black-Scholes-Merton Option Pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life, and future dividends. 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 the amount of expense recorded in future periods.

Management believes the valuation of our warrant liabilities are "critical accounting estimates" because: (1) they require estimates of risk-free interest rates, expected volatility, expected life, and future dividends; and (2) the impact of a change in these estimates could be material to our balance sheet and net income. Management's assumptions about risk-free interest rates, expected volatility, expected life, and future dividends are based upon historical experience, however future experience may fluctuate.

Recent Accounting Pronouncements

See Note 2 of the financial statements for a discussion of recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As a smaller reporting company, Reed's is not required to provide the information required by this Item 7A.

Item 8. Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Reed's, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Reed's, Inc. (the "Company") as of December 31, 2019 and 2018, the related statements of operations, changes in stockholders' equity (deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB"), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 18, 2020 expressed an adverse opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2004.

/s/ Weinberg & Company, P.A.
Los Angeles, California
March 18, 2020

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

	December 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash	$ 913	$ 624
Accounts receivable, net of allowance for doubtful accounts and returns and discounts of $375 and $623, respectively	2,099	2,608
Receivable from related party	356	195
Inventory, net of reserve for obsolescence of $646 and $197, respectively	10,508	7,380
Prepaid expenses and other current assets	420	131
Total current assets	14,296	10,938
Property and equipment, net of accumulated depreciation of $482 and $342, respectively	1,053	896
Equipment held for sale, net of impairment reserves of $96 and $118, respectively	67	82
Intangible assets	576	576
Total assets	$ 15,992	$ 12,492
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 5,539	$ 5,721
Accrued expenses	646	1,483
Revolving line of credit	3,177	6,980
Current portion of leases payable	49	51
Total current liabilities	9,411	14,235
Leases payable, less current portion	737	801
Convertible note to a related party	4,689	4,161
Warrant liability	8	38
Total liabilities	14,845	19,235
Stockholders' equity (deficit):		
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 70,000,000 shares authorized, respectively; 47,595,206 and 25,729,461 shares issued and outstanding, respectively	5	3
Additional paid in capital	77,596	53,591
Accumulated deficit	(76,548)	(60,431)
Total stockholders' equity (deficit)	1,147	(6,743)
Total liabilities and stockholders' equity (deficit)	$ 15,992	$ 12,492

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

REED'S, INC.
STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2019 and 2018
(Amounts in thousands, except share and per share amounts)

	Year Ended December 31,	
	2019	**2018**
Net Sales	$ 33,820	$ 38,102
Cost of goods sold	25,944	27,424
Gross profit	7,876	10,678
Operating expenses:		
Delivery and handling expense	5,993	5,489
Selling and marketing expense	9,188	4,879
General and administrative expense	7,596	8,388
Impairment of assets	-	229
Gain on sale or disposal of equipment	(45)	(5)
Gain on sale of manufacturing plant to related party	-	(180)
Total operating expenses	22,732	18,800
Loss from operations	(14,856)	(8,122)
Interest expense	(1,286)	(2,201)
Change in fair value of warrant liability	30	(2)
Net loss	(16,112)	(10,325)
Dividends on Series A Convertible Preferred Stock	(5)	(5)
Net loss attributable to common stockholders	$ (16,117)	$ (10,330)
Loss per share – basic and diluted	$ (0.46)	$ (0.41)
Weighted average number of shares outstanding – basic and diluted	35,058,004	25,357,566

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

REED'S, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
For the Years Ended December 31, 2019 and 2018
(Amounts in thousands except share amounts)

	Common Stock		Preferred Stock		Common Stock Issuable		Additional Paid In	Accumulated	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	(Deficit)
Balance, December 31, 2017	24,619,591	$ 2	9,411	$ 94	400,000	$ 680	$ 49,833	$ (50,101)	$ 508
Fair value of vested options	-	-	-	-	-	-	1,161	-	1,161
Fair value of shares granted to Officer for services	37,057	-	-	-	-	-	100	-	100
Fair value of vested restricted shares granted to Directors and Officers for services	256,222	-	-	-	-	-	820	-	820
Dividends on Series A Convertible Preferred Stock	1,734	-	-	-	-	-	5	(5)	-
Common shares issued to Directors pursuant to previous grants	400,000	-	-	-	(400,000)	(680)	680	-	-
Exercise of warrants	414,857	1	-	-	-	-	831	-	832
Cost of modification of outstanding warrants	-	-	-	-	-	-	161	-	161
Net Loss	-	-	-	-	-	-	-	(10,325)	(10,325)
Balance, December 31, 2018	25,729,461	3	9,411	94	0	-	53,591	(60,431)	(6,743)
Fair value of vested options	-	-	-	-	-	-	790	-	790
Fair value of vested restricted shares granted to Directors for services	46,035	-	-	-	-	-	132	-	132
Fair value of vested restricted shares granted to a former officer for services	442,002	-	-	-	-	-	374	-	374
Dividends on Series A Convertible Preferred Stock	4,254	-	-	-	-	-	5	(5)	-
Common shares issued pursuant to the rights offerings, net of offering costs	21,150,417	2	-	-	-	-	22,339	-	22,341
Exercise of warrants	223,037	-	-	-	-	-	365	-	365
Net Loss	-	-	-	-	-	-	-	(16,112)	(16,112)
Balance, December 31, 2019	47,595,206	$ 5	9,411	$ 94	-	$ -	$ 77,596	$ (76,548)	$ 1,147

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

REED'S, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(Amounts in thousands)

	December 31, 2019	December 31, 2018
Cash flows from operating activities:		
Net loss	$ (16,112)	$ (10,325)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	61	86
Gain on sale of property & equipment	(45)	(185)
Loss on termination of leases	8	94
Amortization of discount on long-term financing obligation	323	110
Amortization of capitalized financing costs	-	75
Amortization of right of use assets	91	22
Fair value of vested stock options issued to employees for services	790	1,161
Fair value of shares granted for services	-	100
Fair value of vested restricted shares issued for services	506	820
Increase (decrease) in allowance for doubtful accounts	(248)	22
Increase (decrease) in inventory reserve	449	(312)
Increase (decrease) in fair value of warrant liability	(30)	2
Accrual of interest on convertible note to a related party	528	471
Write off intangible asset	-	229
Changes in operating assets and liabilities:		
Accounts receivable	757	61
Inventory	(3,575)	(1,157)
Prepaid expenses and other assets	(645)	68
Accounts payable	(182)	(1,762)
Accrued expenses	(837)	1,190
Other long-term obligations	-	(28)
Net cash used in operating activities	(18,161)	(9,258)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	45	1,101
Purchase of property and equipment	(322)	(159)
Net cash provided by (used in) investing activities	(277)	942
Cash flows from financing activities:		
Borrowings under line of credit	54,831	47,560
Repayments of line of credit	(58,827)	(43,204)
Capitalization of financing costs	(130)	(591)
Principal repayments on capital expansion loan	-	(3,947)
Principal repayments on bank notes	-	(3,000)
Principal repayments on long term financial obligation	-	(253)
Advances from officers	-	200
Repayment of amounts due to officers	195	(472)
Principal repayments on capital lease obligation	(48)	(312)
Exercise of warrants	365	832
Proceeds from sale of common stock	22,341	-
Net cash provided by (used in) financing activities	18,727	(3,187)
Net increase (decrease) in cash	289	(11,503)
Cash at beginning of period	624	12,127
Cash at end of period	$ 913	$ 624
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 498	$ 1,351
Non-cash investing and financing activities:		
Dividends on Series A Convertible Preferred Stock	$ 5	$ 5
Acquisition of lease asset and liability	$ -	$ 730
Vendor credits issued for fixed asset purchase	$ -	$ 108
Fair value of warrant modification recorded as debt discount	$ -	$ 161

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

1. Operations and Liquidity

Reed's Inc. (the "Company") is the owner and maker of both Reed Craft Ginger Beer and Virgil's Handcrafted Sodas. Established in 1989, Reed's is America's best-selling Ginger Beer brand and has been the leader and innovator in the ginger beer category for decades. Virgil's is America's best-selling independent, full line of natural craft sodas. The Reed's Inc. portfolio is sold in over 30,000 retail stores nationwide. Reed's Ginger Beers are unique due to the proprietary process of using fresh ginger root combined with a Jamaican inspired recipe of natural spices and fruit juices. The Company uses this same handcrafted approach in its award-winning Virgil's line of great tasting, bold flavored craft sodas.

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 year ended December 31, 2019, the Company recorded a net loss of $16,112 and used cash in operations of $18,161. As of December 31, 2019, we had a cash balance of $913 with borrowing capacity of $3,235, stockholders' equity of $1,147 and a working capital of $4,885. Notwithstanding the net loss for 2019, management projects adequate cash from operations and available line of credit in 2020 to ensure continuation of the Company as a going concern.

In 2017, the Company performed a complete operational review and developed a detailed action plan to capture performance improvements, drive core brand growth, and become a premier "asset-light" sales and marketing organization. In September 2018, the Company completed the relocation of its headquarters to Norwalk, Connecticut. In December 2018, the Company sold its Los Angeles manufacturing plant to a related party (see Note 13), marking a fundamental shift in the nature of the Company's operations and effectively eliminated our costs associated with excess manufacturing capacity. With the sale of our manufacturing plant, all of the Company's production is subcontracted to co-packers, which assemble our products and charge us a fee, generally by the case, for the products they produce.

In October 2018, the Company entered into a financing agreement with Rosenthal & Rosenthal, Inc., which replaced an existing credit facility (see Note 6). The Company's annual debt service requirements, on an annualized basis, were reduced by approximately $1,500 as a result of the refinancing. The current credit facility is for a term of 2.5 years, and provides for borrowings of up to $13,000. As of December 31, 2019 and 2018, the Company had $3,235 and $1,201, respectively, of unused borrowing capacity under the financing agreement.

On February 20, 2019, the Company conducted a public offering of 7,733,750 shares of its common stock at $2.10 per share resulting in net proceeds to the Company of $14,867.

On October 25, 2019, the Company conducted a public offering of 13,416,667 shares of its common stock at $0.60 per share resulting in net proceeds to the Company of $7,474.

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 and assumptions used in valuing warrant liabilities.

Accounts Receivable

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

The allowance for doubtful accounts and returns and discounts is established through a provision reducing the carrying value of receivables. At December 31, 2019 and 2018, the allowance for doubtful accounts and returns and discounts was $375 and $623, respectively.

Inventory

Inventory is stated at the lower of cost or the current estimated market value of the inventory. We regularly review our inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated forecast of product demand and our ability to sell the product(s) concerned. Demand for our products can fluctuate significantly. Factors that could affect demand for our products include unanticipated changes in consumer preferences, general market conditions or other factors, which may result in cancellations of advance orders or a reduction in the rate of reorders placed by customers. Additionally, our management's estimates of future product demand may be inaccurate, which could result in an understated or overstated provision required for excess and obsolete inventory. At December 31, 2019 and 2018, the reserve for inventory obsolescence aggregated $646 and $197, respectively.

Property and Equipment

Property and equipment is stated at cost. Expenditures for major renewals and improvements that extend the useful lives of property and equipment or increase production capacity are capitalized, and expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is calculated using accelerated and straight-line methods over the estimated useful lives of the assets as follows:

Property and Equipment Type	Years of Depreciation
Vehicles	5 years
Computers and office equipment	3-7 years

Prior to the sale of its manufacturing plant on December 31, 2018 (see Note 13), the Company depreciated buildings over 39 years and machinery over 5-12 years.

Management assesses the carrying value of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If there is indication of impairment, management prepares an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. For the years ended December 31, 2019 and 2018, the Company determined there were no indicators of impairment of its property and equipment.

Intangible Assets

Intangible assets are comprised of indefinite-lived brand names acquired, so classified because we anticipate that these brand names will contribute cash flows to the Company perpetually. Indefinite-lived intangible assets are not amortized but are assessed for impairment annually and evaluated annually to determine whether the indefinite useful life is appropriate. As part of our impairment test, we first assess qualitative factors to determine whether it is more likely than not 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 its discounted cash flows, an impairment loss is recognized in an amount equal to that excess.

For the year ended December 31, 2019, the Company determined there was no impairment of its indefinite-lived brand names. During our December 31, 2018 impairment testing, we determined that our Sonoma Sparkler trademark was unlikely to provide future benefit to the Company, because we do not currently offer Sonoma Sparkler products and we do not anticipate doing so in the foreseeable future. Accordingly, we reduced the book value of this asset to zero as of December 31, 2018, by recording an impairment charge of $229.

Concentrations

The Company’s cash balances on deposit with banks are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250. Generally, the Company’s policy is to minimize borrowing costs by immediately applying cash receipts to borrowings against its credit facility. From time to time, however, the Company may be exposed to risk for the amounts of funds held in bank accounts in excess of the FDIC limit. To minimize the risk, the Company’s policy is to maintain cash balances with high quality financial institutions.

Gross sales. During the year ended December 31, 2019, the Company’s largest two customers accounted for 12% and 11% of gross sales, respectively. During the year ended December 31, 2018, the largest two customers accounted for 24% and 17% of gross sales, respectively.

Accounts receivable. As of December 31, 2019, the Company had accounts receivable from one customer which comprised 14% of its gross accounts receivable. As of December 31, 2018, accounts receivable from two customers comprised 36% and 19% of total accounts receivable, respectively.

During the years ended December 31, 2019 and 2018, respectively, the Company utilized four and three, respectively, separate, co-packers for most its production and bottling of beverage products in the eastern United States. With the December 31, 2018 sale of its manufacturing plant, the Company no longer conducts a manufacturing operation, accordingly it utilizes co-packers to produce 100% of its products as of those dates. The Company has long-standing relationships with two different co-packers, and in conjunction with the sale of its manufacturing plant we entered into a third co-packing agreement with California Custom Beverage LLC ("CCB"), the purchaser of the plant (see Note 13). CCB is 100% owned by Chris Reed, founder of the Company and current Chief Information Officer and director. Although there are other packers, a change in co-packers may cause a delay in the production process, which could ultimately affect operating results.

Purchases from vendors. During the year ended December 31, 2019, the Company's largest three vendors accounted for approximately 12%, 11%, and 10% of all purchases, respectively. During the year ended December 31, 2018, the Company's largest two vendors accounted for 16% and 13% of all purchases, respectively.

Accounts payable. As of December 31, 2019, the Company's largest three vendors accounted for 19%, 15% and 14% of the total accounts payable, respectively. As of December 31, 2018, one vendor accounted for 24% of total accounts payable.

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. Accounting Standards Codification Section 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 December 31, 2019, and 2018, the Company's balance sheets included Level 2 liabilities comprised of the fair value of warrant liabilities aggregating $8 and $38, respectively (see Note 9).

Segments

The Company operates in one segment for the manufacture and distribution of our products. In accordance with the "Segment Reporting" Topic of the ASC, the Company's chief operating decision maker has been identified as the Chief Executive Officer and President, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Existing guidance, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under "Segment Reporting" due to their similar customer base and similarities in: economic characteristics; nature of products and services; and procurement, manufacturing and distribution processes. Since the Company operates in one segment, all financial information required by "Segment Reporting" can be found in the accompanying financial statements

Cost of Goods Sold

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

The Company terminated its manufacturing operation effective with the December 31, 2018 sale of its manufacturing plant. See Note 13.

Delivery and Handling Expense

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

Income Taxes

The Company uses an asset and liability approach for accounting and reporting for income taxes that allows recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain. The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense.

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 year. 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 years ended December 31, 2019 and 2018, 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:

	December 31, 2019	December 31, 2018
Convertible note to a related party	2,266,667	2,266,667
Warrants	6,413,782	6,897,277
Common stock equivalent of Series A Convertible Preferred Stock	37,644	37,644
Unvested restricted common stock	-	598,370
Options	3,265,580	3,744,404
Total	11,983,673	13,544,362

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

Advertising Costs

Advertising costs are expensed as incurred and are included in selling and marketing expense. Advertising costs aggregated $2,570 and $300 for the years ended December 31, 2019 and 2018, respectively.

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 to employees 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. Such grants issued and vesting to non-employees are valued on the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. In prior periods, the Company accounted for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the FASB whereby the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. On January 1, 2019, the Company adopted Accounting Standards Update (ASU) 2018-07 which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. 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 adoption of ASU 2018-07 had no cumulative effect on previously reported amounts.

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.

Warrant Liabilities

Various stock sales 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.

Fair value 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. 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 the amount of expense recorded in future periods.

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases. ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than twelve months. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. A modified retrospective transition approach is required for lessees for leases existing at, or entered into after, the beginning of the earliest period presented in the financial statements.

The Company adopted ASU 2016-02 effective October 1, 2018. As a result, we recorded right-of-use assets aggregating $862, and lease liabilities of the same amount, as of that date. In accordance with ASU 2016-02, the right-of-use assets are being depreciated over the life of the underlying leases, and monthly lease payments are being recorded as reductions to the lease liability and imputed interest expense. See Note 7 for additional information.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Credit Losses - Measurement of Credit Losses on Financial Instruments ("ASC 326"). The standard significantly changes how entities will measure credit losses for most financial assets, including accounts and notes receivables. The standard will replace today's "incurred loss" approach with an "expected loss" model, under which companies will recognize allowances based on expected rather than incurred losses. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The standard is effective for interim and annual reporting periods beginning after December 15, 2019. The adoption of ASU 2016-13 is not expected to have a material impact on the Company's 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):

	December 31, 2019	December 31, 2018
Raw materials and packaging	$ 4,261	$ 3,053
Finished products	6,247	4,327
Total	$ 10,508	$ 7,380

The Company has recorded a reserve for slow moving and potentially obsolete inventory. The reserve at December 31, 2019 and 2018 was $646 and $197, respectively.

4. Property and Equipment

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

	December 31, 2019	December 31, 2018
Right-of-use assets under operating leases	$ 730	$ 730
Right-of-use assets under finance leases	179	204
Computer hardware and software	626	304
Total cost	1,535	1,238
Accumulated depreciation and amortization	(482)	(342)
Net book value	$ 1,053	$ 896

Depreciation expense for the years ended December 31, 2019 and 2018 was $24 and $86, respectively.

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

	December 31, 2019	December 31, 2018
Equipment held for sale	$ 163	$ 200
Reserve	(96)	(118)
Net book value	$ 67	$ 82

The balance as of December 31, 2019 and 2018 consists of residual manufacturing equipment, at estimated net realizable value, which management anticipates selling during 2020.

5. Intangible Assets

At December 31, 2019 and 2018, intangible assets of $576 are comprised of the Virgil’s brand name. The brand name has 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 December 31, 2019.

6. Line of Credit

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

	December 31, 2019	December 31, 2018
Line of Credit	$ 3,661	$ 7,657
Capitalized finance costs	(484)	(677)
Net balance	$ 3,177	$ 6,980

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 December 31, 2019, the unused borrowing capacity under the financing agreement was $3,235. The line of credit matures on April 20, 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 upon whether the borrowing is based upon receivables, inventory or is an over-advance. The effective interest rate as of December 31, 2019 on outstanding borrowings was 7.1%. 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 of the Company. 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"). Raptor beneficially owns 14.9% of the Company's outstanding common stock as of December 31, 2019. 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.

As part of the financing agreement in 2018, the Company amended and restated a subordinated convertible non-redeemable secured note to Raptor, to provide for additional advances of up to $4,000 in the event that Raptor exercises its put option described above (see Note 8). Consequently, the exercise price of 750,000 of Raptor's outstanding warrants to purchase the Company's common stock was reduced from $1.50 to $1.10, resulting in an increase in the fair value of the warrants of $161. This amount has been reflected as a capitalized finance cost and is being amortized over the life of 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 December 31, 2019.

In 2018, the Company incurred $882 of direct costs in conjunction with the initial financing agreement, consisting primarily of broker, bank and legal fees, and $161 cost of warrant modification. The Company annually incurs an additional $130 of fees from the bank, which is equal to 1% of the $13,000 borrowing limit. These costs have been capitalized and recorded as a debt discount and are being amortized over the 2.5 year life of the Rosenthal agreement. Amortization of debt discount was $323 for the year ended December 31, 2019.

7. 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. As a result, we recorded right-of-use assets aggregating $862 as of October 1, 2018, utilizing a discount rate of 12.60%. That amount consists of new leases on the Company's Norwalk office and certain office equipment of $730, and existing capitalized leases reclassified to right of use assets of $132.

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. As of December 31, 2019, the Company reflected accumulated amortization of right of use asset of $211 related to these leases, resulting in a net asset balance of $698.

In accordance with ASU 2016-02, the right-of-use assets are being amortized over the life of the underlying leases.

As of December 31, 2018, liabilities recorded under finance leases and operating leases were $133 and $719, respectively. During the year ended December 31, 2019, the Company made payments of $44 towards finance lease liability and $22 towards operating lease liability. As of December 31, 2019, the liability under finance lease amounted to $89 and the liability under operating lease amounted to $697, of which $21 and $28 (aggregate of $49) are reflected as the current portion of leases payable on the accompanying balance sheet.

As of December 31, 2019, the weighted average remaining lease terms for operating lease and finance lease are 5.01 years and 1.00 years, respectively. The weighted average discount rate for operating lease is 12.60% and 6.93% for finance lease.

Future minimum lease payments under the leases are as follows (in thousands):

Years Ending December 31,		
2020	$	162
2021		235
2022		222
2023		226
2024		223
Total payments		1,068
Less: Amount representing interest		(282)
Present value of net minimum lease payments		786
Less: Current portion		(49)
Non-current portion	$	737

8. Convertible Note to a Related Party

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

	December 31, 2019		December 31, 2018	
12% Convertible Note Payable	$	3,400	$	3,400
Accrued Interest		1,289		761
Total obligation	$	4,689	$	4,161

On April 21, 2017, pursuant to a Securities Purchase Agreement, the Company issued a secured, convertible, subordinated, non-redeemable note in the principal amount of $3,400 (the “Raptor Note”) and warrants to purchase 1,416,667 shares of common stock. The purchaser, Raptor/Harbor Reeds SPV LLC (“Raptor”), beneficially owned approximately 14.9% and 27.1% of the Company’s common stock at December 31, 2019 and 2018, respectively.

The Raptor Note bears interest at a rate of 12% per annum, compounded monthly. It 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 warrant will expire on April 21, 2022 and has an adjusted exercise price of $1.50 per share. The note and warrant contain customary anti-dilution provisions, and the shares of common stock issuable upon conversion of the note and exercise of the warrant have been registered on Form S-3. The investor was also granted the right to participate in future financing transactions of the Company for a term of two years.

On October 4, 2018, in connection with the execution of the Rosenthal financing agreement, the Company amended and restated the subordinated convertible non-redeemable secured note to Raptor, to provide for additional advances of up to $4,000. In consideration therefore, the exercise price of 750,000 of Raptor’s outstanding warrants was reduced from $1.50 to $1.10, resulting in an increase in the fair value of the warrants, determined in accordance with the Black-Scholes-Merton option pricing model, of $161. This amount was recorded as a debt discount to the Rosenthal line of credit and is being amortized as interest expense over the life of the financing agreement (See Note 6).

9. Warrants and Warrant Liability

Warrant activity during the years ended December 31, 2019 and 2018 is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2017	7,325,282	$ 2.09	3.43	
Granted	-	-		
Exercised	(428,005)	$ 2.03		
Forfeited or expired	-	-		
Outstanding at December 31, 2018	6,897,277	$ 2.06	2.42	$ 1,447
Granted	-	-		
Exercised	(283,495)	$ 2.09		
Forfeited or expired	(200,000)	$ 5.60		
Outstanding at December 31, 2019	6,413,782	$ 2.06	1.52	$ -
Exercisable at December 31, 2019	6,413,782	$ 2.06	1.52	$ -

Warrants outstanding at December 31, 2019 and 2018, and their respective exercise price and expiration dates, are as follows:

December 31, 2019			December 31, 2018		
Number	Price	Expiration Dates	Number	Price	Expiration Dates
-	-	-	200,000	$ 5.600	September 2019
125,000	$ 4.100	May 2021	125,000	$ 4.100	May 2021
10,000	$ 3.900	October 2021	10,000	$ 3.900	October 2021
50,000	$ 4.100	November 2021	50,000	$ 4.100	November 2021
72,703	$ 3.740	June 2021	72,703	$ 3.740	June 2021
66,059	$ 4.250	June 2021	66,059	$ 4.250	June 2021
728,299	$ 1.500	April 2022	784,549	$ 1.500	April 2022
81,895	$ 1.550	July 2022	87,745	$ 1.550	July 2022
478,285	$ 2.000	July 2022	512,560	$ 2.000	July 2022
4,051,541	$ 2.025	December 2020	4,238,661	$ 2.025	December 2020
750,000	$ 1.100	December 2022	750,000	$ 1.100	December 2022
6,413,782			6,897,277		

Various financing transactions and stock sales made by the Company have been accompanied by the issuance of warrants. Generally, we record the fair market value of the warrants, as determined using the Black-Scholes-Merton option pricing model, as a financing cost at date of issuance. There were no such financing costs recorded during the years ended December 31, 2019 and 2018, respectively.

Certain of our warrant agreements, however, 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*, warrants with such fundamental transaction provisions are accounted for as liabilities. A summary of transactions that impacted our warrant liabilities is provided below under "*Warrant Liability*".

Warrant Transactions

At December 31, 2019, the aggregate intrinsic value of outstanding and exercisable warrants was zero. The aggregate intrinsic value of outstanding and exercisable warrants is calculated as the difference between the exercise price of the warrant and the market price of the Company's common stock as of December 31, 2019, which was $0.91.

During the year ended December 31, 2019, a total of 283,495 warrants were exercised, including 87,485 warrants that were exercised on a cashless basis, resulting in the issuance of 223,037 shares of our common stock. Aggregate proceeds to the Company were $365. During the year ended December 31, 2019, warrants to acquire 200,000 shares of common stock expired.

During the year ended December 31, 2018, a total of 428,005 warrants were exercised, including 5,978 warrants that were exercised on a cashless basis, resulting in the issuance of 414,857 shares of our common stock. Aggregate proceeds to the Company were $831. During the year ended December 31, 2018, no warrants to acquire common stock expired.

Warrant Liability

As stated above, certain of our warrant agreements contain fundamental transaction provisions which may give rise to an obligation of the Company to pay cash to the warrant holders. Such warrants are accounted for as liabilities at fair value. The fair value is remeasured at each reporting period, and the change in the fair value is recognized in earnings in the accompanying Statements of Operations. Following is a summary of the transactions described above that impacted our warrant liability.

The fair value of the warrant liability was determined using the Black-Scholes-Merton option pricing model at December 31, 2019 and 2018, using the following assumptions:

	December 31, 2019	**December 31, 2018**
Stock Price	$ 0.91	$ 2.07
Risk free interest rate	1.95%	2.69%
Expected volatility	83.36%	50.07%
Expected life in years	1.42	2.42
Expected dividend yield	0%	2.69%
Number of Warrants containing fundamental transaction provisions	138,762	138,762
Fair Value of Warrants	$ 8	$ 38

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 years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Beginning Balance	$ 38	$ 36
Change in fair value	(30)	2
Ending balance	$ 8	$ 38

10. Stockholders' Equity

Series A Convertible Preferred Stock

Series A Convertible Preferred Stock (the "Preferred Stock") consists of $10 par value, 5% non-cumulative, non-voting, participating preferred stock, with a liquidation preference of $10.00 per share. 500,000 shares are authorized. As of December 31, 2019 and 2018, there were 9,411 shares outstanding. Each share of Preferred Stock can be converted into four shares of the Company's common stock.

Dividends are payable at the rate of 5% annually, pro-rata and non-cumulative. The dividend can be paid in cash or, at the discretion of our board of directors, in shares of common stock based on its then fair market value. The Company cannot declare or pay any dividend on shares of our common stock until the holders of the Preferred Stock have received their annual dividend. In addition, the holders of the Preferred Stock are entitled to receive pro rata distributions of dividends on an "as converted" basis with the holders of our common stock.

In the event of any liquidation, dissolution or winding up of the Company, or if there is a change of control event as defined, the holders of the Preferred Stock are entitled to receive, prior to distributions to the holders of common stock, $10.00 per share plus all accrued and unpaid dividends. Thereafter, all remaining assets are distributed pro rata among all security holders. Since June 30, 2008, the Company has the right, but not the obligation, to redeem all or any portion of the Preferred Stock at $10.00 per share, the original issue price, plus all accrued and unpaid dividends.

The Preferred Stock may be converted at any time, at the option of the holder, into four shares of common stock, subject to adjustment in the event of stock splits, reverse stock splits, stock dividends, recapitalization, reclassification, and similar transactions. The Company is obligated to reserve authorized but unissued shares of common stock sufficient to affect the conversion of all outstanding shares of Preferred Stock.

Except as provided by law, the holders of the Preferred Stock do not have the right to vote on any matters, including the election of directors. However, so long as any shares of Preferred Stock are outstanding, the Company shall not, without the approval of a majority of the preferred stockholders, authorize or issue any equity security having a preference over the Preferred Stock with respect to dividends, liquidation, redemption or voting, including any other security convertible into or exercisable for any senior preferred stock.

During the years ended December 31, 2019 and 2018, the Company paid dividends on the Preferred Stock through the issuance of 4,254 and 1,734 shares of its common stock, respectively, which based upon the then-current market price of the stock equated to dividends of $5 in each of the years. No shares of Series A preferred stock were converted into common stock in 2019 and 2018.

Common Stock

The Company's common stock has a par value of $.0001. On October 20, 2019 our shareholders approved an increase in the authorized number of common shares from 70,000,000 to 100,000,000. As of December 31, 2019 and 2018, there were 100,000,000 and 70,000,000 shares authorized, respectively, and 47,595,206 and 25,729,461 shares of common stock outstanding, respectively.

Common Stock Issued in Connection with Rights Offerings

In February 2019, the Company conducted a public offering of 7,733,750 shares of its common shares including 1,008,750 shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares to cover over-allotments, at a public offering price of $2.10 per share. The net proceeds to the Company from this offering are $14,867, after deducting underwriting discounts and commissions and other offering expenses. Proceeds from the offering will provide capital to fund the growth of our business, new products, sales and marketing efforts, working capital, and for general corporate purposes.

In October 2019, the Company conducted a public offering of 13,416,667 shares of its common shares including 1,750,000 shares sold pursuant to the underwriters' full exercise of their option to purchase additional shares to cover over-allotments, at a public offering price of $0.60 per share. The net proceeds to the Company from this offering are $7,474, after deducting underwriting discounts and commissions and other offering expenses. Proceeds from the offering will provide capital to fund the growth of our business, new products, sales and marketing efforts, working capital, and for general corporate purposes.

Common Stock Issuable

Effective December 31, 2017, the Company issued to its independent directors an aggregate of 400,000 shares of common stock valued at $1.70 per share, or $680 in total, for services provided in 2017. These shares were reflected as Common Stock Issuable at December 31, 2017, and were issued during 2018.

11. Share-Based Payments

Management believes that the ability to issue equity compensation, in order to incentivize performance by employees, directors, and consultants, is essential to the Company's growth strategy.

On September 29, 2017, the 2017 Compensation Plan (the "Plan") was approved by our shareholders. Initially it provided for the issuance of up to 3,000,000 shares. On December 13, 2018 our shareholders approved a 3,500,000 share increase in the number of shares issuable under the Plan. Options issued and forfeited under the 2017 plan contain an Evergreen provision and cannot be re-priced without shareholder approval.

As of December 31, 2019 and 2018, shares issuable under the Plan were 3,436,864 and 1,975,215, respectively

The Plan permits the grant of options and stock awards to our employees, directors and consultants. The options may constitute either “incentive stock options” within the meaning of Section 422 of the Internal Revenue Code or “non-qualified stock options”. The Plan is currently administered by the board of directors. The exercise price of an option granted under the plan cannot be less than 100% of the fair market value per share of common stock on the date of the grant of the option. Options may not be granted under the plan on or after the tenth anniversary of the adoption of the plan. Incentive stock options granted to a person owning more than 10% of the combined voting power of the common stock cannot be exercisable for more than five years. When an option is exercised, the purchase price of the underlying stock is received in cash, except that the plan administrator may permit the exercise price to be paid in any combination of cash, shares of stock having a fair market value equal to the exercise price, or as otherwise determined by the plan administrator.

Common Stock Issued to Officer for Services Rendered

During the year ended December 31, 2018, the Company issued 37,057 shares of its common stock to an officer of the Company as compensation for services rendered. The shares had an aggregate value on the date of issuance of $100, based on the market price of our common stock on the date of grant, which was recorded as compensation expense during the year ended December 31, 2018. There were no issuances of common stock for services for the year ended December 31, 2019.

Restricted common stock

The following table summarizes restricted stock activity during the years ended December 31, 2019 and 2018:

	Unvested Shares	Issuable Shares	Fair Value at Date of Issuance	Weighted Average Grant Date Fair Value
Balance, December 31, 2017	-	400,000	$ 680	1.70
Granted	854,592	-	1,412	1.65
Vested	(256,222)	256,222	-	-
Issued	-	(656,222)	(1,500)	-
Balance, December 31, 2018	598,370	-	$ 592	$ 1.63
Granted	46,035	-	132	2.88
Vested	(488,037)	488,037	-	-
Forfeited	(156,368)	-	(218)	1.60
Issued	-	(488,037)	(506)	-
Balance, December 31, 2019	-	-	$ -	$ -

In January and March 2018, the Company awarded an aggregate of 784,004 shares of restricted common stock to Valentin Stalowir, former Chief Executive Officer of the Company, pursuant to his employment agreement with the Company. The 784,004 restricted shares had an aggregate fair value of $1,291 based on the market price of our common stock on the dates of grant. Of the 784,004 restricted shares, 185,634 shares vested and were issued during 2018. On October 31, 2019, the Company entered into a Separation, Settlement and Release of Claims Agreement with Mr. Stalowir in connection with his resignation as Chief Executive Officer and the subsequent termination of his employment. As part of the Agreement, 442,002 shares of restricted common stock issued in 2018 vested and were issued, and the balance of 156,368 unvested shares of restricted common stock issued to Mr. Stalowir in 2018 were forfeited. During the years ended December 31, 2019 and 2018, the Company recognized $374 and $667, respectively, as compensation expense related to the fair value of vested restricted shares.

In January 2018, the Company’s independent directors were awarded a total of 70,588 shares of restricted common stock, with an aggregate fair value of $120, based on the market price of our common stock on the dates of grant. The shares vested ratably and were issued over four quarters in 2018 and the total of $120 was recognized as compensation expense in 2018. During the year ended December 31, 2019, there was no compensation expense related to these shares.

During the year ended December 31, 2019, the Company issued 46,035 shares of restricted stock to members of the board of directors. 17,652 shares vested immediately and the balance of 28,383 shares vested throughout 2019. The aggregate fair value of the stock awards was $132 based on the market price of our common stock on the dates of grant. During the year ended December 31, 2019, the total of 46,035 shares vested and were issued, and $132 was recognized as compensation expense.

During the years ended December 31, 2019 and 2018, the Company recognized a total $506 and $820, respectively, as compensation expense related to vesting of shares of restricted common stock. As of December 31, 2019, there are no unvested shares of restricted common stock.

Stock Options

Stock option activity consists of the following:

	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (Years)		Aggregate Intrinsic Value
Outstanding at December 31, 2017	677,500	$	4.35	4.14		
Granted	3,596,954		1.88			
Exercised	-		-			
Unvested forfeited or expired	(476,468)		2.53			
Vested forfeited or expired	(123,750)		4.26			
Outstanding at December 31, 2018	3,674,236	$	2.16	8.53	$	1,026
Granted	1,431,840		2.48			
Exercised	-		-			
Unvested forfeited or expired	(1,571,794)		2.25			
Vested forfeited or expired	(268,702)		3.07			
Outstanding at December 31, 2019	3,265,580	$	2.19	7.09	$	6
Exercisable at December 31, 2019	1,263,335	$	2.35	4.26	$	-

The aggregate intrinsic value was calculated as the difference between the closing market price as of December 31, 2019, which was $0.91, and the exercise price of the outstanding stock options.

During the year ended December 31, 2019, the Company approved options to be issued pursuant to Reed’s 2017 Incentive Compensation Plan to certain current employees totaling 1,258,000 shares. One half of these options vest annually over a four-year vesting period; the other half of these options will vest based on performance criteria to be established by the board. In addition, during the year ended December 31, 2019, the Company granted options to purchase 113,330 shares of common stock to new board members. Options granted to consultants, former employees, and board members vest at various periods. On September 11, 2019, the Company granted options to purchase 60,510 shares of common stock to certain consultants. None of the options granted to the consultants to purchase 60,510 shares of common stock vested and were forfeited, resulting in no compensation expense.

The stock options are exercisable at a price ranging from $2.33 to $3.37 per share and expire in ten years. Total fair value of these options at grant date was approximately $911, which was determined using the Black-Scholes-Merton option pricing model with the following average assumption: stock price ranging from $2.33 to $3.37 per share, expected term of seven years, volatility of 61%, dividend rate of 0% and risk-free interest rate ranging from 1.39% to 2.60%. 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 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; and 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.

The options issued in 2019 with a fair value of $911 which will be amortized in future periods through September 30, 2023. During the year ended December 31, 2019, the Company recognized $790 of compensation expense relating to vested stock options. As of December 31, 2019, the amount of unvested compensation related to stock options was approximately $1,492 which will be recorded as an expense in future periods as the options vest.

Additional information regarding options outstanding and exercisable as of December 31, 2019, is as follows:

	Options Outstanding				Options Exercisable		
Range of Exercise Price	Number of Shares Outstanding		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number of Shares Exercisable		Weighted Average Exercise Price
$0.69 - $1.60	1,114,347	$	1.58	7.49	392,847	$	1.60
$1.62 - $2.44	1,175,218		1.92	6.94	538,718		1.87
$2.49 - $3.74	846,015		2.93	7.86	201,770		3.38
$5.01 - $5.01	130,000		5.01	0.04	130,000		5.01
	3,265,580	$	2.19	7.09	678,059	$	2.35

12. Income Taxes

At December 31, 2019 and 2018, the Company had available Federal and state net operating loss carryforwards (“NOL”s) to reduce future taxable income. For Federal purposes the amounts available were approximately $56,000 and $42,000, respectively. For state purposes approximately $17,000 and 18,000 was available at December 31, 2019 and 2018, respectively. The Federal carryforward expires on various dates through 2035 and the state carryforward expires in 2019. Given the Company’s history of net operating losses, management has determined that it is more likely than not that the Company will not be able to realize the tax benefit of the carryforwards. Accordingly, the Company has not recognized a deferred tax asset for this benefit.

Due to restrictions imposed by Internal Revenue Code Section 382 regarding substantial changes in ownership of companies with loss carryforwards, the utilization of the Company’s NOL may be limited as a result of changes in stock ownership. NOLs incurred subsequent to the latest change in control are not subject to the limitation.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position is measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. As of December 31, 2019 and 2018, the Company did not have a liability for unrecognized tax benefits.

The Company recognizes as income tax expense, interest and penalties on uncertain tax provisions. As of December 31, 2019, and 2018, the Company has not accrued interest or penalties related to uncertain tax positions. Tax years 2012 through 2019 remain open to examination by the major taxing jurisdictions to which the Company is subject.

Upon the attainment of taxable income by the Company, management will assess the likelihood of realizing the tax benefit associated with the use of the NOLs and will recognize the appropriate deferred tax asset at that time.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2019	December 31, 2018
Deferred income tax asset:		
Net operating loss carryforwards	$ 13,357	$ 10,429
Stock-based compensation	942	839
Accounts receivable allowances	98	162
Inventory reserves	168	51
Operating lease liability	181	-
Reserve for asset impairment	58	58
Gross deferred tax assets	14,804	11,539
Valuation allowance	(14,488)	(11,363)
Total deferred tax assets	316	176
Deferred tax liabilities:		
Operating lease right-of-use asset	(190)	-
Deferred finance costs	(126)	(176)
Total deferred tax liabilities	(316)	(176)
Net deferred tax asset (liability)	$ -	$ -

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

	December 31, 2019	December 31, 2018
Federal statutory tax rate	(21)%	(21)%
State rate, net of federal benefit	(5)%	(5)%
	(26)%	(26)%
Effect of change in tax rate	-%	-%
Valuation allowance	26%	26%
Effective tax rate	$ -	$ -

13. Related Party Activities

Transactions with California Custom Beverage, LLC, ("CCB")

On December 31, 2018, the Company completed the sale of the Company's Los Angeles manufacturing plant to California Custom Beverage, LLC, ("CCB"), an entity owned by Chris Reed, founder, Chief Innovation Officer and a member of our board of directors of Reed's. The sales price consisted of $1,250 in cash, and CCB assumed our lease obligation on the California real property, which aggregated $1,300 at December 31, 2018. The Company recognized a gain of $180 on the sale, net of transaction costs and other customary adjustments. Our release from the obligation by the lessor, however, is dependent upon CCB's deposit of $1,200 of security with the lessor (see Note 14). By the terms of the sale, CCB was to reimburse the Company for certain costs such as sales tax arising from the transaction and prepayments. Such costs aggregated $195, which is reflected as Receivable from Related Party on the accompanying balance sheet as of December 31, 2018, and was collected from CCB during the year ended December 31, 2019.

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. For the year ended December 31, 2019, the Company recorded royalty revenue from CCB of $128 which is recorded as a receivable at December 31, 2019. In addition, at December 31, 2019, the Company has outstanding receivable from CCB of $228 consisting of inventory advances to CCB.

In 2018, we entered into a three-year co-packing agreement with CCB, whereby CCB produces Reed's beverages in glass bottles at prevailing West Coast market rates. During the year ended December 31, 2019, purchases from CCB under our co-packing agreement amounted to $1,600, and at December 31, 2019, accounts payable to CCB totaled $182.

At December 31, 2019, CCB owes the Company a net of $174. Such amount will be collected or offset against purchases from CCB during 2020.

Other

Lindsay Martin, daughter of a director of the Company, was employed as Vice President of Marketing during the years ended December 31, 2019 and 2018. She was paid approximately $161 and $162, respectively, for her services.

From time to time, the Company issues stock-based awards to employees, officers, and other related parties as compensation for services rendered. See Note 11 for information as to such transactions during the years ended December 31, 2019 and 2018.

14. Commitments and Contingencies

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 (See Note 13). The sale included substantially all machinery, equipment, furniture and fixtures of the manufacturing plant. CCB assumed the monthly payments on our lease obligation effective immediately upon closing of the sale. 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 December 31, 2019, $800 has been deposited with the lessor and Mr. Reed has placed approximately 363,000 shares of the Company's common stock valued at $330 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.

From time to time, we are a party to claims and legal proceedings arising in the ordinary course of business. Our management evaluates our exposure to these claims and proceedings individually and in the aggregate and provides for potential losses on such litigation if the amount of the loss is estimable and the loss is probable.

We believe that there are no material litigation matters at the current time. Although the results of such litigation matters and claims cannot be predicted with certainty, we believe that the final outcome of such claims and proceedings will not have a material adverse impact on our financial position, liquidity, or results of operations.

15. Subsequent Events

On November 12, 2019, Nasdaq Listing Qualifications notified the Company that its common stock failed to maintain a minimum bid price of $1.00 over the previous 30 consecutive business days as required by the Listing Rules of The Nasdaq Stock Market. On January 23, 2020, Nasdaq Listing Qualifications notified the Company that it has determined that for 10 consecutive business days, from January 8 to January 22, 2020, the closing bid price of the Company's common stock was at $1.00 per share or greater. Accordingly, the Company has regained compliance with Listing Rule 5550(a)(2) and the matter is now closed.

On February 24, 2020, the Company appointed Norman E. Snyder, Jr. as the Company's Chief Executive Officer effective March 1, 2020. Prior to being appointed, Mr. Snyder was the Chief Operating Officer of the Company.

On February 24, 2020, the Company issued Norman E. Snyder, Jr., the Company's newly appointed Chief Executive Officer, 150,000 restricted common shares which vested 100% on March 1, 2020. In addition, on February 25, 2020, Mr. Snyder was also issued 446,000 options to purchase common stock of the Company, of which half are time based and vest 25% on each one year anniversary of the grant date and the remaining options are performance based with up to 25% vesting at the end of the first quarter of each fiscal year beginning in 2020.

On March 3, 2020, the Company issued Thomas Spisak, the Company's Chief Financial Officer, 150,000 restricted common shares which vest in equal increments of 18,750 on each of the first four anniversaries of the grant date and the remainder will vest based on performance criteria determined by the Board of Directors or Compensation Committee. In addition, Mr. Spisak was also issued 150,000 options to purchase common stock of the Company, of which half will vest in equal increments of 18,750 on each of the first four anniversaries of the grant date and the remainder will vest based on performance criteria determined by the Board of Directors or Compensation Committee. These options will expire on March 2, 2030.

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

None.

Item 9A. Controls and Procedures

Management's Annual Report on Internal Control over Financial Reporting

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Securities and Exchange Act of 1934 Rules 13a-15(f). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2019.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our principal executive officer and principal financial officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on evaluation under these criteria, management determined, based upon the existence of the material weaknesses described below, that we did not maintain effective internal control over financial reporting as of December 31, 2019.

A material weakness is 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 would not be prevented or detected on a timely basis.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. 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 inabilities to soundly manage segregation of job responsibilities.

Notwithstanding the identified outsourced IT service providers and related COSO material weaknesses, management has concluded that the Financial Statements included in this Annual Report on Form 10-K present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the periods disclosed in conformity with U.S. GAAP.

Weinberg & Company, P.A., our independent registered public accounting firm, has issued an attestation report on the Company's internal control over financial reporting included herein.

Management's Planned Remediation Activities

Our management has been actively engaged in developing and implementing remediation plans to address the outsourced IT service providers and segregation of duties material weaknesses described above. These remediation efforts are ongoing and include or are expected to include the following:

- Enhancing procedures for the identification of control activities and monitoring of control performance to ensure that the components of internal control relating to certain outsourced IT service providers are present and functioning.
- Enhancing procedures and the frequency of independent reconciliations of significant accounts to mitigate the lack of segregation of duties.

Changes in Internal Control over Financial Reporting

Except for the identification of the outsourced IT service providers and segregation of duties material weaknesses described above, there were no changes during the quarter ended December 31, 2019 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

An effective internal control system, no matter how well designed, has inherent limitations, including the possibility of human error or overriding of controls, and therefore can provide only reasonable assurance with respect to reliable financial reporting. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect all misstatements, including the possibility of human error, the circumvention or overriding of controls, or fraud. Effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Reed's, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Reed's, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weaknesses described below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2019, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the COSO.

A material weakness is 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 the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment.

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 inabilities to soundly manage segregation of job responsibilities.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the balance sheets of the Company as of December 31, 2019 and 2018, and the related statements of operations, changes in shareholders' equity, and cash flows for the years then ended, and the related notes. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2019 financial statements, and this report does not affect our report dated March 18, 2020, which expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Weinberg & Company, P.A.
Los Angeles, California
March 18, 2020

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance.

General

Reed’s current directors have terms which will end at the next annual meeting of the stockholders or until their successors are elected and qualify, subject to their death, resignation or removal. The following table sets forth certain information with respect to our current directors and executive officers as of December 31, 2019:

Name	Position	Age
Norman E. Snyder, Jr.	Chief Executive Officer, Director	58
Thomas J. Spisak	Chief Financial Officer	52
Christopher R. Reed	Chief Innovation Officer	61
Neal Cohane	Senior Vice President of Sales	59
John J. Bello	Chairman of the Board	73
Daniel J. Doherty III	Director	55
Lewis Jaffe	Director, Chairman of Governance Committee, member of Audit, Operations and Compensation Committees	62
James C. Bass	Director, Chairman of the Audit Committee and member of Compensation Committee	67
Scott R. Grossman	Director, Chairman of the Compensation Committee and member of Audit and Governance Committees	41
Louis Imbrogno, Jr.	Director	74

Business Experience of Directors and Executive Officers

Norman E. Snyder Jr**.** was appointed as Chief Executive Officer and director of Reed’s effective March 1, 2020. Prior to his promotion, Mr. Snyder served as Chief Operating Officer of Reed’s from September2019 through February 29, 2020. Prior to joining Reed’s, Mr. Snyder served as President and Chief Executive Office for Avitae USA, LLC, an emerging premium new age beverage company that markets and sells a line of ready-to-drink caffeinated waters. Prior to Avitae, he served as the President and Chief Operating Officer for Adina For Life, Inc., President and Chief Executive Officer of High Falls Brewing Company, and Chief Financial Officer, and later Chief Operating Officer of South Beach Beverage Company, known as SoBe. In prior experience, Mr. Snyder served as Controller for National Football League Properties, Inc., and in various roles at PriceWaterhouseCoopers during an eight-year tenure. Mr. Snyder earned a B.S. in Accounting from the State University of New York at Albany.

Thomas J. Spisak has served as Chief Financial Officer of Reed’s since December 2019. Prior to joining Reed’s, Mr. Spisak provided financial leadership, including extensive expertise over a broad range of finance functions during his 26 year tenure in the North America region of Diageo, a multinational alcoholic beverage company with net sales over UK £12.9 billion (U.S. $16 billion). Mr. Spisak held numerous positions in multiple divisions of Diageo, most recently serving as Vice President of Finance and Controller of North America. Previously, he held positions of Vice President of Commercial Finance, Director of Business Performance and Senior Finance Director of Marketing and Innovation Decision Support, as well as other roles in finance. Prior to Diageo, Mr. Spisak served at International Masters Publishers, Inc., a private company with publishing activities in 35 countries. Mr. Spisak holds an MBA in International Business from Fairfield University and a Bachelor of Science in Finance from the University of Rhode Island.

Christopher J. Reed founded our company in 1987. Since inception, Mr. Reed has served in the roles of Chairman, President, and Chief Executive Officer, and is currently the company's Chief Innovation Officer. Mr. Reed has been a non-independent Director since our incorporation in 1991. Mr. Reed also served as Chief Financial Officer during fiscal year 2007 until October 1, 2007 and again from April 17, 2008 to January 19, 2010. Mr. Reed remains a Director of the company with the election of John Bello as Chairman of the Board by fellow Board members. Mr. Reed has been responsible for our design and products, including the original product recipes, the proprietary brewing process and the packaging and marketing strategies. Mr. Reed received a B.S. in Chemical Engineering in 1980 from Rensselaer Polytechnic Institute in Troy, New York.

Neal Cohane has served as Reed's Chief Sales Officer since March of 2008 and previously as Vice President of Sales since August 2007. From March 2001 until August 2007, Mr. Cohane served in various senior-level sales and executive positions for PepsiCo, most recently as Senior National Accounts Manager, Eastern Division. In this capacity, Mr. Cohane was responsible for all business development and sales activities within the Eastern Division. From March 2001 until November 2002, Mr. Cohane served as Business Development Manager, Non-Carbonated Division within PepsiCo where he was responsible for leading the non-carbonated category build-out across the Northeast Territory. From 1998 to March 2001, Mr. Cohane spent three years at South Beach Beverage Company, most recently as Vice President of Sales, Eastern Region. From 1986 to 1998, Mr. Cohane spent approximately twelve years at Coca-Cola of New York where he held various senior-level sales and managerial positions, most recently as General Manager New York. Mr. Cohane holds a B.S. degree in Business Administration from Merrimack College in North Andover, Massachusetts.

John J. Bello is Reed's Board Chairman, has served since November 29, 2016 and is a sales and marketing expert. He also served as Interim Chief Executive from September 30, 2019 through February 29, 2020. Since 2001, Mr. Bello has been the Managing Director of JoNa Ventures, a family venture fund. From 2004 to 2012 Mr. Bello also served as Principal and General Partner at Sherbrooke Capital, a venture capital group dedicated to investing in leading, early stage health and wellness companies. Mr. Bello is the founder and former CEO of South Beach Beverage Company, the maker of nutritionally enhanced teas and juices marketed under the brand name SoBe. The company was sold to PepsiCo in 2001 for $370 million and in the same year Ernst and Young named Mr. Bello National Entrepreneur of the Year in the consumer products category for his work with SoBe. Before founding SoBe, Mr. Bello spent fourteen years at National Football League Properties, the marketing arm of the NFL and served as its President from 1986 to 1993. As the President, Mr. Bello has been credited for building NFL Properties into a sports marketing leader and creating the model by which every major sports league now operates.

Prior to working for the NFL, Mr. Bello served in marketing and strategic planning capacities at the Pepsi Cola Division of PepsiCo Inc. and in product management roles for General Foods Corporation on the Sanka and Maxwell House brands. As a board chair, Mr. Bello has also worked with IZZE in brand building, marketing and strategic planning capacities. That brand was also sold to PepsiCo.

Mr. Bello earned his BA from Tufts University, cum laude, and received his MBA from the Tuck School of business at Dartmouth College as an Edward Tuck Scholar. Mr. Bello is extensively involved in non-profit work and currently serves as a Tufts University Trustee and advisory board member (athletics) and the Veteran Heritage Project in Scottsdale, Arizona. Mr. Bello also serves on the board of Rockford Fosgate, a seller of OEM audio equipment, and is executive director of Eye Therapies which has licensed its technology to Bausch and Lomb, who markets a redness reduction eye drop under the *Lumify* brand name.

Daniel J. Doherty III has served as a director since January 10, 2018. Mr. Doherty is the principal of Eastern Investment Company. He is also a principal of Raptor/ Harbor Reeds, SPV, LLC ("Raptor"), the Company's largest stockholder, which beneficially owns approximately 15% of the company's outstanding equity securities as of December 31, 2019, calculated pursuant to Rule 13d-3. Mr. Doherty has joint voting and dispositive control of the equity securities held by Raptor with another of its principals. See Item 13, Certain Relationships and Related Transactions.

James C. Bass has served as a director since September 29, 2017, is Chairman of the Audit Committee and member of the Compensation Committee. Mr. Bass is retired from the position of Chief Financial Officer and Senior Vice President of Sony Interactive Entertainment America LLC, commonly referred to as the PlayStation business of Sony where he joined in 1995 as Vice President of Finance. Mr. Bass has more than thirty-five years of financial and international management experience and was responsible for all of Sony's financial operations and controls including general accounting and financial reporting, planning, analysis and systems, treasury and risk management, internal audit, and federal, state and local income taxes. Prior experience includes holding several senior management positions encompassing fourteen years with Bristol-Myers Squibb Company, gaining international experience running operations in parts of Asia and Europe.

Mr. Bass also spent two years at Wang Laboratories as a Divisional Controller. He started his career in New York at the public accounting firm, Haskins and Sells, now Deloitte & Touche. Mr. Bass received a Bachelor of Business Administration degree in accounting and finance from Pace University, New York City. He is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

Lewis Jaffe has served as a director since October 19, 2016, is Chairman of the Governance Committee and a member of the Audit and Compensation Committees. Since August 2014, Mr. Jaffe is an Executive-in-Residence and Clinical Faculty at the Fred Kiesner Center for Entrepreneurship, Loyola Marymount University. He is also a technology futurist, Executive Coach and Public Speaker. Since January 2010 Mr. Jaffe has served on the board of FitLife Brands Inc. (FTLF:OTCBB) and serves on its audit, compensation and governance committees. Since 2006 he has served on the board of directors of York Telecom, a private company, and serves on its compensation and governance committees. From 2006 to 2008 Mr. Jaffe was Interim Chief Executive Officer and President of Oxford Media, Inc. Mr. Jaffe has also served in executive management positions with Verso Technologies, Inc., Wireone Technologies, Inc., Picturetel Corporation, and he was also previously a Managing Director of Arthur Andersen. Mr. Jaffe was the co-founder of MovieMe Network. Mr. Jaffe also served on the Board of Directors of Benihana, Inc. as its lead independent director from 2004 to 2012.

Mr. Jaffe is a graduate of the Stanford Business School Executive Program, holds a Bachelor of Science from LaSalle University and holds a Masters Professional Director Certification from the American College of Corporate Directors, a public company director education and credentialing program.

Scott R. Grossman has served as a director since September 29, 2017, serves as Chairman of the Compensation Committee and is also a member of the Audit and Governance Committees. Mr. Grossman has nearly two decades of investing and advisory experience in both public and private companies undergoing significant change. Mr. Grossman is the founder and CEO of Vindico Capital LLC, a value-oriented investment firm that invests in public company transformations in partnership with management. Prior to Vindico, Mr. Grossman was a Senior Portfolio Manager at Magnetar Capital, a $13 billion multi-strategy alternative asset manager, which he first joined in 2006. Prior to Magnetar, Mr. Grossman worked at Soros Fund Management in its Private Equity division and Merrill Lynch in its investment banking group. In addition, Mr. Grossman is a non-operating partner and current Board Member at Zeitguide. Mr. Grossman received an MBA from the Stanford Graduate School of Business and a BA from Columbia University where he majored in economics.

Louis Imbrogno, Jr. has served as a director since August 2019. He served a 40-year tenure at PepsiCo, bringing extensive expertise in beverage supply chain and management. At PepsiCo he served in a variety of field operating assignments and staff positions including the role of Senior Vice President of Worldwide Technical Operations. In this role he was responsible for Pepsi-Cola's worldwide beverage quality, concentrate operations, research & development and contract manufacturing, reporting directly to the heads of Pepsi-Cola North America and PepsiCo Beverages International. Since Imbrogno's retirement from PepsiCo, he has consulted for multiple companies including PepsiCo.

Legal Proceedings

From time to time, we are a party to claims and legal proceedings arising in the ordinary course of business. Our management evaluates our exposure to these claims and proceedings individually and in the aggregate and provides for potential losses on such litigation if the amount of the loss is estimable and the loss is probable.

We believe that there are no material litigation matters at the current time. Although the results of such litigation matters and claims cannot be predicted with certainty, we believe that the final outcome of such claims and proceedings will not have a material adverse impact on our financial position, liquidity, or results of operations.

Corporate Governance

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

Director Qualifications

We believe that our directors should have the highest professional and personal ethics and values, consistent with our longstanding values and standards. They should have broad experience at the policy-making level in business or banking. They should be committed to enhancing stockholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all director duties for us. Each director must represent the interests of all stockholders. When considering potential director candidates, the board of directors also considers the candidate's character, judgment, diversity, age and skills, including financial literacy and experience in the context of our needs and the needs of the board of directors.

Director Independence

The board of directors has determined that five members of the board of directors, John J. Bello James C. Bass, Lewis Jaffe, Scott R. Grossman, and Louis Imbrogno, Jr. are independent under the rules of the Nasdaq Stock Market, LLC. We intend to maintain at least five independent directors on our board of directors in the future.

Code of Ethics

Our Chief Executive Officer and all senior financial officers, including the Chief Financial Officer, are bound by a Code of Ethics that complies with Item 406 of Regulation S-B of the Exchange Act. Our Code of Ethics is posted on our website at http://investor.reedsinc.com.

Board Structure and Committee Composition

As of the date of this Annual Report, our board of directors has eight directors and the following four standing committees: an Audit Committee, a Compensation Committee, a Governance Committee and an Operations Committee. The Audit Committee, Compensation Committee and Governance Committee were formed in January 2007. The Operations Committee was formed in May 2017.

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

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

Our Audit Committee is comprised of Lewis Jaffe, Scott R. Grossman and James C. Bass. James C. Bass serves as Chairman of the Audit Committee. We believe James C. Bass meets SEC requirements of an "audit committee financial expert" within the meaning of the Sarbanes Oxley Act of 2002, Section 407(b).

Compensation Committee. Our Compensation Committee assists our Board in determining and developing plans for the compensation of our officers, directors and employees. Our Compensation Committee is comprised of Lewis Jaffe, James C. Bass and Scott R. Grossman. Scott R. Grossman serves as Chairman of our Compensation Committee. In affirmatively determining the independence of a director who will serve on the compensation committee, the Company's Board considered all factors specifically relevant to whether the director has a relationship to the Company which is material to the director's ability to be independent from management in connection with the duties of a committee member, including, without limitation: (1) the source of compensation of the director, including any consulting, advisory or other compensatory fee paid by the Company; and (2) whether the director is affiliated with the Company, or an affiliate of the Company. Specific responsibilities include the following:

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

Governance Committee. Our Governance Committee assists the board of directors by identifying and recommending individuals qualified to become members of our board, reviewing correspondence from our stockholders, and establishing, evaluating and overseeing our corporate governance guidelines. Our Governance Committee is currently comprised of Lewis Jaffe and Scott R. Grossman. Lewis Jaffe serves as Chairman of the Governance Committee. The board of directors has determined all of the members of the Nominations and Governance Committee are independent under the rules of the Nasdaq Stock Market, LLC. Our board of directors has adopted a written charter for the Nominations and Corporate Governance Committee.

Specific responsibilities include the following:

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

Operations Committee. Our Operations Committee assists the board of directors in fulfilling its oversight responsibilities for matters relating to the Company's operations, particularly those aspects which are most likely to affect stockholder value. Our Operations Committee is currently comprised of Lewis Jaffe and Christopher J. Reed. In furtherance of this purpose, the Operations Committee has the following general oversight responsibilities:

- reviewing and providing strategic advice and counsel to the Company regarding the business operations; and
- presenting to the Board an independent assessment of the Company's business operations as it relates to strategic initiatives.

Delinquent Section 16(a) Reports

To our knowledge, based solely upon a review of Forms 3 and 4 and amendments thereto filed on EDGAR during our most recent fiscal year, the following individuals each filed one late Form 4: Daniel J. Doherty III, Scott R. Grossman, Lewis Jaffe, James C. Bass (two transactions), John Bello, Christopher J. Reed (nine transactions). Unless otherwise indicated, each late Form 4 filing covered one transaction. None of our officers or directors filed Form 5.

Item 11. Executive Compensation

The following table summarizes all compensation for fiscal years 2019 and 2018 earned by our "Named Executive Officers" during the reported periods:

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	All Other Compensation (2)	Total
Norman E. Snyder, Jr.	**2018**					
Chief Executive Officer (Former Chief Operating Officer)	**2019**	$ 59,776	-	-	$ 62,610	$ 122,386
John J. Bello	**2018**			$ 379,540	$ 123,333	$ 502,873
(Former Interim Chief Executive Officer, Chairman) (3)	**2019**			$ 127,200	$ 104,167	$ 231,367
Valentin Stalowir	**2018**	$ 312,500	$ 291,597	$ 315,578	$ 6,490	$ 926,165
Former Chief Executive Officer	**2019**	$ 384,632(4)	-	$ 749,911	$ -	$1,134,543
Christopher J. Reed	**2018**	$ 227,000	-	-	-	$ 227,000
Chief Innovation Officer	**2019**	$ 141,875	-	-	-	$ 141,875
Thomas J. Spisak	**2018**	-	-	-	-	-
Chief Financial Officer	**2019**	20,833	-	-	-	20,833
Iris Snyder	**2018**	$ 143,109	$ 24,688	-	$ 4,121	$ 171,619
Former Chief Financial Officer	**2019**	$ 234,945(5)	-	-	$ 6,300	$ 241,245
Daniel V. Miles	**2018**	$ 210,936(6)	$ 207,000	-	-	$ 417,936
Former Chief Financial Officer	**2019**	$ 352,240(7)	-	-	-	$ 352,240
Stefan Freeman	**2018**	$ 225,000	$ 19,045	$ 100,000	$ 7,200	$ 351,245
Former Chief Operating Officer	**2019**	$ 264,398(8)	-	-	$ 6,600	$ 270,998
Neal Cohane	**2018**	$ 210,000	$ 20,146		$ 3,000	$ 233,146
(Sr. Vice President Sales)	**2019**	$ 210,000			$ 3,000	$ 213,000

(1) The amounts represent the fair value for share-based payment awards issued during the year. The award is calculated on the date of grant in accordance with Financial Accounting Standards.
(2) Other compensation includes both cash payments and the estimated value of the use of company assets.
(3) Mr. Bello served as Interim Chief Executive Officer from September 30, 2019 through February 29, 2020. His director compensation was suspended during the period as his service as Interim Chief Executive Officer. Director compensation of $37,500 and consulting fees of $66,667. Mr. Bello was issued 200,000 RSAs as compensation for his services as Interim Chief Executive Officer on February 25, 2020 for his service from September 30, 2019 through February 29, 2020. Pro-rata portion of this award earned during 2019 is included in this table. In 2018, board compensation was $37,500 and consulting fees of $85,833.
(4) Includes severance and vacation payout due to termination in the amount of $100,081.
(5) Includes vacation payout due to termination in the amount of $7,541.
(6) Includes stay bonus and severance in the amount of $80,776.
(7) Includes severance of $352,240
(8) Includes severance and vacation payout due to termination in the amount of $54,686.

Employment Agreements

<u>Norman Snyder</u>

On February 19, 2020, the board promoted Mr. Snyder to the position of Chief Executive Officer, effective March 1, 2020. Mr. Snyder succeeded John Bello who served as Interim Chief Executive Officer from September 30, 2019 through February 29, 2020. The board granted Mr. Snyder a one-time bonus of 150,000 RSAs vesting March 1, 2020, subject to the conditions and limitations of the Company's Second Amended and Restated 2017 Incentive Compensation Plan, in conjunction with his promotion.

We are in the process of finalizing an amendment to Mr. Snyder's executive employment agreement dated September 30, 2019 to reflect the terms for his service in his new position as Chief Executive Officer. His base annual salary was increased to $300,000 from $250,000 effective March 1, 2020, the effective date of his promotion to Chief Executive Officer.

Pursuant his employment agreement currently in effect, on February 25, 2020, he received an equity award of 446,000 stock options, one-half scheduled to vest in equal increments on an annual basis for four years and remainder to vest based on performance criteria to be determined by the board of directors (or compensation committee of the board). Mr. Snyder's performance-based cash bonus was set at a target amount of 30% of base salary for the term of his service as Chief Operating Officer. The agreement provides for acceleration of equity grants triggered by a "change of control", as defined in the agreement and contains confidentiality, invention assignment and non-solicitation covenants. Mr. Snyder is also eligible to participate in the Company's benefit plans available to its executive officers.

<u>John J. Bello</u>

On February 19, 2020 the board of directors granted John Bello 200,000 RSAs, vesting March 1, 2020, as compensation for his services as Interim Chief Executive from September 30, 2019 through February 29, 2020.

<u>Thomas J. Spisak</u>

We entered into an at-will employment agreement with Thomas J. Spisak to serve as the Chief Financial Officer of Reed’s, effective December 2, 2019. The agreement may be terminated by the Company or Mr. Spisak, with or without notice and with or without cause, pursuant to the terms of the agreement. Mr. Spisak receives a base salary of $250,000 per year. Mr. Spisak is also eligible to receive performance-based cash bonus at a target amount of 30% of his base salary. Pursuant to his employment agreement, Mr. Spisak received an initial equity award of 150,000 incentive stock options and 150,000 restricted stock awards on March 3, 2020, one-half of the award (75,000 options and 75,000 restricted stock awards) vesting in equal increments on an annual basis for four years and the remainder (75,000 options and 75,000 restricted stock awards) vesting based on performance criteria to be determined by the board of directors or compensation committee. Mr. Spisak is also eligible to participate in Reed’s other benefit plans available to its executive officers. The agreement contains customary confidentiality, non-competition and invention assignment covenants.

Stefan Freeman

On November 22, 2019, we entered into a Separation, Settlement and Release of Claims Agreement with Stefan Freeman, our former Chief Operating Officer in connection with Mr. Freeman’s resignation from his position as Chief Operating Officer of Reed’s and the subsequent termination of his employment effective November 30, 2019. The agreement supersedes and replaces his Employment Agreement dated October 4, 2017 and provides for the payment of certain severance benefits by Reed’s to Mr. Freeman including the following: (a) salary continuation in an amount equal to 7 months’ salary at Mr. Freeman’s base salary rate, less all applicable withholdings and (b) payment of Mr. Freeman’s COBRA premium for earlier of seven months or until commencement of coverage sponsored by subsequent employer (including employer of spouse). In addition, the Separation Agreement contains a general mutual release related to Mr. Freeman’s employment with the Reed’s and customary confidentiality, non-disclosure, non-solicitation and non-disparagement provisions.

Valentin Stalowir

On October 31, 2019, we entered into a Separation, Settlement and Release of Claims Agreement with Valentin Stalowir, our former Chief Executive Officer in connection with Mr. Stalowir's resignation from his position as Chief Executive Officer of Reed's and the subsequent termination of his employment on October 31, 2019. The agreement supersedes and replaces his Employment Agreement dated June 28, 2019 (as amended) and provides for the payment of certain severance benefits by Reed's to Mr. Stalowir including the following: (a) salary continuation in an amount equal to approximately 11 months' salary at Mr. Stalowir's base salary rate, less all applicable withholdings; (b) payment of Mr. Stalowir's COBRA premium for earlier of eleven months or until commencement of coverage sponsored by subsequent employer; (c) memorialization of terms of Mr. Stalowir's stock options reflecting conversion of 461,554 incentive stock options vested through the Separation Date to an equal number of nonqualified stock options exercisable through October 31, 2022; (d) acceleration of 50,000 shares of common stock of Reed's underlying previously granted restricted stock awards plus delivery of all previously vested restricted stock awards and (e) payment of certain legal accounting fees and expenses incurred by Mr. Stalowir negotiating his separation. In addition, the agreement contains a general mutual release related to Mr. Stalowir's employment with the Reed's customary confidentiality, non-disclosure, non-solicitation and non-disparagement provisions.

Daniel V. Miles

On August 15, 2018, we entered into a Separation, Settlement and Release of Claims Agreement with Daniel V. Miles in connection with Mr. Miles' resignation from his position as Chief Financial Officer of Reed's and the termination of his employment. Pursuant to the agreement, for a period of one year, Mr. Miles agreed to make himself available, to the extent reasonably requested by Reed's, for the purpose of assisting with the transition of his duties, on an hourly basis. The agreement provided for the following payments to Mr. Miles: (a) salary continuation in an amount equal to 12 months' salary at Mr. Miles's base salary rate plus annual cash bonus, less all applicable withholdings, and subject to deduction of net compensation received by Mr. Miles from subsequent employment or engagement during this period; (b) payment of the lesser of (i) Mr. Miles' COBRA premium or (ii) active employee rates payable pursuant to subsequent-employer sponsored health care coverage, for twelve months; and (c) settlement amount in the sum of $207,200.00, paid through the issuance of a promissory note by Reed's in favor of Mr. Miles, which note matured on August 15, 2019. The agreement memorialized of the terms of Mr. Miles' currently exercisable stock options at the time. In addition, the agreement contains a general release by Mr. Miles related to Mr. Miles's employment with the Company, customary confidentiality and non-disclosure provisions and a non-disparagement clause.

Executive Officers without Employment Agreements

Christopher J. Reed is currently paid an annual salary of $113,500. Neal Cohane is paid an annual salary of $210,000. Bonuses for these individuals are discretionary.

Outstanding Equity Awards at Year-End

The following table sets forth information regarding unexercised options and equity incentive plan awards for each Named Executive Officer outstanding as of December 31, 2019:

Name and Position	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Exercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date
Norman E. Snyder, Jr. Chief Executive Officer, Former Chief Operating Officer	-	-	-		
Valentin Stalowir	371,218			$ 1.70	1/10/2028
Former Chief Executive Officer	90,286			$ 1.60	3/28/2028
Christopher J. Reed Chief Innovation Officer	40,000			$ 5.01	1/16/2020
Thomas J, Spisak Chief Financial Officer					
Iris Snyder Former Chief Financial Officer					
Daniel V. Miles Former Chief Financial Officer	100,000			$ 1.60	4/8/2024
Stefan Freeman Former Chief Operating Officer	30,000			$ 3.74	10/1/2026
Neal Cohane	40,000			$ 5.01	1/16/2020
Chief Sales Officer	82,031	46,875(A)		$ 1.60	3/28/2028
		93,750(B)		$ 1.60	3/28/2028
		140,625(C)		$ 1.60	3/28/2028

(A) These options will vest in 2020.
(B) These options vest 25% per year beginning in 2020.

(C) These options vest in accordance with performance criteria established by the board of directors.

Director Compensation

The following table summarizes the compensation paid to our non-employee directors for the year ended December 31, 2019:

Name	Fees Earned or Paid in Cash	Stock Awards (1)	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
John J. Bello	$ 104,167	$ 30,000	-	-	-	$ 134,167
Lewis Jaffe	$ 50,000	$ 30,000	-	-	-	$ 80,000
Daniel J. Doherty III	$ 50,000	-	-	-	-	$ 50,000
James Bass	$ 50,000	$ 30,000	-	-	-	$ 80,000
Scott R. Grossman	$ 50,000	$ 30,000	-	-	-	$ 80,000
Louis Imbrogno, Jr.	$ 20,833	$ 2,928	-	-	-	$ 23,761

(1) The amounts represent the fair value of restricted stock awards granted during the year. The award is calculated on the date of grant in accordance with Financial Accounting Standards, excluding any impact of assumed forfeiture rates. Mr. Bello's director fees and awards are also reported in the Executive Compensation Table.

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

The following table sets forth certain information regarding our shares of common stock beneficially owned as of March 16, 2020 for (i) each Named Executive Officer and director, and (ii) all Named Executive officers and directors as a group and (iii) each stockholder known to be the beneficial owner of 5% or more of our outstanding shares of common stock. A person is considered to beneficially own any shares (i) over which such person, directly or indirectly, exercises sole or shared voting or investment power or (ii) of which such person has the right to acquire beneficial ownership at any time within 60 days through an exercise of stock options or warrants or otherwise. Unless otherwise indicated, voting and investment power relating to the shares shown in the table for our directors and executive officers is exercised solely by the beneficial owner or shared by the owner and the owner's spouse or children.

For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares of common stock that such person has the right to acquire within 60 days of March 16, 2020. For purposes of computing the percentage of outstanding shares of our common stock held by each person or group of persons named above, any shares that such person or persons has the right to acquire within 60 days of March 16, 2020 is deemed to be outstanding but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. The inclusion herein of any shares listed as beneficially owned does not constitute an admission of beneficial ownership. Except as otherwise indicated below, the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them. Unless otherwise indicated, the principal address of each listed executive officer and director is 201 Merritt 7 Corporate Park, Norwalk, Connecticut 06851.

[UPDATE TO ADD NEWLY LISTED PERSONS]

Named Beneficial Owner ***Directors and Named Executive Officers***	**Number of Shares Beneficially Owned**	**Percentage of Shares Beneficially Owned (1)**
John J. Bello (2)	3,135,005	6.6%
Daniel J. Doherty III (3)	7,899,314	14.9%
Christopher J. Reed (4)	1,515,990	3.2%
Neal Cohane (5)	323,308	0.7%
Norman E. Snyder, Jr.	400,000	0.8%
Lewis Jaffe (6)	197,091	0.4%
James C. Bass (7)	151,292	0.3%
Scott R. Grossman (8)	123,119	0.3%
Louis Imbrogno (9)	39,067	0.1%
Thomas J. Spisak	-	0.0%
Daniel V. Miles	10,000	0.0%
Iris Snyder	41,666	0.1%
Valentin Stalowir (10)	907,603	1.9%
Stefan Freeman	15,725	*
Directors and Named Executive Officers as a group (14 persons)	14,224,428	26.4%
5% or greater stockholders		
Raptor/ Harbor Reed SPV LLC (11)	7,879,314	14.9%
Handelsbanken Asset Management	3,375,000	7.1%
Union Square Park Partners	3,024,284	6.4%

* Less than 1%
(1) Based on 47,545,207 shares outstanding as of December 31, 2019.
(2) Includes 183,201 shares issuable upon exercise of currently-exercisable options.
(3) Mr. Doherty has joint voting and dispositive control of the equity securities held by Raptor with another of its principals.
(4) Christopher J. Reed, director and Chief Innovation Officer, and Judy Holloway Reed, are husband and wife and share beneficial ownership of these shares. Mr. Reed is a Named Executive Officer. Ms. Reed is not a Named Executive Officer. Includes 40,000 shares issuable upon exercise of currently-exercisable options.
(5) Includes 122,031 shares issuable upon exercise of currently-exercisable options.
(6) Includes 30,000 shares issuable upon exercise of currently-exercisable options.
(7) Includes 30,000 shares issuable upon exercise of currently-exercisable options.
(8) Includes 30,000 shares issuable upon exercise of currently-exercisable options.
(9) Includes 9,900 shares issuable upon exercise of currently-exercisable options.
(10) Includes 461,554 shares issuable upon exercise of currently-exercisable options.
(11) Principal address is 280 Congress Street, 12th Floor Boston, Massachusetts 02210. Includes 3,143,333 shares of common stock issuable upon exercise of currently-exercisable warrants. Also includes 2,266,667 shares of common stock issuable upon conversion of the Convertible Non-Redeemable Secured Promissory Note in the original principal amount of $3,400,000.

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

Certain Relationships and Related Transactions

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

If a related person proposes to enter into such a transaction, arrangement or relationship, defined as a "related party transaction," the related party must report the proposed related party transaction to our Chief Financial Officer. The policy calls for the proposed related party transaction to be reviewed and, if deemed appropriate, approved by the Governance Committee. Our Governance Committee is comprised of John Bello, Lewis Jaffe and Scott R. Grossman. Mr. Jaffe serves as Chairman. The board of directors has determined all of the members of the Governance Committee are independent under the rules of the Nasdaq Stock Market, LLC. If practicable, the reporting, review and approval will occur prior to entry into the transaction. If advance review and approval is not practicable, the Governance Committee will review, and, in its discretion, may ratify the related party transaction. Any related party transactions that are ongoing in nature will be reviewed annually at a minimum. The related party transactions listed below were reviewed by the full board of directors. Prior to August 2005, we did not have independent directors on our board to review and approve related party transactions. The Governance Committee shall review future related party transactions.

The following includes a summary of transactions since the beginning of fiscal 2019 or any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds the lesser of $120,000 or one percent of the average of our total assets at year-end for the last two completed fiscal years and in which any related person had or will have a direct or indirect material interest (other than compensation described under "Executive Compensation"). We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to or better than terms available or the amounts that would be paid or received, as applicable, in arm's-length transactions.

Transactions with California Custom Beverage, LLC, ("CCB")

On December 31, 2018, the Company completed the sale of the Company's Los Angeles manufacturing plant to California Custom Beverage, LLC, ("CCB"), an entity owned by Chris Reed, founder, Chief Innovation Officer and a member of our board of directors of Reed's. By the terms of the sale, CCB was to reimburse the Company for certain costs such as sales tax arising from the transaction and prepayments. Such costs aggregated $195,000 which is reflected as Receivable from Related Party on the accompanying balance sheet as of December 31, 2018, and was collected from CCB during the year ended December 31, 2019.

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. For the year ended December 31, 2019, the Company recorded royalty revenue from CCB of $128,000 which is recorded as a receivable at December 31, 2019. In addition, at December 31, 2019, the Company has outstanding receivable from CCB of $228,000 consisting of inventory advances to CCB.

In 2018, we entered into a three-year co-packing agreement with CCB, whereby CCB produces Reed's beverages in glass bottles at prevailing West Coast market rates. During the year ended December 31, 2019, purchases from CCB under our co-packing agreement amounted to $1,600,00 and at December 31, 2019, accounts payable to CCB totaled $182,000. [Please see correction to date in notes to financials]

<u>Other</u>

Lindsay Martin, daughter of a director of John J. Bello, continued her employment with Reed's as Vice President of Marketing during the year ended December 31, 2019. She was paid approximately $161,000 for her services in 2019.

Item 14. Principal Accounting Fees and Services

Weinberg & Company, P.A. (“Weinberg”) was our independent registered public accounting firm for the years ended December 31, 2019 and 2018.

The following table shows the fees paid or accrued by us for the audit and other services provided by Weinberg for the years ended December 31, 2019 and 2018:

	2019	2018
Audit Fees	$ 267,184	$ 209,723
Audit-Related Fees	-	-
Tax Fees	63,561	31,762
All Other Fees	83,670	28,331
Total	$ 414,415	$ 269,816

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

Audit Fees

Weinberg provided services for the audits of our financial statements included in Annual Reports on Form 10-K and limited reviews of the financial statements included in Quarterly Reports on Form 10-Q.

Audit Related Fees

Weinberg did not provide any professional services which would be considered “audit related fees.”

Tax Fees

Weinberg prepared our 2019 and 2018 Federal and state income tax returns.

All Other Fees

Services provided by Weinberg with respect to the filing of various registration statements made throughout the year are considered “all other fees.”

Audit Committee Pre-Approval Policies and Procedures

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

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

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

PART IV

Item 15. Exhibits and Financial Statements

(a) 1. Financial Statements

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

2. Financial Statement Schedules

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

3. Exhibits

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

(b) Exhibits

See Item 15(a) (3) above.

(c) Financial Statement Schedules

See Item 15(a) (2) above.

Item 16. Form 10K Summary

The Company has elected not to provide summary information.

SIGNATURES

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

Date: March 18, 2020

REED'S, INC.
a Delaware corporation

By: */s/ Norman E. Snyder, Jr.*
Norman E. Snyder, Jr.
Chief Executive Officer

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

Signature	Title	Date
/s/ Norman E. Snyder, Jr. Norman E. Snyder, Jr.	Chief Executive Officer, (Principal Executive Officer), Director	March 18, 2020
/s/ Thomas J. Spisak Thomas J. Spisak	Chief Financial Officer (Principal Financial Officer)	March 18, 2020
/s/ John J. Bello John J. Bello	Chairman of the Board	March 18, 2020
/s/ Christopher J. Reed Christopher J. Reed	Chief Innovation Officer, Director	March 18, 2020
/s/ Lewis Jaffe Lewis Jaffe	Director	March 18, 2020
/s/ Daniel J. Doherty III Daniel J. Doherty III	Director	March 18, 2020
/s/ James C. Bass James C. Bass	Director	March 18, 2020
/s/ Scott R. Grossman Scott R. Grossman	Director	March 18, 2020
/s/ Louis Imbrogno, Jr. Louis Imbrogno, Jr.	Director	March 18, 2020

EXHIBIT INDEX

3.1	Certificate of Incorporation of Reed's, Inc. as filed September 7, 2001 (Incorporated by reference to Exhibit 3.1 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-120451))
3.2	Certificate of Amendment of Certificate of Incorporation of Reed's, Inc. as filed September 27, 2004 (Incorporated by reference to Exhibit 3.2 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-120451))
3.3	Certificate of Amendment of Certificate of Incorporation of Reed's, Inc. as filed December 18, 2007 (Incorporated by reference to Exhibit 3.3 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-156908))
3.4	Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Reed's, Inc. as filed October 12, 2004 (Incorporated by reference to Exhibit 3.3 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-120451))
3.5	Certificate of Correction to Certificate of Designations as filed November 10, 2004 (Incorporated by reference to Exhibit 3.4 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-120451))
3.6	Certificate of Amendment of Certificate of Incorporation of Reed's, Inc., as filed October 10, 2017 (Incorporated by reference to Exhibit 3.6 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-221059)
3.7	Certificate of Amendment of Certificate of Incorporation of Reed's, Inc., as filed December 17, 2018 (Incorporated by reference to Exhibit 10.31 to Reed's Inc. Annual Report on Form 10K for the year ended December 31, 2018, as filed April 1, 2019)
3.8	Amended and Restated Bylaws of Reed's Inc. (Incorporated by reference to Exhibit 3.6 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-220184))
3.9	Certificate of Amendment of Certificate of Incorporation of Reed's, Inc., as filed December 27, 2019, filed herewith.
4.1	Form of common stock certificate (Incorporated by reference to Exhibit 4.1 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-120451))
4.2	Form of Series A preferred stock certificate (Incorporated by reference to Exhibit 4.2 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-120451))
4.3	Form of Warrant issued to investors dated June 2, 2016 (Incorporated by reference to exhibit 4.1 to Reed's Inc.'s Current Report on Form 8-K as filed June 3, 2016)
4.4	Placement Agent Warrant issued to Maxim Group LLC dated June 2, 2016 (Incorporated by reference to exhibit 4.2 to Reed's Inc.'s Current Report on Form 8-K as filed June 3, 2016)
4.5	Form of Common Stock Purchase Warrant issued November 9, 2015 (Incorporated by reference to exhibit 10.1 to Reed's Inc.'s Quarterly Report on Form 10Q for the period ended March 31, 2016, as filed May 11, 2016)
4.6	Form of Common Stock Purchase Warrant issued October 1, 2014 (Incorporated by reference to exhibit 10.4 to Reed's Inc.'s Quarterly Report on Form 10Q for the period ended March 31, 2016, as filed May 11, 2016)
4.7	Form of 2017-1 Warrant (Incorporated by reference to exhibit 4.1 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)
4.8	Form of 2017-2 Warrant (Incorporated by reference to exhibit 4.2 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)
4.9	Form of Subordinated Convertible Non-Redeemable Secured Promissory Note dated April 21, 2017 (Incorporated by reference to exhibit 4.3 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)
4.10	Form of 2017-3 Warrant (Incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K, filed July 14, 2017)
4.11	Form of 2017-4 Warrant (Incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K, filed July 14, 2017)
4.12	Form of Warrant Certificate issued in 2018 rights offering (Incorporated by reference to Exhibit 4.12 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-221059)
4.13	Form of Warrant Agreement (Incorporated by reference to Exhibit 3.6 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-221059)
4.14	Form of Warrant issuable to Raptor/ Harbor Reeds SPV, LLC pursuant to Backstop Agreement (Incorporated by reference to Exhibit 4.14 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-221059)
10.1	Placement Agent Agreement by and between Maxim Group LLC and Reed's Inc. dated May 26, 2016 (Incorporated by reference to exhibit 10.1 to Reed's Inc.'s Current Report on Form 8-K as filed June 3, 2016)

10.2	Securities Purchase Agreement by and between Reed's Inc. and purchasers signatory thereto dated May 26, 2016 (Incorporated by reference to exhibit 10.2 to Reed's Inc.'s Current Report on Form 8-K as filed June 3, 2016)
10.3	Registration Rights Agreement by and between Reed's Inc. and purchasers signatory thereto dated May 26, 2016 (Incorporated by reference to exhibit 10.3 to Reed's Inc.'s Current Report on Form 8-K as filed June 3, 2016)
10.4*	2007 Stock Option Plan (Incorporated by reference to Exhibit 10.22 to Reed's, Inc.'s Form 10-K filed March 27, 2009)
10.5*	2015 Incentive and Nonstatutory Stock Option Plan (Incorporated by reference to Exhibit 4.2 to Reed's Inc.'s Registration Statement on Form S-8 (File No. 333-203469), as filed April 17, 2015)
10.6	Amended and Restated Loan and Security Agreement by and between Reed's Inc. and PMC Financial Services, LLC dated December 5, 2014 (Incorporated by reference to exhibit 10.3 to Reed's Inc.'s Quarterly Report on Form 10Q for the period ended March 31, 2016, as filed May 11, 2016)
10.7	Amendment Number One Standard Industrial Commercial Single Tenant Lease-Net by and between Reed's Inc. and 525 South Douglas Street, LLC dated May 7, 2009 (Incorporated by reference to exhibit 10.4 to Reed's Inc.'s Quarterly Report on Form 10Q for the period ended March 31, 2016, as filed May 11, 2016)
10.8	Securities Purchase Agreement by and between Reed's Inc. and Raptor/Harbor Reeds SPV LLC dated April 21, 2017 (Incorporated by reference to exhibit 10.1 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)
10.9	Second Lien Security Agreement by and between Reed's Inc. and Raptor/Harbor Reeds SPV LLC dated April 21, 2017 (Incorporated by reference to exhibit 10.2 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)
10.10	Form of Registration Rights Agreement by and between Reed's Inc. and Raptor/Harbor Reeds SPV LLC dated April 21, 2017 (Incorporated by reference to exhibit 10.3 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)
10.11	Amendment Number Fifteen to Amended and Restated Loan and Security Agreement between Reed's Inc. and PMC Financial Services Group, LLC dated April 21, 2017 (Incorporated by reference to exhibit 10.4 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)
10.12	Warrant Exercise Agreement by and between Reed's Inc. and Raptor/Harbor Reeds SPV LLC dated July 13, 2017 (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed July 14, 2017)
10.13	Form of Warrant Exercise Agreement by and between Reed's Inc. and three investors dated July 13, 2017 (Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed July 14, 2017)
10.14*	Executive Employment Agreement effective as of June 28, 2017 by and between Reed's Inc. and Valentin Stalowir (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed July 13, 2017)
10.15*	2017 Incentive Compensation Plan (Incorporated by reference to Exhibit 4.2 to Reed's, Inc.'s Registration Statement on Form S-8 (File No. 333-222741))
10.16	Form of Backstop Agreement by and between Reed's Inc. and Raptor/ Harbor Reeds SPV, LLC(Incorporated by reference to Exhibit 10.16 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-220184))
10.17*	Executive Employment Agreement by and between Reed's Inc. and Stefan Freeman dated October 4, 2017 (Incorporated by reference to Exhibit 10.1 to Form 8-K dated September 29, 2019)
10.18	Financing Agreement by and between Reed's Inc. and Rosenthal & Rosenthal Inc. dated October 4, 2018 (Incorporated by reference to Exhibit 10.1 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2018, as filed November 14, 2018)

10.19	Inventory Security Agreement by and between Reed's Inc. and Rosenthal & Rosenthal Inc. dated October 4, 2018 (Incorporated by reference to Exhibit 10.2 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2018, as filed November 14, 2018)
10.20	Intellectual Property Security Agreement by and between Reed's Inc. and Rosenthal & Rosenthal Inc. dated October 4, 2018 (Incorporated by reference to Exhibit 10.3 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2018, as filed November 14, 2018)
10.21	Security Interest (short form) by Reed's Inc. in favor of Rosenthal & Rosenthal Inc. dated October 4, 2018 (Incorporated by reference to Exhibit 10.4 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2018, as filed November 14, 2018)
10.22	Subordination Agreement by and among Rosenthal & Rosenthal Inc., Raptor/Harbor Reeds SPV LLC and Reed's Inc. dated October 4, 2018 (Incorporated by reference to Exhibit 10.5 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2018, as filed November 14, 2018)
10.23	First Amendment to Securities Purchase Agreement and Transaction Documents by and between Raptor/Harbor Reeds SPV LLC and Reed's Inc. dated October 4, 2018 (Incorporated by reference to Exhibit 10.6 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2018, as filed November 14, 2018)
10.24	Sublease Agreement by and between Reed's Inc., Merritt 7 Venture L.L.C., and GE Capital US Holdings, Inc., dated September 1, 2018 (Incorporated by reference to Exhibit 10.7 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2018, as filed November 14, 2018)
10.25*	Separation, Settlement and Release of Claims Agreement by and between Reed's Inc. and Daniel V. Miles dated August 15, 2018 (Incorporated by reference to Exhibit 10.8 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2018, as filed November 14, 2018)
10.26	Amendment to Transaction Documents dated December 18, 2018 by and between Reed's Inc. and Raptor Harbor Reed's SPV LLC, previously filed with this registration statement on Form S-3.
10.27	Asset Purchase Agreement by and between Reed's Inc. and California Custom Beverage LLC dated December 31, 2018 (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, as amended, dated December 31, 2018)
10.28	Assignment and Assumption of Lease and Consent of Lessor by and between Reed's Inc. and California Custom Beverage LLC dated December 31, 2018. (Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, as amended, dated December 31, 2018)
10.29	Transition Services Agreement by and between Reed's Inc. and California Custom Beverage LLC dated December 31, 2018. (Incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K, as amended, dated December 31, 2018)
10.30	Referral Agreement by and between Reed's Inc. and California Custom Beverage LLC dated December 31, 2018 (Incorporated by reference to Exhibit 10.4 to Current Report on Form 8-K, as amended, dated December 31, 2018)
10.31	Form of Indemnification Agreement by and between the Company and officers and directors, (Incorporated by reference to Exhibit 10.31 to Reed's Inc. Annual Report on Form 10K for the year ended December 31, 2018, as filed April 1, 2019)
10.32*	Amendment No. 1 to Employment Agreement by and between Reed's Inc. and Valentin Stalowir dated September 29, 2019 (Incorporated by reference to Exhibit 10.3 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2019, as filed November 13, 2019)
10.33*	Employment Agreement by and between Reed's Inc. and Norman Snyder dated September 30, 2019 (Incorporated by reference to Exhibit 10.2 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2019, as filed November 13, 2019)
10.34	Manufacturing and Distribution Agreement by and between Reed's Inc. and B C Marketing Concepts Inc., dba Full Sail Brewing Company dated October 11, 2019 (Incorporated by reference to Exhibit 10.3 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2019, as filed November 13, 2019)
10.35	Recipe Development Agreement Reed's Inc. and B C Marketing Concepts Inc., dba Full Sail Brewing Company dated October 11, 2019 (Incorporated by reference to Exhibit 10.4 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2019, as filed November 13, 2019)
10.36*	Separation, Settlement and Release of Claims Agreement between Reed's Inc. and Valentin Stalowir dated October 31, 2019 (Incorporated by reference to Exhibit 10.5 to Reed's Inc. Quarterly Report on Form 10Q for the period ended September 30, 2019, as filed November 13, 2019)
10.37*	Separation, Settlement and Release of Claims Agreement by and between Reed's Inc. and Stefan Freeman dated November 22, 2019 filed herewith.
10.38*	Executive Employment Agreement by and between Reed's Inc. and Thomas J. Spisak dated December 2, 2019 filed herewith.
14.1	Code of Ethics (Incorporated by reference to Exhibit 14.1 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-157359))
21.	Subsidiaries of Reed's, Inc., filed herewith.

23.1 Consent of Weinberg & Co., P.A., filed herewith.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

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

* Indicates a management contract or compensatory plan or arrangement.

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

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

State of Delaware
Secretary of State
Division of Corporations
Delivered 04:07 PM 12/27/2019
FILED 04:07 PM 12/27/2019
SR 20198891386 - File Number 3433903

CERTIFICATE OF AMENDMENT OF CERTIFICATE OF INCORPORATION OF REED'S, INC.

Reed's, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify:

FIRST: That the Board of Directors of the Corporation has duly adopted resolutions (i) authorizing the Corporation to execute and file with the Secretary of State of the State of Delaware this Certificate of Amendment of Certificate of Incorporation (this "Amendment") to increase its authorized capital stock to One Hundred Million Five Hundred Thousand (100,500,000), of which One Hundred Million (100,000,000) shall be shares of Common Stock having a par value of $.0001 per share and Five Hundred Thousand (500,000) shall be shares of Preferred Stock having a par value of $10.00 per share; and (ii) declaring this Amendment to be advisable, submitted to and considered by the stockholders of the Corporation entitled to vote thereon for approval by the affirmative vote of such stockholders in accordance with the terms of the Corporation's Certificate of Incorporation, as previously amended (the "Certificate of Incorporation") and Section 242 of the General Corporation Law of the State of Delaware (the "DGCL") and recommended for approval by the stockholders of the Corporation.

SECOND: That thereafter, pursuant to resolutions of its Board of Directors, at the annual meeting of the stockholders of said Corporation, duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, the necessary number of shares as required by statute were voted in favor of the Amendment.

THIRD: That this Amendment was duly adopted in accordance with the terms of the Certificate of Incorporation and the provisions of Section 242 of the DGCL by the Board of Directors and stockholders of the Corporation.

FOURTH: The Certificate of Incorporation is amended by amending Article IV thereof to read in its entirety as follows:

The total number of shares of capital stock which the Corporation is authorized to issue is One Hundred Million Five Hundred Thousand (100,500,000), of which One Hundred Million (100,000,000) shall be shares of Common Stock having a par value of $.0001 per share and Five Hundred Thousand (500,000) shall be shares of Preferred Stock having a par value of $10.00 per share. The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized, subject to limitations prescribed by law, to fix by resolution or resolutions the designations, powers, preferences, and rights and the qualifications, limitations, or restrictions thereof, of each such series of Preferred Stock, including without limitation, authority to fix by resolution or resolutions the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any wholly unissued series of Preferred Stock, and the number of shares constituting such series and the designation thereof, or any of the foregoing. The Board of Directors is further authorized to increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any series, the number of which was fixed by it, subsequent to the issue of shares of such series then outstanding, subject to the powers, preferences, and rights and the qualifications, limitations, and restrictions thereof stated in the resolution of the Board of Directors originally fixing the number of shares of such series. If the number of shares of any series is so decreased, then the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment of Certificate of Incorporation to be signed by the Chief Financial Officer of the Corporation on December 20, 2019.

REED'S, INC.

By: Thomas J. Spisak
Title: Chief Financial Officer

Exhibit 3.9

**CERTIFICATE OF AMENDMENT OF
CERTIFICATE OF INCORPORATION OF
REED'S, INC.**

Reed's, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify:

FIRST: That the Board of Directors of the Corporation has duly adopted resolutions (i) authorizing the Corporation to execute and file with the Secretary of State of the State of Delaware this Certificate of Amendment of Certificate of Incorporation (this "Amendment") to increase its authorized capital stock to One Hundred Million Five Hundred Thousand (100,500,000), of which One Hundred Million (100,000,000) shall be shares of Common Stock having a par value of $.0001 per share and Five Hundred Thousand (500,000) shall be shares of Preferred Stock having a par value of $10.00 per share; and (ii) declaring this Amendment to be advisable, submitted to and considered by the stockholders of the Corporation entitled to vote thereon for approval by the affirmative vote of such stockholders in accordance with the terms of the Corporation's Certificate of Incorporation, as previously amended (the "Certificate of Incorporation") and Section 242 of the General Corporation Law of the State of Delaware (the "DGCL") and recommended for approval by the stockholders of the Corporation.

SECOND: That thereafter, pursuant to resolutions of its Board of Directors, at the annual meeting of the stockholders of said Corporation, duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, the necessary number of shares as required by statute were voted in favor of the Amendment.

THIRD: That this Amendment was duly adopted in accordance with the terms of the Certificate of Incorporation and the provisions of Section 242 of the DGCL by the Board of Directors and stockholders of the Corporation.

FOURTH: The Certificate of Incorporation is amended by amending Article IV thereof to read in its entirety as follows:

The total number of shares of capital stock which the Corporation is authorized to issue is One Hundred Million Five Hundred Thousand (100,500,000), of which One Hundred Million (100,000,000) shall be shares of Common Stock having a par value of $.0001 per share and Five Hundred Thousand (500,000) shall be shares of Preferred Stock having a par value of $10.00 per share. The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized, subject to limitations prescribed by law, to fix by resolution or resolutions the designations, powers, preferences, and rights and the qualifications, limitations, or restrictions thereof, of each such series of Preferred Stock, including without limitation, authority to fix by resolution or resolutions the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), redemption price or prices, and liquidation preferences of any wholly unissued series of Preferred Stock, and the number of shares constituting such series and the designation thereof, or any of the foregoing. The Board of Directors is further authorized to increase (but not above the total number of authorized shares of the class) or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any series, the number of which was fixed by it, subsequent to the issue of shares of such series then outstanding, subject to the powers, preferences, and rights and the qualifications, limitations, and restrictions thereof stated in the resolution of the Board of Directors originally fixing the number of shares of such series. If the number of shares of any series is so decreased, then the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment of Certificate of Incorporation to be signed by the Chief Financial Officer of the Corporation on December 20, 2019.

REED'S, INC.

/s/ Thomas J. Spisak

By: Thomas J. Spisak
Title: Chief Financial Officer

Exhibit 10.32

EXECUTIVE EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is made and effective as of December 2, 2019 (the "Effective Date") by and between Reed's, Inc., a Delaware corporation ("Reed's" or the "Company"), and Thomas J. Spisak (the "Executive").

WHEREAS, Reed's and the Executive desire to enter into this Agreement to evidence the terms and conditions of the employment of the Executive by Reed's.

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. Executive hereby represents and warrants to the Company that (i) the execution, delivery and performance of this Agreement by Executive does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he or she is bound, (ii) Executive is not a party to or bound by any employment agreement, noncompete agreement or confidentiality agreement with any other person or entity (other than nondisclosure agreements with Executive's prior employer(s), the terms of which he has disclosed to the Company and which he does not expect to materially interfere with the performance of his obligations hereunder) and (iii) upon the execution and delivery of this Agreement by the Company, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms. Executive hereby acknowledges and represents that he has had the opportunity to consult with independent legal counsel regarding his or her rights and obligations under this Agreement and that he or she fully understands the terms and conditions contained herein.

Section 2 Term. The Executive's employment (the "Term") with Reed's under this Agreement will commence on the Effective Date and continue until terminated in accordance with Section 6 below. Executive's employment with the Company shall be on an "at-will" basis.

Section 3 Position. The Executive will be employed as the Chief Financial Officer ("CFO") of Reed's and will report to the Chief Executive Officer. The Executive will have the duties and responsibilities customarily attendant to the position of CFO. 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 Chief Executive Officer. 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 or her 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 CFO and will perform his duties and carry out his responsibilities as CFO 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 or her while employed by the Company ("Confidential Information") are the property of the Company or such affiliate. Therefore, Executive agrees that he or she shall not disclose to any unauthorized person or use for his or her 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 or she may then possess or have under his or her 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 (the "Protection Period"), he or she will not, either directly or indirectly, for himself or herself 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 or her due to the fact that he or she 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 or her 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 or she 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 or she will not, except with the express written consent of the Company, become engaged in, render services for, or permit his or her name to be used in connection with any business other than the business of the Company or any of its affiliates.

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.

Section 5 Compensation.

5.1 Base Salary. The Executive will be paid a base salary at the rate of $250,000.00 per year (the "Base Salary"). The Base Salary shall be subject to annual review 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 Bonus.

(a) Annual Bonus. In addition to the Base Salary, 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 30% of 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"). In order to be eligible to receive the Bonus, Executive must be employed at the time of achievement of the specific objective relating thereto and at the time Bonus payments are determined and paid by the Company. 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. Any bonus earned with respect to any partial fiscal year (if any) during the Term will be prorated based upon the number of days elapsed in such fiscal year. In order to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended and the regulations and guidance promulgated thereunder (collectively, "Code Section 409A"), it is agreed that the bonus (if any) earned under this Section 5.2 shall be paid no later than (but may be paid earlier in accordance with the Company's usual practices) March 15th of the calendar year immediately following the calendar year in which the fiscal year to which such bonus relates ended.

5.3 Benefits. Executive will be entitled to four (4) 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 CFO. The Company will reimburse Executive for all reasonable expenses incurred by him in the course of performing his or her duties under this Agreement which are consistent with the Company's policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to the Company's requirements with respect to reporting and documentation of such expenses. To the extent that any reimbursements or in-kind benefits under this Agreement constitute "Non-qualified Deferred Compensation" for purposes of Code Section 409A, (i) all such expenses, benefits or other reimbursements under this Agreement shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by Executive, (ii) any right to such reimbursement or in kind benefits is not subject to liquidation or exchange for another benefit, and (iii) 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 be provided in any other taxable year.

5.4 Equity. Executive shall be eligible to receive an initial equity award of (i) 150,000 incentive stock options and (ii) 150,000 restricted stock awards ((i) and (ii), the “Initial Equity Award”) ninety (90) days after the Effective Date (“Grant Date”), in accordance with the terms and conditions of available plan and subject to Board approval and plan availability. Of the Initial Equity Award, one-half (75,000 incentive stock options and 75,000 restricted stock awards) will vest in equal increments of 18,750 on each of the first, second, third and fourth anniversaries of the Grant Date (“Incentive Equity”). Of the Initial Equity Award, the remainder (75,000 incentive stock options and 75,000 restricted stock awards) will vest based on performance criteria to be determined by the Board or compensation committee of the Board (as the case may be) in its sole discretion (“Performance Equity”). Executive is responsible for all Federal and state taxes payable by Executive as a result of the receipt vesting and exercise of Incentive Equity Awards. The Executive will make an election under Section 83(b) of the Code with respect to any restricted stock awards. 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 or her fiduciary duties to the Company; (ii) willful and continued failure to perform his duties hereunder except by reason of Disability (defined below); (iii) the commission of (A) any crime constituting a felony in the jurisdiction in which committed, (B) any crime involving moral turpitude (whether or not a felony), (C) any other criminal act involving embezzlement, misappropriation of money, fraud, theft, or bribery (whether or not a felony), or (D) other willful misconduct that results in material damage to the Company’s business or reputation; (iv) illegal or controlled substance abuse or insobriety by Executive; (v) any material breach of this Agreement or any other conduct that is materially damaging to the Company, or is reasonably expected to be, materially damaging to the Company, whether to the business interests, finance or reputation, as determined in the sole discretion of the compensation committee of the Board of Directors; or (vi) any disqualifying event causing Company “bad actor” disqualification under Rule 506(d) of the Securities Act of 1933, as amended.

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 30 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 30-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 material breach (whether or not specified above) of this Agreement by Reed’s. 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 30 days of its initial existence and Reed’s does not cure such breach or action within 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 60 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 officer positions that he holds with Reed's or any of its subsidiaries.

Section 7 Remuneration upon Termination of Employment.

7.1 Termination Prior to March 1, 2020. If the Executive's employment with Reed's is terminated for any reason prior to March 1, 2020, the Executive shall be entitled to 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"). No termination of employment prior to March 1, 2020 shall be considered for any purpose for Cause, without Cause, or for Good Reason.

7.2 Termination by Reed's without Cause or by the Executive for Good Reason. If the Executive's employment with Reed's is terminated after March 20, 2020 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) 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 the number of months included in the Severance Period, calculated based on length of Executive's continued employment with the Company immediately prior to termination (the "Severance Amount"). The Executive will receive two months of severance for every full year of service, up to a maximum of six months ("Severance Period"). For clarity, the Severance Period will not include severance for periods calculated based on partial years of service. 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 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 Equity Grant ("Vested Incentive Equity").

7.3 Termination by Reed's for Cause, by the Executive without Good Reason. If the Executive's employment with Reed's is terminated after March 1, 2020 for Cause, or by the Executive without Good Reason, the Executive will be entitled to the Accrued Benefits and Vested Incentive Equity.

7.4 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 Vested Incentive Equity.

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 in 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 4(b) 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 General Provisions.

8.1 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:
____
____
____

If to Reed's:

Attention: Norman Snyder, Chief Operating Officer
201 Merritt 7 Corporate Park
Norwalk CT 06851

8.2 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).

8.3 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.

8.4 Entire Agreement. This Agreement constitutes the entire agreement between the Executive and Reed's with respect to its subject matter and supersedes any prior understandings, agreements or representations between the parties, written or oral, with respect to the subject matter of this Agreement.

8.5 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.

8.6 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.

8.7 Governing Law; Arbitration. 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 subject to binding arbitration in Fairfield County, Connecticut under the Employment Arbitration Rules of the American Arbitration Association then in effect, and consent to the jurisdiction to the federal or state courts in Fairfield County, Connecticut to enforce any arbitration award rendered with respect thereto. The arbitration shall be conducted by a single arbitrator as agreed upon between Reed's and the Executive. If Reed's and the Executive cannot agree on a single arbitrator, the arbitration shall be conducted before a panel of three arbitrators, one selected by each party hereto and the third arbitrator selected by the parties' two arbitrators from a panel provided by the American Arbitration Association. The costs of the arbitrator along with other arbitration-specific fees shall be borne equally by the parties. Each party shall bear its own attorneys' fees and expenses; provided that the arbitrator may assess the prevailing party's fees and costs against the non-prevailing party as part of the arbitrator's award. The parties agree to abide by all decisions and awards rendered in such proceedings. Such decisions and awards rendered by the arbitrators shall be final and conclusive. All such disputes shall be settled in this manner in lieu of any action at law or equity; provided, however, that nothing in this subsection shall be construed as precluding the bringing an action for injunctive relief or specific performance as provided in this Agreement.

8.8 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.

8.9 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.

8.10 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.

8.11 Voluntary Execution; Representations. Executive acknowledges that (a) he or she has consulted with or has had the opportunity to consult with independent counsel of his or her own choosing concerning this Agreement and has been advised to do so by the Company, and (b) he or she 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 or her own judgment and without duress.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

REED'S, INC.

By: */s/ John Bello*
Name: John Bello
Title: Interim Chief Executive Officer

Date: December 2, 2019

/s/ Thomas J. Spisak
Thomas J. Spisak
Date: December 2, 2019

Exhibit A

FORM OF RELEASE
[NOT FOR EXECUTION]

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 _________, 2019 (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 or her favor at the time of executing the release, which if known by him or her must have materially affected his or her 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 Payment are in addition to anything of value to which Executive 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.

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.

SEPARATION, SETTLEMENT AND RELEASE OF CLAIMS AGREEMENT

This Separation, Settlement and Release of Claims Agreement ("Agreement") is entered into by and between Reed's Inc., a Delaware corporation, (the "Employer") and Stefan Freeman (the "Employee") (the Employer and the Employee are collectively referred to herein as the "Parties") as of November 22, 2019 (the "Execution Date"). Employee and Employer are parties to that certain Employment Agreement effective October 4, 2017 ("Employment Agreement"). This Agreement amends, supersedes and replaces in its entirety the Employment Agreement.

The Employee's last day of employment with the Employer is November 30, 2019 (the "Separation Date"). Prior to the Separation Date, Employee will provide a list of open projects to complete and provide a timeline for completion. Employee will make work diligently to complete open project work prior to November 30, 2019. After the Separation Date, the Employee will not represent himself as being an employee, officer, agent or representative of the Employer for any purpose. Except as otherwise set forth in this Agreement, the Separation Date will be the employment termination date for the Employee for all purposes, meaning the Employee will no longer be entitled to any further compensation, monies, bonuses, equity awards, or other benefits from the Employer, including coverage under any benefits plans or programs sponsored by the Employer, except as specifically provided in this Agreement.

1. Return of Property. Except as specifically provided in this Section 1, by the Separation Date, the Employee shall promptly return to Reed's any car, or other property provided to the Employee by Employer, and any other confidential or proprietary information of Employer that remains in the Employee's possession ("Reed's Property"); provided, however, that nothing in this Agreement or elsewhere shall prevent the Employee from retaining and utilizing documents and information relating to his personal benefits, entitlements and obligations, documents relating to his personal tax obligations. If the Employee discovers Reed's Property in his possession after the Separation Date, he will notify Employer and promptly either deliver the same to Employer or destroy it as directed by Employer. Employee may retain Employer issued laptop, provided Employer may confirm deletion of Reed's Property by inspection performed within a reasonable time following the Effective Date.

2. Employer's Waiver and Release and Employee Representations.

(a) The Employer expressly waives and releases any and all claims, demands, actions, causes of actions, obligations, judgments, rights, fees, damages, debts, obligations, liabilities and expenses (inclusive of attorneys' fees) of any kind whatsoever (collectively, "Claims"), whether known or unknown, that the Employer may have or have ever had against the Employee by reason of any actual or alleged act, omission, transaction, practice, conduct, occurrence, or other matter that may be waived and released by law with the exception of claims arising out of or attributable to (a) events, acts or omissions taking place after the Parties' execution of the Agreement and (b) the Employee's breach of any terms and conditions of the Agreement.

(b) Waiver of California Civil Code Section 1542

Employer understands that it may later discover Claims or facts that may be different than, or in addition to, those which Employer now knows or believes to exist with regards to the subject matter of this Agreement, and which, if known at the time of signing this Agreement, may have materially affected this Agreement or Employer's decision to enter into it. Nevertheless, the Employer Releasors hereby waive any right or Claim that might arise as a result of such different or additional Claims or facts. The Employer Releasors have been made aware of, and understand, the provisions of California Civil Code Section 1542 and hereby expressly waive any and all rights, benefits and protections of the statute and the protection of any other state statutes that may be applicable, which provides,

“**A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR**.”

(c) In exchange for the Employer’s waiver and release and the consideration described in Section 3, which the Employee acknowledges to be good and valuable consideration for his obligations hereunder, the Employee hereby represents that he intends to irrevocably and unconditionally fully and forever release and discharge any and all Claims he may have or have ever had against the Employer that may lawfully be waived and released arising out of or in any way related to his hire, benefits, employment or separation from employment with the Employer with the exception of claims arising out of or attributable to (a) events, acts or omissions taking place after the Parties’ execution of the Agreement and (b) the Employer’s breach of any terms and conditions of the Agreement. The Employee specifically represents, warrants and confirms that: (a) he has no claims, complaints or actions of any kind filed against the Employer with any court of law, or local, state or federal government or agency; (b) that upon receipt of the accrued obligations set forth in Section 3(a), he has been properly paid his salary for period worked for the Employer, and that all commissions, bonuses and other compensation due to him has been paid, including his final payroll check for his salary and any accrued but unused vacation/paid time off through and including the Separation Date above; and (c) has reported all injuries he has incurred during or as a result of his employment with Employer to human resources. The Employee specifically represents, warrants and confirms that he has not engaged in, and is not aware of, any unlawful conduct in relation to the business of the Employer. If any of these statements are not true, the Employee cannot sign this Agreement and must notify the Employer immediately, in writing, of the statements that are not true. Such notice will not automatically disqualify the Employee from receiving these benefits but will require the Employer’s review and consideration.

3. <u>Separation Benefits</u>. In consideration for the Employee’s execution, non-revocation of, and compliance with this Agreement, including the waiver and release of claims in Section 4, the Employer agrees to provide the following:

(a) Accrued Obligations. On the Separation Date, Employer shall pay Employee (1) the gross amount of $12,836.54, representing base salary earned but unpaid as of the Separation Date, before deduction of standard payroll taxes and deductions and (2) the gross amount of $35,936.18, representing vacation and sick days earned but not taken prior to the Separation Date, before deduction of standard payroll taxes and deductions. The Employer acknowledges and agrees that as of the date hereof it has reconciled and paid all outstanding charges on Employee’s Company credit card. The Employee acknowledges and agrees that as of the date hereof, he has made all requests for reimbursement of business expenses to which he may be entitled pursuant to the Employer’s reimbursement policy, and provided such substantiation as may be required thereunder, and shall hereafter not have any right to request reimbursement of any additional amounts.

(b) Severance. Installment payments equal to the Employee's current salary for the period commencing on the Separation Date and terminating on June 30, 2020 ("Severance Period"), equaling a total of $131,250, before deduction of standard payroll taxes and deductions, to be paid in bi-monthly increments starting on the first pay period following the Effective Date.

(c) No Additional Restricted Stock Awards. It is understood 37,037 restricted stock awards were previously issued to Employee on June 10, 2018 and transferred to his brokerage account. No additional restricted stock awards will be issued to Employee pursuant to this Agreement.

(d) Stock Options. On the Effective Date, Employer will provide the Employee with a written option award agreement, reflecting aggregate of 218,438 incentive stock options ("ISOs") vested through the Separation Date. Employee's vested ISOs consist of (i) incentive stock options to purchase 30,000 shares of common stock of Reed's Inc. at the exercise price of $3.74 per share and (ii) incentive stock options to purchase 188,438 shares of common stock at the exercise price of $1.60 per share. All ISOs will expire 90 days after the Separation Date.

(e) If Employee timely and properly elects COBRA continuation coverage under Employer's group health plan, the Employer will pay 100% of Employee's COBRA premiums until the earlier of final day of the Severance Period or commencement of coverage sponsored by subsequent employer, including employer of spouse. If Employee's COBRA coverage continues for the entire Severance Period at the conclusion of the Severance Period, the Employee shall be eligible to continue his coverage, pursuant to COBRA, and shall be responsible for the entire COBRA premium for the remainder of the applicable COBRA continuation period.

(f) Upon the Employee's signed request, the Employer will provide the Employee and/or a prospective employer written confirmation of the Employee's employment with the Employer, including his dates of employment and salary information.

(g) The Employee understands, acknowledges and agrees that these benefits are in exchange for executing this Agreement. The Employee further acknowledges no entitlement to any additional payment or consideration not specifically referenced herein.

4. Release.

(a) General Release and Waiver of Claims by Employee

The Employee and his heirs, executors, representatives, agents, insurers, administrators, successors and assigns (collectively the "Employee Releasors") irrevocably and unconditionally fully and forever waive, release and discharge the Employer, including the Employer's affiliates, predecessors, successors and assigns, and all of their respective officers, directors, employees, shareholders, in their corporate and individual capacities (collectively, the "Employer Releasees") from any and all Claims, whether known or unknown, from the beginning of time to the Effective Date of this Agreement, including, without limitation, any Claims under any federal, state, local or foreign law, that Employee Releasors may have or have ever had arising out of, or in any way related to the Employee's hire, benefits, employment, termination or separation from employment with the Employer and any actual or alleged act, omission, transaction, practice, conduct, occurrence or other matter, including, but not limited to (i) any and all claims under Title VII of the Civil Rights Act, as amended, the Americans with Disabilities Act, as amended, the Family and Medical Leave Act, as amended, the Fair Labor Standards Act, the Equal Pay Act, as amended, the Employee Retirement Income Security Act, as amended (with respect to unvested benefits), the Civil Rights Act of 1991, as amended, Section 1981 of U.S.C. Title 42, the Sarbanes-Oxley Act of 2002, as amended, the Worker Adjustment and Retraining Notification Act, as amended, the National Labor Relations Act, as amended, the Age Discrimination in Employment Act, as amended, the Genetic Information Nondiscrimination Act of 2008, the California Fair Employment and Housing Act, as amended, and/or any other Federal, state, local or foreign law (statutory, regulatory or otherwise) that may be legally waived and released; and (ii) any tort, contract and/or quasi-contract law, including but not limited to claims of wrongful discharge, defamation, emotional distress, tortious interference with contract, invasion of privacy, nonphysical injury, personal injury or sickness or any other harm. However, this general release of claims excludes, and the Employee does not waive, release or discharge (i) any right to file an administrative charge or complaint with the Equal Employment Opportunity Commission or other administrative agency; (ii) claims under state workers' compensation or unemployment laws; or (iii) indemnification rights the Employee has against the Employer, including without limitation under Employer's Articles of Incorporation, Bylaws or directors and officers insurance policies, and/or any other claims that cannot be waived by law.

If the Employee applies for unemployment benefits, the Employer shall not contest it. When so required, the Employer will answer any inquiries by the Department of Labor concerning the termination of the Employee's employment in a truthful manner.

(b) Waiver of California Civil Code Section 1542

Employee understands that he may later discover Claims or facts that may be different than, or in addition to, those which Employee now knows or believes to exist with regards to the subject matter of this Agreement, and which, if known at the time of signing this release, may have materially affected this Agreement or Employee's decision to enter into it. Nevertheless, the Employee Releasors hereby waive any right or Claim that might arise as a result of such different or additional Claims or facts. The Employee Releasors have been made aware of, and understand, the provisions of California Civil Code Section 1542 and hereby expressly waive any and all rights, benefits and protections of the statute and the protection of any other state statutes that may be applicable, which provides,

"**A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR**."

(c) Specific Release of ADEA Claims

The Employee Releasors hereby irrevocably and unconditionally fully and forever waive, release and discharge the Employer Releasees from any and all Claims, whether known or unknown, from the beginning of time to the date of the Employee's execution of this Agreement arising under the Age Discrimination in Employment Act (ADEA), as amended, and its implementing regulations. By signing this Agreement, the Employee hereby acknowledges and confirms that: (i) the Employee has read this Agreement in its entirety and understands all of its terms; (ii) the Employee has been advised of and has availed himself of hid right to consult with his attorney prior to executing this Agreement; (iii) the Employee knowingly, freely and voluntarily assents to all of the terms and conditions set out in this Agreement including, without limitation, the waiver, release and covenants contained herein; (iv) the Employee is executing this Agreement, including the waiver and release, in exchange for good and valuable consideration in addition to anything of value to which he is otherwise entitled; and (v) the Employee understands that the release contained in this paragraph does not apply to rights and claims that may arise after the date on which the Employee signs this Agreement.

(d) General Release and Waiver of Claims by Employer

The Employer and its representatives, agents, insurers, successors and assigns (collectively the "Employer Releasors") irrevocably and unconditionally fully and forever waive, release and discharge the Employee and the Employee's heirs, executors, representatives, agents, insurers, administrators, successors and assigns from any and all Claims, whether known or unknown, from the beginning of time to the Effective Date of this Agreement, including, without limitation, any Claims under any federal, state, local or foreign law, that Employer Releasors may have or have ever had arising out of, or in any way related to the Employee's hire, benefits, employment, termination or separation from employment with the Employer and any actual or alleged act, omission, transaction, practice, conduct, occurrence or other matter, including, but not limited to claims under the Employment Agreement, claims of defamation, breach of an express or implied contract, tortious interference with a contract or prospective business advantage, breach of the covenant of good faith and fair dealing, promissory estoppel, detrimental reliance, or any other harm.

5. Knowing and Voluntary Acknowledgement. The Employee specifically agrees and acknowledges that: (i) the Employee has read this Agreement in its entirety and understands all of its terms; (ii) the Employee has been advised of and has availed himself of his right to consult with his attorney prior to executing this Agreement; (iii) the Employee knowingly, freely and voluntarily assents to all of its terms and conditions including, without limitation, the waiver, release and covenants contained herein; (iv) the Employee is executing this Agreement, including the waiver and release, in exchange for good and valuable consideration in addition to anything of value to which he is otherwise entitled; (v) the Employee is not waiving or releasing rights or claims that may arise after his execution of this Agreement; and (vi) the Employee understands that the waiver and release in this Agreement is being requested in connection with the cessation of his employment with the Employer.

The Employee further acknowledges that he has twenty-one (21) days to consider the terms of this Agreement and consult with an attorney of his choice, although he may sign it sooner if desired. Further, the Employee acknowledges that he shall have an additional seven (7) days from the date on which he signs this Agreement to revoke consent to his release of claims under the ADEA by delivering notice of revocation to Sarah Yancy, HR Manager, at the Employer, syancy@reedsinc.com, by e-mail, fax or overnight delivery before the end of such seven-day period. In the event of such revocation by the Employee, the Employer shall have the option of treating this Agreement as null and void in its entirety.

This Agreement shall not become effective, until November 30, 2019 ("Effective Date"). Such date shall be the Effective Date of this Agreement. No payments due to the Employee hereunder shall be made or begin before the Effective Date.

6. Post-termination Obligations and Restrictive Covenants.

(a) Acknowledgment

The Employee understands and acknowledges that by virtue of his employment with the Employer, he had access to and knowledge of Confidential Information, was in a position of trust and confidence with the Employer and benefitted from the Employer's goodwill. The Employee understands and acknowledges that the Employer invested significant time and expense in developing the Confidential Information and goodwill. The Employee further understands and acknowledges that the services he provided to the Employer are unique, special or extraordinary.

The Employee further understands and acknowledges that the restrictive covenants below are necessary to protect the Employer's legitimate business interests in its Confidential Information and goodwill and in the Employee's unique, special or extraordinary services. The Employee further understands and acknowledges that the Employer's ability to reserve these for the exclusive knowledge and use of the Employer is of great competitive importance and commercial value to the Employer and that the Employer would be irreparably harmed if the Employee violates the restrictive covenants below.

(b) Confidential Information.

(1) Confidential Information. Employer's "Confidential Information" is all confidential and/or proprietary knowledge, trade secrets, data or information of the Employer entrusted to Employee, whether in writing, in computer form, or conveyed orally, that is not generally available to others in the form in which such information is used by Employer and that gives Employer a competitive advantage over other companies who do not have access to this information. By way of illustration but not limitation, Confidential Information includes tangible and intangible information relating to formulations, products, processes, know-how, designs, formulas, methods, developmental or experimental work; clinical data; improvements; discoveries; plans for research; new products; marketing and selling; business plans; budgets; unpublished financial statements; licenses; prices and costs; suppliers; customers; customer needs and preferences (such as typical order quantities and composition, delivery requirements or schedules, particular pricing needs or discount arrangements, advertising allowances and methods of doing business); customer contracts, credit procedures and terms; supplier identities, key decision makers at each supplier, and supplier specialties; pricing strategies and rationale; contact information and information about compensation, specific capabilities, and performance evaluations of Employer personnel; and any information described above that the Employer obtains from its clients or any other third party and that the Employer treats as confidential, whether or not owned or developed by the Employer.

(2) Employee understands that the above are simply examples of Employer's Confidential Information, and not a complete list. Employee further understands that as part of his duties Employee may have participated in developing Confidential Information for Employer, which then became Employer's Confidential Information.

(3) Employee agrees that he will not appropriate for his own use, use, disclose, divulge, furnish, or make available to any person any of the Employer's Confidential Information; provided, that the term "Confidential Information" shall not include such (A) information which is or becomes generally available to the public other than as a result of unauthorized or improper disclosure by Employee, (B) information which was in the possession of Employee prior to the time of disclosure by Employer, (C) information obtained from a third party who, to Employee's knowledge, had the right to disclosure such information without any confidentiality restrictions, or (D) information independently developed by Employee without the use of information disclosed by Employer. Notwithstanding the foregoing, Employee may disclose Confidential Information to the extent he is compelled to do so by lawful service of process, subpoena, court order, or as he is otherwise compelled to do by law or the rules or regulations of any regulatory body to which he is subject, including full and complete disclosure in response thereto, in which event he agrees (unless prohibited by law) to provide Employer with a copy of the documents seeking disclosure of such information promptly upon receipt of such documents and prior to their disclosure of any such information, so that Employer may, upon notice to Employee, take such action as Employer deems appropriate in relation to such subpoena or request and Employee (unless otherwise compelled to do so by lawful service of process, subpoena, court order, or by law or the rules or regulations of any regulatory body or governmental agency or instrumentality) may not disclose any such information until Employer has had the opportunity to take such action.

(c) Intellectual Property. Employee agrees that all right, title, and interest to all works of whatever nature generated in the course of his employment with the Employer resides with the Employer. Employee agrees that he will return to Employer or delete or destroy, not later than the Effective Date, all property, in whatever form (including computer files and other electronic data), of the Employer in his possession, including without limitation, all copies (in whatever form) of all files or other information pertaining to the Employer, its officers, employees, directors, shareholders, customers, suppliers, vendors, or distributors and any business or business opportunity of the Employer.

(d) Mutual Non-Disparagement. The Parties each agree that they, and in the case of Employer, its executive officers and directors, shall not make any disparaging statements or representations, whether orally or in writing, by word or gesture, to any person whatsoever, about the other Party or the other Party's directors, officers, employees, attorneys, agents, or representatives, as applicable. For purposes of this paragraph, a disparaging statement or representation is any communication which, if publicized to another, would cause or tend to cause the recipient of the communication to question the business condition, integrity, competence, good character, or product or service quality of the person or entity to whom the communication relates.

(e) Non-Solicitation. To the full extent permitted by law, the Employee will not directly or indirectly, individually or on behalf of any person, company, enterprise or entity, or as a sole proprietor, partner, stockholder, director, officer, principal, agent, executive, or in any other capacity or relationship, for a period of six (6) months from the Effective Date:

(1) encourage, solicit, induce, cause, or in any manner attempt to encourage, solicit, induce or cause any person, firm, corporation, or other entity or organization which is a client, customer, account, vendor, supplier, distributor, licensee of, or has any business relationship with, Employer's or any of its subsidiaries to terminate such relationship with, reduce the amount of business conducted with, or change in a manner adverse to Employer or its subsidiaries; or

(2) encourage, solicit, induce, cause, or in any manner attempt to encourage, solicit, induce or cause, any person employed by or providing services to Employer's or its subsidiaries to leave, curtail, or change in a manner adverse to Employer, such employment or service relationship.

(f) Acknowledgements Respecting Restrictive Covenants. With respect to the restrictive covenants set forth in this Section 6, the Parties acknowledge and agree that:

(1) (A) Each of the restrictive covenants contained in this Section 6 shall be construed as a separate covenant with respect to each activity to which it applies, (B) if, in any judicial proceeding, a court shall deem any of the restrictive covenants invalid, illegal, or unenforceable because its scope is considered excessive, such restrictive covenant shall be modified so that the scope of the restrictive covenant is reduced only to the minimum extent necessary to render the modified covenant valid, legal, and enforceable, and (C) if any restrictive covenant (or portion thereof) is deemed invalid, illegal, or unenforceable in any jurisdiction, as to that jurisdiction such restrictive covenant (or portion thereof) shall be ineffective to the extent of such invalidity, illegality, or unenforceability, without affecting in any way the remaining restrictive covenants (or portion thereof) in such jurisdiction or rendering that or any other restrictive covenant (or portion thereof) invalid, illegal, or unenforceable in any other jurisdiction.

(2) The Parties hereto hereby declare that it is impossible to measure in money the damages that will accrue to a Party in the event the other Party breaches any of the restrictive covenants provided in this Section 6. In the event that a Party breaches any such restrictive covenant, the nonbreaching Party shall be entitled to an injunction, a restraining order or such other equitable relief, including, but not limited to, specific performance (without the requirement to post bond) restraining such Party from violating such restrictive covenant. If the nonbreaching Party shall institute any action or proceeding to enforce the restrictive covenant, the breaching Party hereby waives the claim or defense that the breaching Party has an adequate remedy at law and agrees not to assert in any such action or proceeding the claim or defense that the nonbreaching Party has an adequate remedy at law.

(3) The remedies provided for in this Section 6 are cumulative and in addition to any other rights and remedies the Parties may have under law or in equity.

(g) Cooperation. Employee agrees to cooperate with the Employer to the extent reasonably requested by the Employer for the purpose of transitioning his duties and responsibilities. Employee will use his best efforts to make himself available as a consultant to Employer as may be reasonably requested by Employer from time to time, on an as needed basis. Employee further agrees to cooperate with Employer with regard to any litigation relating to Employee's period of employment for which Employer reasonably requests Employee's participation. Employee's agreement to consult respecting such litigation shall continue for the duration of any such litigation. If requested by Employer, such cooperation shall include, without limitation, (1) responding reasonably promptly to requests for information and documents in Employee's possession concerning matters pertinent to any of the foregoing, (2) making himself reasonably available as a witness and testifying at trial, depositions, hearings, or other proceedings, as well as being reasonably available for adequate preparation for such testimony, and (3) participating at reasonable times in interviews and meetings with representatives of the Employer, representatives of governments or regulatory authorities, or others designated by Employer. The Employee agrees that, following the Effective Date, the Employee will continue to provide reasonable cooperation to Employer 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 the Employee's employment in which the Employee was involved or of which the Employee has knowledge. As a condition of such cooperation, Employer shall reimburse the Employee for reasonable out-of-pocket expenses incurred at the request of Employer and shall compensate Employee at a daily rate equal to his daily rate of compensation at the time of termination of his employment. The Employee also agrees that, in the event that the Employee 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 Employee's employment by Employer, the Employee will, if legally permitted, give prompt notice of such request to Employer and, unless legally required to do so, will make no disclosure until Employer or Employer's subsidiaries has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

(h) Remedies. In the event of a breach or threatened breach by either Party of any of the provisions of this Agreement, such Party hereby consents and agrees that the other Party shall be entitled to seek, in addition to other available remedies, a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages or other available forms of relief.

7. Heirs and Assigns. This Agreement is binding on and is for the benefit of the Parties hereto and their respective successors (whether by merger, sale of assets, reorganization or other form of business acquisition, disposition or business reorganization), assigns, heirs, executors, administrators, and other legal representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by Employee.

8. Integration. This Agreement constitutes the complete agreement between the Employer and Employee regarding the issues addressed in this Agreement. The terms of this Agreement may be changed, modified, or discharged only by an instrument in writing signed by the Parties hereto. A failure of the Employer or Employee to insist on strict compliance with any provision of this Agreement shall not be deemed a waiver of such provision or any other provision hereof. In the event that any provision of this Agreement is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

9. Choice of Law. This Agreement shall be construed, enforced, and interpreted in accordance with and governed by the laws of the State of California, without regard to its choice of law provisions.

10. Withholding. The Employer may withhold from any and all amounts payable under this Agreement such federal, state, and local taxes or other withholdings as may be required to be withheld pursuant to any applicable law or regulation.

11. Construction of Agreement. The Parties hereto acknowledge and agree that each Party has reviewed and negotiated the terms and provisions of this Agreement and has had the opportunity to contribute to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting Party shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed fairly as to both Parties hereto and not in favor or against either Party.

12. Notice. Any notice or other communication required or permitted under this Agreement shall be effective only if it is in writing and shall be deemed to be given when delivered personally or four days after it is mailed by registered or certified mail, postage prepaid, return receipt requested or one day after it is sent by a reputable overnight courier service and, in each case, addressed to the Employer, to its principal place of business and to Employee, to his address set forth on the signature page hereof, or to such other address as any Party hereto may designate by notice to the other.

13. Severability. The Parties hereto intend that the validity and enforceability of any provision of this Agreement shall not affect or render invalid any other provision of this Agreement.

14. Modification and Waiver. No provision of this Agreement may be amended or modified unless such amendment or modification is agreed to in writing and signed by the Employee and by Chief Executive Officer of the Employer. No waiver by either of the Parties of any breach by the other Party hereto of any condition or provision of this Agreement to be performed by the other Party hereto shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time, nor shall the failure of or delay by either of the Parties in exercising any right, power or privilege hereunder operate as a waiver thereof to preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

15. Captions. Captions and headings of the sections and paragraphs of this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the caption or heading of any section or paragraph.

16. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. Delivery of an executed counterpart of this Agreement, by facsimile, electronic mail in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, has the same effect as delivery of an executed original of this Agreement.

17. No Admission. Nothing in this Agreement shall be construed as an admission of wrongdoing or liability on the part of either Party.

18. Attorneys’ Fees. Should either Party breach any of the terms of this Agreement or the post- termination obligations herein, to the extent authorized by state law, the breaching Party will be responsible for payment of all reasonable attorneys’ fees and costs that the other Party incurred in the course of enforcing the terms of the Agreement, including demonstrating the existence of a breach and any other contract enforcement efforts.

19. Section 409A. This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") or an exemption thereunder and shall be construed and administered in accordance with Section 409A. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. Notwithstanding the foregoing, the Employer makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall the Employer be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Employee on account of non-compliance with Section 409A.

20. Acknowledgment of Full Understanding. THE EMPLOYEE ACKNOWLEDGES AND AGREES THAT HE HAS FULLY READ, UNDERSTANDS AND VOLUNTARILY ENTERS INTO THIS AGREEMENT. THE EMPLOYEE ACKNOWLEDGES AND AGREES THAT HE HAS HAD AN OPPORTUNITY TO ASK QUESTIONS AND CONSULT WITH AN ATTORNEY OF HIS CHOICE BEFORE SIGNING THIS AGREEMENT. THE EMPLOYEE FURTHER ACKNOWLEDGES THAT HIS SIGNATURE BELOW IS AN AGREEMENT TO RELEASE EMPLOYER FROM ANY AND ALL CLAIMS RELATED TO THE SUBJECT MATTER OF THIS AGREEMENT.

21. Entire Agreement. This Agreement constitutes the entire agreement between the Parties with respect to its subject matter and supersedes any prior understandings, agreements or representations between the Parties, written or oral, with respect to the subject matter of this Agreement. For clarity, all the terms of the Employment Agreement are amended, replaced and superseded by this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Execution Date above.

REED'S INC.

By *\/s/ Joann Tinnelly*
Name: Joann Tinnelly
Title: Interim Chief Financial Officer

EMPLOYEE

Signature: */s/ Stefan Freeman*
Name: Stefan Freeman

SEPARATION, SETTLEMENT AND RELEASE OF CLAIMS AGREEMENT

This Separation, Settlement and Release of Claims Agreement ("Agreement") is entered into by and between Reed's Inc., a Delaware corporation, (the "Employer") and Stefan Freeman (the "Employee") (the Employer and the Employee are collectively referred to herein as the "Parties") as of November 22, 2019 (the "Execution Date"). Employee and Employer are parties to that certain Employment Agreement effective October 4, 2017 ("Employment Agreement"). This Agreement amends, supersedes and replaces in its entirety the Employment Agreement.

The Employee's last day of employment with the Employer is November 30, 2019 (the "Separation Date"). Prior to the Separation Date, Employee will provide a list of open projects to complete and provide a timeline for completion. Employee will make work diligently to complete open project work prior to November 30, 2019. After the Separation Date, the Employee will not represent himself as being an employee, officer, agent or representative of the Employer for any purpose. Except as otherwise set forth in this Agreement, the Separation Date will be the employment termination date for the Employee for all purposes, meaning the Employee will no longer be entitled to any further compensation, monies, bonuses, equity awards, or other benefits from the Employer, including coverage under any benefits plans or programs sponsored by the Employer, except as specifically provided in this Agreement.

1. <u>Return of Property</u>. Except as specifically provided in this Section 1, by the Separation Date, the Employee shall promptly return to Reed's any car, or other property provided to the Employee by Employer, and any other confidential or proprietary information of Employer that remains in the Employee's possession ("Reed's Property"); provided, however, that nothing in this Agreement or elsewhere shall prevent the Employee from retaining and utilizing documents and information relating to his personal benefits, entitlements and obligations, documents relating to his personal tax obligations. If the Employee discovers Reed's Property in his possession after the Separation Date, he will notify Employer and promptly either deliver the same to Employer or destroy it as directed by Employer. Employee may retain Employer issued laptop, provided Employer may confirm deletion of Reed's Property by inspection performed within a reasonable time following the Effective Date.

2. <u>Employer's Waiver and Release and Employee Representations</u>.

(a) The Employer expressly waives and releases any and all claims, demands, actions, causes of actions, obligations, judgments, rights, fees, damages, debts, obligations, liabilities and expenses (inclusive of attorneys' fees) of any kind whatsoever (collectively, "Claims"), whether known or unknown, that the Employer may have or have ever had against the Employee by reason of any actual or alleged act, omission, transaction, practice, conduct, occurrence, or other matter that may be waived and released by law with the exception of claims arising out of or attributable to (a) events, acts or omissions taking place after the Parties' execution of the Agreement and (b) the Employee's breach of any terms and conditions of the Agreement.

(b) Waiver of California Civil Code Section 1542

Employer understands that it may later discover Claims or facts that may be different than, or in addition to, those which Employer now knows or believes to exist with regards to the subject matter of this Agreement, and which, if known at the time of signing this Agreement, may have materially affected this Agreement or Employer's decision to enter into it. Nevertheless, the Employer Releasors hereby waive any right or Claim that might arise as a result of such different or additional Claims or facts. The Employer Releasors have been made aware of, and understand, the provisions of California Civil Code Section 1542 and hereby expressly waive any and all rights, benefits and protections of the statute and the protection of any other state statutes that may be applicable, which provides,

"**A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR**."

(c) In exchange for the Employer's waiver and release and the consideration described in Section 3, which the Employee acknowledges to be good and valuable consideration for his obligations hereunder, the Employee hereby represents that he intends to irrevocably and unconditionally fully and forever release and discharge any and all Claims he may have or have ever had against the Employer that may lawfully be waived and released arising out of or in any way related to his hire, benefits, employment or separation from employment with the Employer with the exception of claims arising out of or attributable to (a) events, acts or omissions taking place after the Parties' execution of the Agreement and (b) the Employer's breach of any terms and conditions of the Agreement. The Employee specifically represents, warrants and confirms that: (a) he has no claims, complaints or actions of any kind filed against the Employer with any court of law, or local, state or federal government or agency; (b) that upon receipt of the accrued obligations set forth in Section 3(a), he has been properly paid his salary for period worked for the Employer, and that all commissions, bonuses and other compensation due to him has been paid, including his final payroll check for his salary and any accrued but unused vacation/paid time off through and including the Separation Date above; and (c) has reported all injuries he has incurred during or as a result of his employment with Employer to human resources. The Employee specifically represents, warrants and confirms that he has not engaged in, and is not aware of, any unlawful conduct in relation to the business of the Employer. If any of these statements are not true, the Employee cannot sign this Agreement and must notify the Employer immediately, in writing, of the statements that are not true. Such notice will not automatically disqualify the Employee from receiving these benefits but will require the Employer's review and consideration.

3. <u>Separation Benefits</u>. In consideration for the Employee's execution, non-revocation of, and compliance with this Agreement, including the waiver and release of claims in Section 4, the Employer agrees to provide the following:

(a) Accrued Obligations. On the Separation Date, Employer shall pay Employee (1) the gross amount of $12,836.54, representing base salary earned but unpaid as of the Separation Date, before deduction of standard payroll taxes and deductions and (2) the gross amount of $35,936.18, representing vacation and sick days earned but not taken prior to the Separation Date, before deduction of standard payroll taxes and deductions. The Employer acknowledges and agrees that as of the date hereof it has reconciled and paid all outstanding charges on Employee's Company credit card. The Employee acknowledges and agrees that as of the date hereof, he has made all requests for reimbursement of business expenses to which he may be entitled pursuant to the Employer's reimbursement policy, and provided such substantiation as may be required thereunder, and shall hereafter not have any right to request reimbursement of any additional amounts.

(b) Severance. Installment payments equal to the Employee's current salary for the period commencing on the Separation Date and terminating on June 30, 2020 ("Severance Period"), equaling a total of $131,250, before deduction of standard payroll taxes and deductions, to be paid in bi-monthly increments starting on the first pay period following the Effective Date.

(c) No Additional Restricted Stock Awards. It is understood 37,037 restricted stock awards were previously issued to Employee on June 10, 2018 and transferred to his brokerage account. No additional restricted stock awards will be issued to Employee pursuant to this Agreement.

(d) Stock Options. On the Effective Date, Employer will provide the Employee with a written option award agreement, reflecting aggregate of 218,438 incentive stock options ("ISOs") vested through the Separation Date. Employee's vested ISOs consist of (i) incentive stock options to purchase 30,000 shares of common stock of Reed's Inc. at the exercise price of $3.74 per share and (ii) incentive stock options to purchase 188,438 shares of common stock at the exercise price of $1.60 per share. All ISOs will expire 90 days after the Separation Date.

(e) If Employee timely and properly elects COBRA continuation coverage under Employer's group health plan, the Employer will pay 100% of Employee's COBRA premiums until the earlier of final day of the Severance Period or commencement of coverage sponsored by subsequent employer, including employer of spouse. If Employee's COBRA coverage continues for the entire Severance Period at the conclusion of the Severance Period, the Employee shall be eligible to continue his coverage, pursuant to COBRA, and shall be responsible for the entire COBRA premium for the remainder of the applicable COBRA continuation period.

(f) Upon the Employee's signed request, the Employer will provide the Employee and/or a prospective employer written confirmation of the Employee's employment with the Employer, including his dates of employment and salary information.

(g) The Employee understands, acknowledges and agrees that these benefits are in exchange for executing this Agreement. The Employee further acknowledges no entitlement to any additional payment or consideration not specifically referenced herein.

4. Release.

(a) General Release and Waiver of Claims by Employee

The Employee and his heirs, executors, representatives, agents, insurers, administrators, successors and assigns (collectively the "Employee Releasors") irrevocably and unconditionally fully and forever waive, release and discharge the Employer, including the Employer's affiliates, predecessors, successors and assigns, and all of their respective officers, directors, employees, shareholders, in their corporate and individual capacities (collectively, the "Employer Releasees") from any and all Claims, whether known or unknown, from the beginning of time to the Effective Date of this Agreement, including, without limitation, any Claims under any federal, state, local or foreign law, that Employee Releasors may have or have ever had arising out of, or in any way related to the Employee's hire, benefits, employment, termination or separation from employment with the Employer and any actual or alleged act, omission, transaction, practice, conduct, occurrence or other matter, including, but not limited to (i) any and all claims under Title VII of the Civil Rights Act, as amended, the Americans with Disabilities Act, as amended, the Family and Medical Leave Act, as amended, the Fair Labor Standards Act, the Equal Pay Act, as amended, the Employee Retirement Income Security Act, as amended (with respect to unvested benefits), the Civil Rights Act of 1991, as amended, Section 1981 of U.S.C. Title 42, the Sarbanes-Oxley Act of 2002, as amended, the Worker Adjustment and Retraining Notification Act, as amended, the National Labor Relations Act, as amended, the Age Discrimination in Employment Act, as amended, the Genetic Information Nondiscrimination Act of 2008, the California Fair Employment and Housing Act, as amended, and/or any other Federal, state, local or foreign law (statutory, regulatory or otherwise) that may be legally waived and released; and (ii) any tort, contract and/or quasi-contract law, including but not limited to claims of wrongful discharge, defamation, emotional distress, tortious interference with contract, invasion of privacy, nonphysical injury, personal injury or sickness or any other harm. However, this general release of claims excludes, and the Employee does not waive, release or discharge (i) any right to file an administrative charge or complaint with the Equal Employment Opportunity Commission or other administrative agency; (ii) claims under state workers' compensation or unemployment laws; or (iii) indemnification rights the Employee has against the Employer, including without limitation under Employer's Articles of Incorporation, Bylaws or directors and officers insurance policies, and/or any other claims that cannot be waived by law.

If the Employee applies for unemployment benefits, the Employer shall not contest it. When so required, the Employer will answer any inquiries by the Department of Labor concerning the termination of the Employee's employment in a truthful manner.

(b) **Waiver of California Civil Code Section 1542**

Employee understands that he may later discover Claims or facts that may be different than, or in addition to, those which Employee now knows or believes to exist with regards to the subject matter of this Agreement, and which, if known at the time of signing this release, may have materially affected this Agreement or Employee's decision to enter into it. Nevertheless, the Employee Releasors hereby waive any right or Claim that might arise as a result of such different or additional Claims or facts. The Employee Releasors have been made aware of, and understand, the provisions of California Civil Code Section 1542 and hereby expressly waive any and all rights, benefits and protections of the statute and the protection of any other state statutes that may be applicable, which provides,

"**A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR**."

(c) Specific Release of ADEA Claims

The Employee Releasors hereby irrevocably and unconditionally fully and forever waive, release and discharge the Employer Releasees from any and all Claims, whether known or unknown, from the beginning of time to the date of the Employee's execution of this Agreement arising under the Age Discrimination in Employment Act (ADEA), as amended, and its implementing regulations. By signing this Agreement, the Employee hereby acknowledges and confirms that: (i) the Employee has read this Agreement in its entirety and understands all of its terms; (ii) the Employee has been advised of and has availed himself of hid right to consult with his attorney prior to executing this Agreement; (iii) the Employee knowingly, freely and voluntarily assents to all of the terms and conditions set out in this Agreement including, without limitation, the waiver, release and covenants contained herein; (iv) the Employee is executing this Agreement, including the waiver and release, in exchange for good and valuable consideration in addition to anything of value to which he is otherwise entitled; and (v) the Employee understands that the release contained in this paragraph does not apply to rights and claims that may arise after the date on which the Employee signs this Agreement.

(d) General Release and Waiver of Claims by Employer

The Employer and its representatives, agents, insurers, successors and assigns (collectively the "Employer Releasors") irrevocably and unconditionally fully and forever waive, release and discharge the Employee and the Employee's heirs, executors, representatives, agents, insurers, administrators, successors and assigns from any and all Claims, whether known or unknown, from the beginning of time to the Effective Date of this Agreement, including, without limitation, any Claims under any federal, state, local or foreign law, that Employer Releasors may have or have ever had arising out of, or in any way related to the Employee's hire, benefits, employment, termination or separation from employment with the Employer and any actual or alleged act, omission, transaction, practice, conduct, occurrence or other matter, including, but not limited to claims under the Employment Agreement, claims of defamation, breach of an express or implied contract, tortious interference with a contract or prospective business advantage, breach of the covenant of good faith and fair dealing, promissory estoppel, detrimental reliance, or any other harm.

5. Knowing and Voluntary Acknowledgement. The Employee specifically agrees and acknowledges that: (i) the Employee has read this Agreement in its entirety and understands all of its terms; (ii) the Employee has been advised of and has availed himself of his right to consult with his attorney prior to executing this Agreement; (iii) the Employee knowingly, freely and voluntarily assents to all of its terms and conditions including, without limitation, the waiver, release and covenants contained herein; (iv) the Employee is executing this Agreement, including the waiver and release, in exchange for good and valuable consideration in addition to anything of value to which he is otherwise entitled; (v) the Employee is not waiving or releasing rights or claims that may arise after his execution of this Agreement; and (vi) the Employee understands that the waiver and release in this Agreement is being requested in connection with the cessation of his employment with the Employer.

The Employee further acknowledges that he has twenty-one (21) days to consider the terms of this Agreement and consult with an attorney of his choice, although he may sign it sooner if desired. Further, the Employee acknowledges that he shall have an additional seven (7) days from the date on which he signs this Agreement to revoke consent to his release of claims under the ADEA by delivering notice of revocation to Sarah Yancy, HR Manager, at the Employer, syancy@reedsinc.com, by e-mail, fax or overnight delivery before the end of such seven-day period. In the event of such revocation by the Employee, the Employer shall have the option of treating this Agreement as null and void in its entirety.

This Agreement shall not become effective, until November 30, 2019 ("Effective Date"). Such date shall be the Effective Date of this Agreement. No payments due to the Employee hereunder shall be made or begin before the Effective Date.

6. Post-termination Obligations and Restrictive Covenants.

(a) Acknowledgment

The Employee understands and acknowledges that by virtue of his employment with the Employer, he had access to and knowledge of Confidential Information, was in a position of trust and confidence with the Employer and benefitted from the Employer's goodwill. The Employee understands and acknowledges that the Employer invested significant time and expense in developing the Confidential Information and goodwill. The Employee further understands and acknowledges that the services he provided to the Employer are unique, special or extraordinary.

The Employee further understands and acknowledges that the restrictive covenants below are necessary to protect the Employer's legitimate business interests in its Confidential Information and goodwill and in the Employee's unique, special or extraordinary services. The Employee further understands and acknowledges that the Employer's ability to reserve these for the exclusive knowledge and use of the Employer is of great competitive importance and commercial value to the Employer and that the Employer would be irreparably harmed if the Employee violates the restrictive covenants below.

(b) Confidential Information.

(1) Confidential Information. Employer's "Confidential Information" is all confidential and/or proprietary knowledge, trade secrets, data or information of the Employer entrusted to Employee, whether in writing, in computer form, or conveyed orally, that is not generally available to others in the form in which such information is used by Employer and that gives Employer a competitive advantage over other companies who do not have access to this information. By way of illustration but not limitation, Confidential Information includes tangible and intangible information relating to formulations, products, processes, know-how, designs, formulas, methods, developmental or experimental work; clinical data; improvements; discoveries; plans for research; new products; marketing and selling; business plans; budgets; unpublished financial statements; licenses; prices and costs; suppliers; customers; customer needs and preferences (such as typical order quantities and composition, delivery requirements or schedules, particular pricing needs or discount arrangements, advertising allowances and methods of doing business); customer contracts, credit procedures and terms; supplier identities, key decision makers at each supplier, and supplier specialties; pricing strategies and rationale; contact information and information about compensation, specific capabilities, and performance evaluations of Employer personnel; and any information described above that the Employer obtains from its clients or any other third party and that the Employer treats as confidential, whether or not owned or developed by the Employer.

(2) Employee understands that the above are simply examples of Employer's Confidential Information, and not a complete list. Employee further understands that as part of his duties Employee may have participated in developing Confidential Information for Employer, which then became Employer's Confidential Information.

(3) Employee agrees that he will not appropriate for his own use, use, disclose, divulge, furnish, or make available to any person any of the Employer's Confidential Information; provided, that the term "Confidential Information" shall not include such (A) information which is or becomes generally available to the public other than as a result of unauthorized or improper disclosure by Employee, (B) information which was in the possession of Employee prior to the time of disclosure by Employer, (C) information obtained from a third party who, to Employee's knowledge, had the right to disclosure such information without any confidentiality restrictions, or (D) information independently developed by Employee without the use of information disclosed by Employer. Notwithstanding the foregoing, Employee may disclose Confidential Information to the extent he is compelled to do so by lawful service of process, subpoena, court order, or as he is otherwise compelled to do by law or the rules or regulations of any regulatory body to which he is subject, including full and complete disclosure in response thereto, in which event he agrees (unless prohibited by law) to provide Employer with a copy of the documents seeking disclosure of such information promptly upon receipt of such documents and prior to their disclosure of any such information, so that Employer may, upon notice to Employee, take such action as Employer deems appropriate in relation to such subpoena or request and Employee (unless otherwise compelled to do so by lawful service of process, subpoena, court order, or by law or the rules or regulations of any regulatory body or governmental agency or instrumentality) may not disclose any such information until Employer has had the opportunity to take such action.

(c) Intellectual Property. Employee agrees that all right, title, and interest to all works of whatever nature generated in the course of his employment with the Employer resides with the Employer. Employee agrees that he will return to Employer or delete or destroy, not later than the Effective Date, all property, in whatever form (including computer files and other electronic data), of the Employer in his possession, including without limitation, all copies (in whatever form) of all files or other information pertaining to the Employer, its officers, employees, directors, shareholders, customers, suppliers, vendors, or distributors and any business or business opportunity of the Employer.

(d) Mutual Non-Disparagement. The Parties each agree that they, and in the case of Employer, its executive officers and directors, shall not make any disparaging statements or representations, whether orally or in writing, by word or gesture, to any person whatsoever, about the other Party or the other Party's directors, officers, employees, attorneys, agents, or representatives, as applicable. For purposes of this paragraph, a disparaging statement or representation is any communication which, if publicized to another, would cause or tend to cause the recipient of the communication to question the business condition, integrity, competence, good character, or product or service quality of the person or entity to whom the communication relates.

(e) Non-Solicitation. To the full extent permitted by law, the Employee will not directly or indirectly, individually or on behalf of any person, company, enterprise or entity, or as a sole proprietor, partner, stockholder, director, officer, principal, agent, executive, or in any other capacity or relationship, for a period of six (6) months from the Effective Date:

(1) encourage, solicit, induce, cause, or in any manner attempt to encourage, solicit, induce or cause any person, firm, corporation, or other entity or organization which is a client, customer, account, vendor, supplier, distributor, licensee of, or has any business relationship with, Employer's or any of its subsidiaries to terminate such relationship with, reduce the amount of business conducted with, or change in a manner adverse to Employer or its subsidiaries; or

(2) encourage, solicit, induce, cause, or in any manner attempt to encourage, solicit, induce or cause, any person employed by or providing services to Employer's or its subsidiaries to leave, curtail, or change in a manner adverse to Employer, such employment or service relationship.

(f) Acknowledgements Respecting Restrictive Covenants. With respect to the restrictive covenants set forth in this Section 6, the Parties acknowledge and agree that:

(1) (A) Each of the restrictive covenants contained in this Section 6 shall be construed as a separate covenant with respect to each activity to which it applies, (B) if, in any judicial proceeding, a court shall deem any of the restrictive covenants invalid, illegal, or unenforceable because its scope is considered excessive, such restrictive covenant shall be modified so that the scope of the restrictive covenant is reduced only to the minimum extent necessary to render the modified covenant valid, legal, and enforceable, and (C) if any restrictive covenant (or portion thereof) is deemed invalid, illegal, or unenforceable in any jurisdiction, as to that jurisdiction such restrictive covenant (or portion thereof) shall be ineffective to the extent of such invalidity, illegality, or unenforceability, without affecting in any way the remaining restrictive covenants (or portion thereof) in such jurisdiction or rendering that or any other restrictive covenant (or portion thereof) invalid, illegal, or unenforceable in any other jurisdiction.

(2) The Parties hereto hereby declare that it is impossible to measure in money the damages that will accrue to a Party in the event the other Party breaches any of the restrictive covenants provided in this Section 6. In the event that a Party breaches any such restrictive covenant, the nonbreaching Party shall be entitled to an injunction, a restraining order or such other equitable relief, including, but not limited to, specific performance (without the requirement to post bond) restraining such Party from violating such restrictive covenant. If the nonbreaching Party shall institute any action or proceeding to enforce the restrictive covenant, the breaching Party hereby waives the claim or defense that the breaching Party has an adequate remedy at law and agrees not to assert in any such action or proceeding the claim or defense that the nonbreaching Party has an adequate remedy at law.

(3) The remedies provided for in this Section 6 are cumulative and in addition to any other rights and remedies the Parties may have under law or in equity.

(g) Cooperation. Employee agrees to cooperate with the Employer to the extent reasonably requested by the Employer for the purpose of transitioning his duties and responsibilities. Employee will use his best efforts to make himself available as a consultant to Employer as may be reasonably requested by Employer from time to time, on an as needed basis. Employee further agrees to cooperate with Employer with regard to any litigation relating to Employee's period of employment for which Employer reasonably requests Employee's participation. Employee's agreement to consult respecting such litigation shall continue for the duration of any such litigation. If requested by Employer, such cooperation shall include, without limitation, (1) responding reasonably promptly to requests for information and documents in Employee's possession concerning matters pertinent to any of the foregoing, (2) making himself reasonably available as a witness and testifying at trial, depositions, hearings, or other proceedings, as well as being reasonably available for adequate preparation for such testimony, and (3) participating at reasonable times in interviews and meetings with representatives of the Employer, representatives of governments or regulatory authorities, or others designated by Employer. The Employee agrees that, following the Effective Date, the Employee will continue to provide reasonable cooperation to Employer 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 the Employee's employment in which the Employee was involved or of which the Employee has knowledge. As a condition of such cooperation, Employer shall reimburse the Employee for reasonable out-of-pocket expenses incurred at the request of Employer and shall compensate Employee at a daily rate equal to his daily rate of compensation at the time of termination of his employment. The Employee also agrees that, in the event that the Employee 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 Employee's employment by Employer, the Employee will, if legally permitted, give prompt notice of such request to Employer and, unless legally required to do so, will make no disclosure until Employer or Employer's subsidiaries has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

(h) Remedies. In the event of a breach or threatened breach by either Party of any of the provisions of this Agreement, such Party hereby consents and agrees that the other Party shall be entitled to seek, in addition to other available remedies, a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages or other available forms of relief.

7. Heirs and Assigns. This Agreement is binding on and is for the benefit of the Parties hereto and their respective successors (whether by merger, sale of assets, reorganization or other form of business acquisition, disposition or business reorganization), assigns, heirs, executors, administrators, and other legal representatives. Neither this Agreement nor any right or obligation hereunder may be assigned by Employee.

8. Integration. This Agreement constitutes the complete agreement between the Employer and Employee regarding the issues addressed in this Agreement. The terms of this Agreement may be changed, modified, or discharged only by an instrument in writing signed by the Parties hereto. A failure of the Employer or Employee to insist on strict compliance with any provision of this Agreement shall not be deemed a waiver of such provision or any other provision hereof. In the event that any provision of this Agreement is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

9. Choice of Law. This Agreement shall be construed, enforced, and interpreted in accordance with and governed by the laws of the State of California, without regard to its choice of law provisions.

10. Withholding. The Employer may withhold from any and all amounts payable under this Agreement such federal, state, and local taxes or other withholdings as may be required to be withheld pursuant to any applicable law or regulation.

11. Construction of Agreement. The Parties hereto acknowledge and agree that each Party has reviewed and negotiated the terms and provisions of this Agreement and has had the opportunity to contribute to its revision. Accordingly, the rule of construction to the effect that ambiguities are resolved against the drafting Party shall not be employed in the interpretation of this Agreement. Rather, the terms of this Agreement shall be construed fairly as to both Parties hereto and not in favor or against either Party.

12. Notice. Any notice or other communication required or permitted under this Agreement shall be effective only if it is in writing and shall be deemed to be given when delivered personally or four days after it is mailed by registered or certified mail, postage prepaid, return receipt requested or one day after it is sent by a reputable overnight courier service and, in each case, addressed to the Employer, to its principal place of business and to Employee, to his address set forth on the signature page hereof, or to such other address as any Party hereto may designate by notice to the other.

13. Severability. The Parties hereto intend that the validity and enforceability of any provision of this Agreement shall not affect or render invalid any other provision of this Agreement.

14. Modification and Waiver. No provision of this Agreement may be amended or modified unless such amendment or modification is agreed to in writing and signed by the Employee and by Chief Executive Officer of the Employer. No waiver by either of the Parties of any breach by the other Party hereto of any condition or provision of this Agreement to be performed by the other Party hereto shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time, nor shall the failure of or delay by either of the Parties in exercising any right, power or privilege hereunder operate as a waiver thereof to preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

15. Captions. Captions and headings of the sections and paragraphs of this Agreement are intended solely for convenience and no provision of this Agreement is to be construed by reference to the caption or heading of any section or paragraph.

16. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. Delivery of an executed counterpart of this Agreement, by facsimile, electronic mail in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, has the same effect as delivery of an executed original of this Agreement.

17. No Admission. Nothing in this Agreement shall be construed as an admission of wrongdoing or liability on the part of either Party.

18. Attorneys' Fees. Should either Party breach any of the terms of this Agreement or the post- termination obligations herein, to the extent authorized by state law, the breaching Party will be responsible for payment of all reasonable attorneys' fees and costs that the other Party incurred in the course of enforcing the terms of the Agreement, including demonstrating the existence of a breach and any other contract enforcement efforts.

19. Section 409A. This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") or an exemption thereunder and shall be construed and administered in accordance with Section 409A. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A. Notwithstanding the foregoing, the Employer makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall the Employer be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Employee on account of non-compliance with Section 409A.

20. Acknowledgment of Full Understanding. THE EMPLOYEE ACKNOWLEDGES AND AGREES THAT HE HAS FULLY READ, UNDERSTANDS AND VOLUNTARILY ENTERS INTO THIS AGREEMENT. THE EMPLOYEE ACKNOWLEDGES AND AGREES THAT HE HAS HAD AN OPPORTUNITY TO ASK QUESTIONS AND CONSULT WITH AN ATTORNEY OF HIS CHOICE BEFORE SIGNING THIS AGREEMENT. THE EMPLOYEE FURTHER ACKNOWLEDGES THAT HIS SIGNATURE BELOW IS AN AGREEMENT TO RELEASE EMPLOYER FROM ANY AND ALL CLAIMS RELATED TO THE SUBJECT MATTER OF THIS AGREEMENT.

21. Entire Agreement. This Agreement constitutes the entire agreement between the Parties with respect to its subject matter and supersedes any prior understandings, agreements or representations between the Parties, written or oral, with respect to the subject matter of this Agreement. For clarity, all the terms of the Employment Agreement are amended, replaced and superseded by this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Execution Date above.

REED'S INC.

By *[/s/ Joann Tinnelly]*
Name: Joann Tinnelly
Title: Interim Chief Executive Officer

EMPLOYEE

Signature: */s/ Stefan Freeman*
Name: Stefan Freeman

Exhibit 10.38

EXECUTIVE EMPLOYMENT AGREEMENT

This Employment Agreement (the “Agreement”) is made and effective as of December 2, 2019 (the “Effective Date”) by and between Reed’s, Inc., a Delaware corporation (“Reed’s” or the “Company”), and Thomas J. Spisak (the “Executive”).

WHEREAS, Reed’s and the Executive desire to enter into this Agreement to evidence the terms and conditions of the employment of the Executive by Reed’s.

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. Executive hereby represents and warrants to the Company that (i) the execution, delivery and performance of this Agreement by Executive does not and will not conflict with, breach, violate or cause a default under any contract, agreement, instrument, order, judgment or decree to which Executive is a party or by which he or she is bound, (ii) Executive is not a party to or bound by any employment agreement, noncompete agreement or confidentiality agreement with any other person or entity (other than nondisclosure agreements with Executive’s prior employer(s), the terms of which he has disclosed to the Company and which he does not expect to materially interfere with the performance of his obligations hereunder) and (iii) upon the execution and delivery of this Agreement by the Company, this Agreement shall be the valid and binding obligation of Executive, enforceable in accordance with its terms. Executive hereby acknowledges and represents that he has had the opportunity to consult with independent legal counsel regarding his or her rights and obligations under this Agreement and that he or she fully understands the terms and conditions contained herein.

Section 2 Term. The Executive’s employment (the “Term”) with Reed’s under this Agreement will commence on the Effective Date and continue until terminated in accordance with Section 6 below. Executive’s employment with the Company shall be on an “at-will” basis.

Section 3 Position. The Executive will be employed as the Chief Financial Officer (“CFO”) of Reed’s and will report to the Chief Executive Officer. The Executive will have the duties and responsibilities customarily attendant to the position of CFO. 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 Chief Executive Officer. 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 or her 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 CFO and will perform his duties and carry out his responsibilities as CFO 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 or her while employed by the Company ("Confidential Information") are the property of the Company or such affiliate. Therefore, Executive agrees that he or she shall not disclose to any unauthorized person or use for his or her 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 or she may then possess or have under his or her 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 (the "Protection Period"), he or she will not, either directly or indirectly, for himself or herself 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 or her due to the fact that he or she 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 or her 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 or she 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 or she will not, except with the express written consent of the Company, become engaged in, render services for, or permit his or her name to be used in connection with any business other than the business of the Company or any of its affiliates.

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.

Section 5 Compensation.

5.1 Base Salary. The Executive will be paid a base salary at the rate of $250,000.00 per year (the "Base Salary"). The Base Salary shall be subject to annual review 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 Bonus.

(a) Annual Bonus. In addition to the Base Salary, 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 30% of 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"). In order to be eligible to receive the Bonus, Executive must be employed at the time of achievement of the specific objective relating thereto and at the time Bonus payments are determined and paid by the Company. 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. Any bonus earned with respect to any partial fiscal year (if any) during the Term will be prorated based upon the number of days elapsed in such fiscal year. In order to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended and the regulations and guidance promulgated thereunder (collectively, "Code Section 409A"), it is agreed that the bonus (if any) earned under this Section 5.2 shall be paid no later than (but may be paid earlier in accordance with the Company's usual practices) March 15th of the calendar year immediately following the calendar year in which the fiscal year to which such bonus relates ended.

5.3 Benefits. Executive will be entitled to four (4) 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 CFO. The Company will reimburse Executive for all reasonable expenses incurred by him in the course of performing his or her duties under this Agreement which are consistent with the Company's policies in effect from time to time with respect to travel, entertainment and other business expenses, subject to the Company's requirements with respect to reporting and documentation of such expenses. To the extent that any reimbursements or in-kind benefits under this Agreement constitute "Non-qualified Deferred Compensation" for purposes of Code Section 409A, (i) all such expenses, benefits or other reimbursements under this Agreement shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by Executive, (ii) any right to such reimbursement or in kind benefits is not subject to liquidation or exchange for another benefit, and (iii) 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 be provided in any other taxable year.

5.4 Equity. Executive shall be eligible to receive an initial equity award of (i) 150,000 incentive stock options and (ii) 150,000 restricted stock awards ((i) and (ii), the "Initial Equity Award") ninety (90) days after the Effective Date ("Grant Date"), in accordance with the terms and conditions of available plan and subject to Board approval and plan availability. Of the Initial Equity Award, one-half (75,000 incentive stock options and 75,000 restricted stock awards) will vest in equal increments of 18,750 on each of the first, second, third and fourth anniversaries of the Grant Date ("Incentive Equity"). Of the Initial Equity Award, the remainder (75,000 incentive stock options and 75,000 restricted stock awards) will vest based on performance criteria to be determined by the Board or compensation committee of the Board (as the case may be) in its sole discretion ("Performance Equity"). Executive is responsible for all Federal and state taxes payable by Executive as a result of the receipt vesting and exercise of Incentive Equity Awards. The Executive will make an election under Section 83(b) of the Code with respect to any restricted stock awards. 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 or her fiduciary duties to the Company; (ii) willful and continued failure to perform his duties hereunder except by reason of Disability (defined below); (iii) the commission of (A) any crime constituting a felony in the jurisdiction in which committed, (B) any crime involving moral turpitude (whether or not a felony), (C) any other criminal act involving embezzlement, misappropriation of money, fraud, theft, or bribery (whether or not a felony), or (D) other willful misconduct that results in material damage to the Company's business or reputation; (iv) illegal or controlled substance abuse or insobriety by Executive; (v) any material breach of this Agreement or any other conduct that is materially damaging to the Company, or is reasonably expected to be, materially damaging to the Company, whether to the business interests, finance or reputation, as determined in the sole discretion of the compensation committee of the Board of Directors; or (vi) any disqualifying event causing Company "bad actor" disqualification under Rule 506(d) of the Securities Act of 1933, as amended.

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 30 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 30-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 material breach (whether or not specified above) of this Agreement by Reed's. 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 30 days of its initial existence and Reed's does not cure such breach or action within 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 60 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 officer positions that he holds with Reed's or any of its subsidiaries.

Section 7 Remuneration upon Termination of Employment.

7.1 Termination Prior to March 1, 2020. If the Executive's employment with Reed's is terminated for any reason prior to March 1, 2020, the Executive shall be entitled to 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"). No termination of employment prior to March 1, 2020 shall be considered for any purpose for Cause, without Cause, or for Good Reason.

7.2 Termination by Reed's without Cause or by the Executive for Good Reason. If the Executive's employment with Reed's is terminated after March 20, 2020 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) 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 the number of months included in the Severance Period, calculated based on length of Executive's continued employment with the Company immediately prior to termination (the "Severance Amount"). The Executive will receive two months of severance for every full year of service, up to a maximum of six months ("Severance Period"). For clarity, the Severance Period will not include severance for periods calculated based on partial years of service. 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 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 Equity Grant ("Vested Incentive Equity").

7.3 Termination by Reed's for Cause, by the Executive without Good Reason. If the Executive's employment with Reed's is terminated after March 1, 2020 for Cause, or by the Executive without Good Reason, the Executive will be entitled to the Accrued Benefits and Vested Incentive Equity.

7.4 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 Vested Incentive Equity.

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 in 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 4(b) 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 General Provisions.

8.1 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:
____
____
____

If to Reed's:

Attention: Norman Snyder, Chief Operating Officer
201 Merritt 7 Corporate Park
Norwalk CT 06851

8.2 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).

8.3 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.

8.4 Entire Agreement. This Agreement constitutes the entire agreement between the Executive and Reed's with respect to its subject matter and supersedes any prior understandings, agreements or representations between the parties, written or oral, with respect to the subject matter of this Agreement.

8.5 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.

8.6 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.

8.7 Governing Law; Arbitration. 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 subject to binding arbitration in Fairfield County, Connecticut under the Employment Arbitration Rules of the American Arbitration Association then in effect, and consent to the jurisdiction to the federal or state courts in Fairfield County, Connecticut to enforce any arbitration award rendered with respect thereto. The arbitration shall be conducted by a single arbitrator as agreed upon between Reed's and the Executive. If Reed's and the Executive cannot agree on a single arbitrator, the arbitration shall be conducted before a panel of three arbitrators, one selected by each party hereto and the third arbitrator selected by the parties' two arbitrators from a panel provided by the American Arbitration Association. The costs of the arbitrator along with other arbitration-specific fees shall be borne equally by the parties. Each party shall bear its own attorneys' fees and expenses; provided that the arbitrator may assess the prevailing party's fees and costs against the non-prevailing party as part of the arbitrator's award. The parties agree to abide by all decisions and awards rendered in such proceedings. Such decisions and awards rendered by the arbitrators shall be final and conclusive. All such disputes shall be settled in this manner in lieu of any action at law or equity; provided, however, that nothing in this subsection shall be construed as precluding the bringing an action for injunctive relief or specific performance as provided in this Agreement.

8.8 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.

8.9 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.

8.10 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.

8.11 Voluntary Execution; Representations. Executive acknowledges that (a) he or she has consulted with or has had the opportunity to consult with independent counsel of his or her own choosing concerning this Agreement and has been advised to do so by the Company, and (b) he or she 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 or her own judgment and without duress.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

REED'S INC.

By */s/ John Bello*
Name: John Bello
Title: Interim Chief Executive Officer

EMPLOYEE

Signature: */s/ Thomas J. Spisak*
Name: Thomas J. Spisak

Exhibit A

FORM OF RELEASE
[NOT FOR EXECUTION]

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 _________, 2019 (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 or her favor at the time of executing the release, which if known by him or her must have materially affected his or her 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 Payment are in addition to anything of value to which Executive 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.

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.

Exhibit 21

REED'S, INC.

SUBSIDIARIES

NONE

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Reed’s, Inc.

We consent to the incorporation by reference in the previously filed Registration Statements of Reed’s, Inc. on Form S-3 (Nos. 333- 212206, 333-218679, 333-220184, 333-223037, 333-229105, 333-172614, 333-164965), Form S-1 (No. 333-221059) and Form S-8 (Nos. 333-203469, 333-222741, 333-178623 and 333-235851) of our reports, dated March 18, 2020, relating to the financial statements, and effectiveness of Reed’s Inc.’s internal control over financial reporting (which report on internal control over financial reporting expresses an adverse opinion) appearing in this Form 10-K.

/s/ WEINBERG& COMPANY, P.A.

Los Angeles, California
March 18, 2020

EXHIBIT 31.1

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 Annual Report on Form 10-K 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: March 18, 2020

/s/ Norman E. Snyder, Jr.

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

EXHIBIT 31.2

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 Annual Report on Form 10-K 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: March 18, 2020

/s/ Thomas J. Spisak

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

EXHIBIT 32.1

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

In connection with the Annual Report on Form 10-K of Reed’s, Inc., a Delaware corporation (the “Company”) for the year ended December 31, 2019 as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), Norman E. Snyder, Jr., 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: March 18, 2020

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

EXHIBIT 32.2

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

In connection with the Annual Report on Form 10-K of Reed’s, Inc., a Delaware corporation (the “Company”) for the year ended December 31, 2019 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: March 18, 2020

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