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

# FORM 10-Q

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

For the quarterly period ended September 30, 2020

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

For the transition period from _______ to _______

Commission file number: 001-32501

# REED'S, INC.
(Exact name of registrant as specified in its charter)

| Delaware | 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)

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: There were a total of 62,967,570 shares of Common Stock outstanding as of October 31, 2020.

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

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

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

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part I of this report as well as our other public filings or public statements include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified by terms and phrases such as “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “should,” and “will” and similar expressions and include references to assumptions and relate to our future prospects, developments and business strategies.

These forward-looking statements involve known and unknown risks, assumptions and uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by forward-looking statements. These risks, assumptions and uncertainties include difficulty in marketing Reed’s products and services, maintaining and protecting brand recognition, Reed’s ability to qualify for forgiveness of the PPP loan, the need for significant capital, dependence on third party distributors, dependence on third party brewers, increasing costs of fuel and freight, protection of intellectual property, competition and other factors, any of which could have an adverse effect on the business plans of Reed’s, its reputation in the industry or its expected financial return from operations and results of operations. These risks, assumptions and uncertainties are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements.

We undertake no obligation to update or revise the forward-looking statements included in this report, whether as a result of new information, future events or otherwise, after the date of this report. Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences are discussed in the section entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included herein and included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, which we filed with the SEC on March 18, 2020, as amended April 8, 2020, and our Quarterly Reports on Form 10-Q for periods ended March 30, 2020 and June 30, 2020, which we filed on May 12, 2020 and August 10, 2020. These documents are available on the SEC’s website at www.sec.gov.

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**Part I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

| | September 30, 2020 (Unaudited) | December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 875 | $ 913 |
| Accounts receivable, net of allowance for doubtful accounts and returns and discounts of $194 and $375, respectively | 4,647 | 2,099 |
| Receivable from related party | 391 | 356 |
| Inventory, net of reserve for obsolescence of $224 and $646, respectively | 9,436 | 10,508 |
| Prepaid expenses and other current assets | 704 | 420 |
| *Total current assets* | 16,053 | 14,296 |
| | | |
| Property and equipment, net of accumulated depreciation of $316 and $482, respectively | 984 | 1,053 |
| Equipment held for sale, net of impairment reserves of $96 and $96, respectively | 67 | 67 |
| Intangible assets | 613 | 576 |
| **Total assets** | $ 17,717 | $ 15,992 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,441 | $ 5,539 |
| Accrued expenses | 835 | 646 |
| Revolving line of credit | 4,272 | 3,177 |
| Current portion of note payable | 470 | - |
| Convertible note to a related party | 5,128 | - |
| Current portion of leases payable | 114 | 49 |
| *Total current liabilities* | 16,260 | 9,411 |
| | | |
| Leases payable, less current portion | 592 | 737 |
| Convertible note to a related party | - | 4,689 |
| Note payable | 300 | - |
| Warrant liability | 7 | 8 |
| **Total liabilities** | 17,159 | 14,845 |
| | | |
| **Stockholders' equity:** | | |
| Series A Convertible Preferred stock, $10 par value, 500,000 shares authorized, 9,411 shares issued and outstanding | 94 | 94 |
| Common stock, $.0001 par value, 100,000,000 and 100,000,000 shares authorized, respectively; 62,960,570 and 47,595,206 shares issued and outstanding, respectively | 6 | 5 |
| Common stock issuable, 350,000 shares at September 30, 2020 | 285 | - |
| Additional paid in capital | 83,646 | 77,596 |
| Accumulated deficit | (83,473) | (76,548) |
| **Total stockholders' equity** | 558 | 1,147 |
| **Total liabilities and stockholders' equity** | $ 17,717 | $ 15,992 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **Net Sales** | $ 10,562 | $ 8,740 | $ 30,938 | $ 26,669 |
| Cost of goods sold | 7,176 | 6,238 | 21,694 | 19,390 |
| **Gross profit** | 3,386 | 2,502 | 9,244 | 7,279 |
| | | | | |
| **Operating expenses:** | | | | |
| Delivery and handling expense | 2,207 | 1,902 | 4,950 | 4,369 |
| Selling and marketing expense | 1,872 | 2,508 | 5,382 | 7,718 |
| General and administrative expense | 1,583 | 2,470 | 4,872 | 6,557 |
| **Total operating expenses** | 5,662 | 6,880 | 15,204 | 18,644 |
| | | | | |
| **Loss from operations** | (2,276) | (4,378) | (5,960) | (11,365) |
| | | | | |
| Interest expense | (322) | (318) | (961) | (947) |
| Change in fair value of warrant liability | 8 | 131 | 1 | 23 |
| | | | | |
| **Net loss** | (2,590) | (4,565) | (6,920) | (12,289) |
| | | | | |
| **Dividends on Series A Convertible Preferred Stock** | - | - | (5) | (5) |
| | | | | |
| **Net Loss Attributable to Common Stockholders** | $ (2,590) | $ (4,565) | $ (6,925) | $ (12,294) |
| | | | | |
| **Loss per share – basic and diluted** | $ (0.04) | $ (0.14) | $ (0.12) | $ (0.38) |
| | | | | |
| Weighted average number of shares outstanding – basic and diluted | 62,940,091 | 33,716,359 | 56,706,141 | 32,179,119 |

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

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

| | Common Stock | | Preferred Stock | | Common Stock Issuable | | Additional Paid In Capital | Accumulated Deficit | Total Stockholders’ Equity (Deficit) |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance, June 30, 2020 | 62,928,540 | $ 6 | 9,411 | $ 94 | 350,000 | $ 285 | $ 83,364 | $ (80,883) | $ 2,866 |
| Fair value of vested options | | - | | - | | - | 263 | | 263 |
| Common shares issued on exercise of options | 27,500 | - | | | | | 14 | | 14 |
| Issuance of shares for dividends on Series A Convertible Preferred Stock | 4,530 | - | | - | | | 5 | - | 5 |
| Net Loss | | | | | | | | (2,590) | (2,590) |
| Balance, September 30, 2020 | 62,960,570 | $ 6 | 9,411 | $ 94 | 350,000 | $ 285 | $ 83,646 | $ (83,473) | $ 558 |

| | Common Stock | | Preferred Stock | | Common Stock Issuable | | Additional Paid In Capital | Accumulated Deficit | Total Stockholders’ Equity (Deficit) |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance, December 31, 2019 | 47,595,206 | $ 5 | 9,411 | $ 94 | - | $ - | $ 77,596 | $ (76,548) | $ 1,147 |
| Fair value of vested options | | - | | - | | | 722 | | 722 |
| Fair value of vested restricted shares granted to officers | | - | | - | 350,000 | 285 | | | 285 |
| Dividends on Series A Convertible Preferred Stock | 4,530 | - | | - | | | 5 | (5) | - |
| Common shares issued on exercise of options | 27,500 | - | | | | | 14 | | 14 |
| Common shares issued pursuant to the rights offering, net of offering costs | 15,333,334 | 1 | | - | | - | 5,309 | - | 5,310 |
| Net Loss | | | | | | | | (6,920) | (6,920) |
| Balance, September 30, 2020 | 62,960,570 | $ 6 | 9,411 | $ 94 | 350,000 | $ 285 | $ 83,646 | $ (83,473) | $ 558 |

| | Common Stock | | Preferred Stock | | Common Stock Issuable | | Additional Paid In Capital | Accumulated Deficit | Total Stockholders’ Equity (Deficit) |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance, June 30, 2019 | 33,708,826 | $ 3 | 9,411 | $ 94 | - | $ - | $ 70,051 | $ (68,160) | $ 1,988 |
| Fair value of vested options | | - | | | | | 223 | | 223 |
| Shares granted to Directors for services | 8,072 | - | | - | - | - | 29 | | 29 |
| Fair value of vested restricted shares granted to an officer for services | | - | | - | | - | 116 | | 116 |
| Exercise of warrants | 3,146 | | | | - | | 1 | | 1 |
| Net Loss | | | | | | | | (4,565) | (4,565) |
| Balance, September 30,2019 | 33,720,044 | $ 3 | 9,411 | $ 94 | - | $ - | $ 70,420 | $ (72,725) | $ (2,208) |

| | Common Stock | | Preferred Stock | | Common Stock Issuable | | Additional Paid In Capital | Accumulated Deficit | Total Stockholders’ Equity (Deficit) |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance, December 31, 2018 | 25,729,461 | $ 3 | 9,411 | $ 94 | - | $ - | $ 53,591 | $ (60,431) | $ (6,743) |
| Fair value of vested options | | | | | | | 1,077 | | 1,077 |
| Shares granted to Directors for services | 33,796 | - | | - | - | - | 115 | | 115 |
| Fair value of vested restricted shares granted to an officer for services | | - | | | | | 405 | | 405 |
| Dividends on Series A Convertible Preferred Stock | | - | | - | - | - | | (5) | (5) |
| Common shares issued pursuant to the rights offering, net of offering costs | 7,733,750 | - | | - | | - | 14,867 | - | 14,867 |
| Exercise of warrants | 223,037 | | | | | | 365 | | 365 |
| Net Loss | | | | | - | | | (12,289) | (12,289) |
| Balance, September 30, 2019 | 33,720,044 | $ 3 | 9,411 | $ 94 | - | $ - | $ 70,420 | $ (72,725) | $ (2,208) |

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

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

| | September 30, 2020 | September 30, 2019 |
|---|---|---|
| *Cash flows from operating activities:* | | |
| **Net loss** | $ (6,920) | $ (12,289) |
| *Adjustments to reconcile net loss to net cash used in operating activities:* | | |
| Depreciation | 56 | 12 |
| (Gain)/loss on sale of property & equipment | - | (30) |
| (Gain)/loss on termination of leases | (6) | 2 |
| Amortization of debt discount | 290 | 225 |
| Amortization of right of use assets | 89 | 96 |
| Fair value of vested options | 722 | 1,077 |
| Fair value of vested restricted shares granted to officers | 285 | 520 |
| Decrease in allowance for doubtful accounts | (181) | (400) |
| Decrease (increase) in inventory reserve | (422) | 325 |
| Change in fair value of warrant liability | (1) | (23) |
| Accrual of interest on convertible note to a related party | 439 | 390 |
| Lease liability | (18) | (10) |
| *Changes in operating assets and liabilities:* | | |
| Accounts receivable | (2,367) | (1,121) |
| Inventory | 1,495 | (2,520) |
| Prepaid expenses and other assets | (318) | (339) |
| Accounts payable | (100) | (196) |
| Accrued expenses | 189 | (347) |
| **Net cash used in operating activities** | (6,768) | (14,628) |
| *Cash flows from investing activities:* | | |
| Trademark costs | (37) | - |
| Proceeds from sale of property and equipment | - | 30 |
| Purchase of property and equipment | (121) | (273) |
| **Net cash used in investing activities** | (158) | (243) |
| *Cash flows from financing activities:* | | |
| Borrowings on line of credit | 34,645 | 42,179 |
| Repayments of line of credit | (33,710) | (42,175) |
| Capitalization of financing costs | (130) | (130) |
| Proceeds from note payable | 770 | - |
| Repayment of amounts due to/from officers | - | 195 |
| Principal repayments on capital lease obligation | (11) | (38) |
| Exercise of options | 14 | - |
| Exercise of warrants | - | 365 |
| Proceeds from sale of common stock | 5,310 | 14,867 |
| **Net cash provided by financing activities** | 6,888 | 15,263 |
| | | |
| Net increase in cash | (38) | 392 |
| Cash at beginning of period | 913 | 624 |
| Cash at end of period | $ 875 | $ 1,016 |
| | | |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid for interest | $ 231 | $ 408 |
| | | |
| **Non Cash Investing and Financing Activities** | | |
| Dividends on Series A Convertible Preferred Stock | $ 5 | $ 5 |

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

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

**1. Basis of Presentation and Liquidity**

The accompanying interim condensed financial statements of Reed's, Inc. (the "Company", "we", "us", or "our"), are unaudited, but in the opinion of management contain all adjustments, including normal recurring adjustments, necessary to present fairly our financial position at September 30, 2020, the results of operations for the three and nine months ended September 30, 2020 and 2019, and cash flows for the nine months ended September 30, 2020 and 2019. The balance sheet as of December 31, 2019 is derived from the Company's audited financial statements.

Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. We believe that the disclosures contained in these condensed financial statements are adequate to make the information presented herein not misleading. For further information, refer to the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as filed with the Securities and Exchange Commission on March 18, 2020 and amended on April 8, 2020.

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

***COVID-19 Considerations***

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

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

Through September 30, 2020, the COVID-19 pandemic has not negatively impacted the Company's liquidity position as of such date. Shipments to customers in the third quarter of 2020 were up 14% from the first quarter of 2020, and down slightly (2%) from the second quarter of 2020 with fluctuations consistent with historical seasonal patterns. Through September 30, 2020, we continue to generate cash flows to meet our short-term liquidity needs, and we expect to maintain access to the capital markets. We have also not observed any material impairments of our assets or a significant change in the fair value of our assets due to the COVID-19 pandemic.

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

**Liquidity**

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

For the nine months ended September 30, 2020, the Company recorded a net loss of $6,920 and used cash in operations of $6,768. As of September 30, 2020, we had a cash balance of $875 with borrowing capacity of $3,037, a stockholder's equity of $558 and a negative working capital of $207, compared to a cash balance of $913 with borrowing capacity of $3,235, stockholders' equity of $1,147 and a working capital of $4,885 at December 31, 2019.

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

**2. Significant Accounting Policies**

**Use of estimates**

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

**Revenue Recognition**

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

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

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

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

**Loss per Common Share**

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

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

| | September 30, 2020 | September 30, 2019 |
|---|---|---|
| Convertible note to a related party | 2,266,667 | 2,266,667 |
| Warrants | 6,413,782 | 6,413,782 |
| Common stock equivalent of Series A Convertible Preferred stock | 37,644 | 37,644 |
| Common stock issuable | 350,000 | - |
| Unvested restricted common stock | 244,740 | 610,609 |
| Options | 4,716,357 | 4,373,566 |
| Total | 14,029,190 | 13,702,268 |

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

**Stock Compensation Expense**

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

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

**Advertising Costs**

Advertising costs are expensed as incurred and are included in selling and marketing expense. Advertising costs for the three months ended September 30, 2020 and 2019, aggregated $536 and $661, respectively. Advertising costs for the nine months ended September 30, 2020 and 2019, aggregated $1,141 and $2,194, respectively.

**Concentrations**

*Sales.* During the three months ended September 30, 2020, two customers accounted for 24% and 12% of gross sales, respectively, and during the nine months ended September 30, 2020, two customers accounted for 25% and 13% of gross sales, respectively. During the three months ended September 30, 2019, the Company's largest two customers accounted for 15% and 12% of gross sales, respectively. During the nine months ended September 30, 2019, these customers accounted for 23% and 13% of gross sales, respectively. No other customers exceeded 10% of sales in either period.

*Accounts receivable.* As of September 30, 2020, the Company had accounts receivable from one customer which comprised 23% of its gross accounts receivable. As of December 31, 2019, the Company had accounts receivable from one customer which comprised 14% of its gross accounts receivable. No other customer exceeded 10% of accounts receivable in either period.

*Purchases from vendors.* During the three months ended September 30, 2020, two vendors accounted for 13% and 11% of all purchases. During the nine months ended September 30, 2020, two vendors accounted for 11% and 11% of all purchases. During the three months ended September 30, 2019, the Company's largest three vendors accounted for approximately 13%, 11% and 10% of all purchases, respectively. During the nine months ended September 30, 2019, two vendors accounted for 12% and 10% of all purchases, respectively. No other vendors exceeded 10% of all purchases in either period.

*Accounts payable.* As of September 30, 2020, of the Company's two largest vendors, each accounted for 18% and 11% of the total accounts payable. As of December 31, 2019, of the Company's three largest vendors, accounted for 19%, 15%, and 14% of the total accounts payable. No other vendors exceeded 10% of accounts payable in either period.

**Fair Value of Financial Instruments**

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

Level 1—Quoted prices in active markets for identical assets or liabilities.
Level 2—Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.
Level 3—Unobservable inputs based on the Company's assumptions.

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

As of September 30, 2020, and December 31, 2019, the Company's balance sheets included Level 2 liabilities comprised of the fair value of warrant liabilities aggregating $7 and $8, respectively (see Note 10).

**Recent Accounting Pronouncements**

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

In August 2020, the FASB issued ASU No. 2020-06 (“ASU 2020-06”) “*Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity*.” ASU 2020-06 will simplify the accounting for convertible instruments by reducing the number of accounting models for convertible debt instruments and convertible preferred stock. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract as compared with current GAAP. Convertible instruments that continue to be subject to separation models are (1) those with embedded conversion features that are not clearly and closely related to the host contract, that meet the definition of a derivative, and that do not qualify for a scope exception from derivative accounting and (2) convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid-in capital. ASU 2020-06 also amends the guidance for the derivatives scope exception for contracts in an entity’s own equity to reduce form-over-substance-based accounting conclusions. ASU 2020-06 will be effective for the Company January 1, 2024. Early adoption is permitted, but no earlier than January 1, 2021, including interim periods within that year. Management is currently evaluating the effect of the adoption of ASU 2020-06 on the consolidated financial statements, but currently does not believe ASU 2020-06 will have a significant impact on the Company’s accounting for its convertible debt instruments. The effect will largely depend on the composition and terms of the financial instruments at the time of adoption.

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):

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Raw materials and packaging | $ 6,354 | $ 4,261 |
| Finished products | 3,082 | 6,247 |
| Total | $ 9,436 | $ 10,508 |

The Company has recorded a reserve for slow moving and potentially obsolete inventory. The reserve at September 30, 2020, and December 31, 2019, was $224 and $646, respectively.

**4. Property and Equipment**

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Right-of-use assets under operating leases | $ 730 | $ 730 |
| Right-of-use assets under finance leases | 67 | 179 |
| Computer hardware and software | 400 | 543 |
| Machinery and equipment | 103 | 83 |
| Total cost | 1,300 | 1,535 |
| Accumulated depreciation and amortization | (316) | (482) |
| Net book value | $ 984 | $ 1,053 |

Depreciation expense for the three months ended September 30, 2020 and 2019 was $35 and $8, respectively. Depreciation expense for the nine months ended September 30, 2020 and 2019 was $56 and $12, respectively. During the nine months ended September 30, 2020, the Company disposed of right-of-use assets under finance leases with a net book value of $45, and terminated $51 of related finance leases (see Note 9), resulting in a gain on lease termination of $6.

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

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

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

**5. Intangible Assets**

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

Intangible assets consist of the following (in thousands):

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Brand names | $ 576 | $ 576 |
| Trademarks | 37 | - |
| Total | $ 613 | $ 576 |

**6. Line of Credit**

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Line of Credit | $ 4,596 | $ 3,661 |
| Capitalized finance costs | (324) | (484) |
| Net balance | $ 4,272 | $ 3,177 |

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 September 30, 2020, the unused borrowing capacity under the financing agreement was $3,037. The line of credit matures on March 30, 2021.

Borrowings under the Rosenthal financing agreement bear interest at the greater of prime or 4.75%, plus an additional 2.0% to 3.5% depending on whether the borrowing is based upon receivables, inventory or is an over-advance. The effective interest rate as of September 30, 2020 on outstanding borrowings was 7.2%. Additionally, the line of credit is subject to monthly facility and administration fees, and aggregate minimum monthly fees (including interest) of $4.

The line of credit is secured by substantially all of the assets excluding intellectual property of the Company. The over-advance is secured by all of Reed's intellectual property collateral. Additionally, any over-advance is guaranteed by an irrevocable stand-by letter of credit in the amount of $1,500, issued by Daniel J. Doherty III and the Daniel J. Doherty, III 2002 Family Trust, affiliates of Raptor/Harbor Reeds SPV LLC ("Raptor"). As of September 30, 2020, Raptor beneficially owns 11.5% of the Company's outstanding common stock and Mr. Doherty is a member of the Company's Board of Directors. In the event of a default under the financing agreement, Raptor has a put option to purchase from Rosenthal the entire amount of any outstanding over-advance plus accrued interest, prior to Rosenthal declaring an event of default under the financing agreement.

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

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 amortized over the remaining life of the Rosenthal agreement. The 2020 fee will be amortized over 0.5 years and the 2019 fee is being amortized over 1.5 years. Amortization of debt discount was $290 and $225 for the nine months ended September 30, 2020 and 2019, respectively.

**7. Convertible Note to a Related Party**

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| 12% Convertible Note Payable | $ 3,400 | $ 3,400 |
| Accrued Interest | 1,728 | 1,289 |
| Total obligation | $ 5,128 | $ 4,689 |

On April 21, 2017, the Company issued a secured, convertible, subordinated, non-redeemable note in the principal amount of $3,400 and warrants to purchase 1,416,667 shares of common stock to Raptor. Raptor beneficially owned approximately 11.5% and 14.9% of the Company's common stock at September 30, 2020 and December 31, 2019, respectively.

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

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

**8. Note Payable**

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

The PPP loan agreement is dated April 20, 2020, matures on April 20, 2022, bears interest at a rate of 1% per annum, with the first six months of interest deferred, is payable monthly commencing on November 2020, and is unsecured and guaranteed by the U.S. Small Business Administration. The loan term may be extended to April 20, 2025, if mutually agreed to by the Company and lender. We applied ASC 470, *Debt*, to account for the PPP loan. The PPP loan may be prepaid at any time prior to maturity with no prepayment penalties. Funds from the PPP loan may only be used for qualifying expenses as described in the CARES Act, including qualifying payroll costs, qualifying group health care benefits, qualifying rent and debt obligations, and qualifying utilities. The Company intends to use the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses. The Company intends to apply for forgiveness of the PPP loan with respect to these qualifying expenses, however, we cannot assure that such forgiveness of any portion of the PPP loan will occur. As for the potential loan forgiveness, once the PPP loan is, in part or wholly, forgiven and a legal release is received, the liability would be reduced by the amount forgiven and a gain on extinguishment would be recorded. The terms of the PPP loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The Company was in compliance with the terms of the PPP loan as of September 30, 2020. At September 30, 2020, the note payable balance was $770, of which $470 were reflected as the current portion of note payable.

## 9. Leases Payable

The Company adopted ASC 842, *Leases*, effective October 1, 2018. The standard requires a lessee to record a right-of-use asset and a corresponding lease liability at the inception of the lease, initially measured at the present value of the lease payments. The Company leases its headquarters office, and certain office equipment and automobiles. The Company analyzes all leases at inception to determine if a right-of-use asset and lease liability should be recognized. Leases with an initial term of 12 months or less are not included on the condensed consolidated balance sheets. The lease liability is measured at the present value of future lease payments as of the lease commencement date.

ASC 842 requires recognition in the statement of operations of a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis.

During the three and nine months ended September 30, 2020 and 2019, lease costs totaled $45 and $51, and $135 and $134, respectively.

As of December 31, 2019, the Company's lease liabilities totaled $786, made up of finance lease liabilities of $89 and operating lease liabilities of $697. During the nine months ended September 30, 2020, the Company terminated $51 of finance leases, and made payments of $11 towards finance lease liability and $18 towards operating lease liability. As of September 30, 2020, lease liabilities totaled $706, made up of finance lease liabilities of $27 and operating lease liabilities of $679.

As of September 30, 2020, the weighted average remaining lease terms for operating lease and finance lease are 4.25 years and 0.39 years, respectively. As of September 30, 2020, the weighted average discount rate for operating lease is 12.6% and 10.39% for finance lease.

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

| **Years Ending December 31,** | | |
|---|---|---|
| Remainder of 2020 | $ | 67 |
| 2021 | | 221 |
| 2022 | | 222 |
| 2023 | | 226 |
| 2024 | | 221 |
| Total payments | | 957 |
| Less: Amount representing interest | | (251) |
| Present value of net minimum lease payments | | 706 |
| Less: Current portion | | (114) |
| Non-current portion | $ | 592 |

## 10. Warrant Liability

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

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Stock Price | $ 0.93 | $ 0.91 |
| Risk free interest rate | 0.80% | 1.95% |
| Expected volatility | 119.51% | 83.36% |
| Expected life in years | 0.67 | 1.42 |
| Expected dividend yield | 0% | 0% |
| Number of Warrants containing fundamental transaction provisions | 138,762 | 138,762 |
| Fair Value of Warrants | $ 7 | $ 8 |

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

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

| | September 30, 2020 | September 30, 2019 |
|---|---|---|
| Beginning Balance | $ 8 | $ 38 |
| Change in fair value | (1) | (23) |
| Ending balance | $ 7 | $ 15 |

**11. Stockholders' Equity**

*Series A Convertible Preferred Stock*

On July 2, 2020, the Company paid dividends on the Preferred Stock through the issuance of 4,530 of its common stock. The aggregate fair value of the common stock issued was $5 based on an average market price of $1.04 per share.

*Common stock issuance*

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

During the nine months ended September 30, 2020, the Company received proceeds of $14, and issued 27,500 shares of common stock, on the exercise of stock options.

## 12. Share-based payments

*Restricted common stock*

The following table summarizes restricted stock activity during the nine months ended September 30, 2020:

| | Unvested Shares | Issuable Shares | Fair Value at Date of Issuance | Weighted Average Grant Date Fair Value |
|---|---|---|---|---|
| Balance, December 31, 2019 | - | - | $ - | - |
| Granted | 594,740 | - | 508 | 0.85 |
| Vested | (350,000) | 350,000 | (285) | - |
| Issued | - | - | - | - |
| Balance, September 30, 2020 | 244,740 | 350,000 | $ 223 | $ 0.85 |

During the nine months ended September 30, 2020, the Company issued 594,740 shares of restricted stock to a director and two executive employees. 350,000 of these shares vested immediately, 94,740 shares will vest in increments of 47,370 each over a two month period of October and November 2020, 75,000 shares will vest in increments of 18,750 each over four years from the date of grant, and 75,000 shares will vest over four years based on performance criteria determined by the Board of Directors or Compensation Committee. Unvested shares remain subject to forfeiture if vesting conditions are not met. The aggregate fair value of the stock awards was $508 based on the market price of our common stock price which ranged from $0.81 to $0.95 per share on the dates of grants and is amortized as shares vest. The total fair value of restricted common stock vesting during the nine months ended September 30, 2020 and 2019 was $285 and $477, respectively, and is included in general and administrative expenses in the accompanying statements of operations. As of September 30, 2020, the amount of unvested compensation related to issuances of restricted common stock was $223, which will be recognized as an expense in future periods as the shares vest. When calculating basic loss per share, these shares are included in weighted average common shares outstanding from the time they vest. When calculating diluted net income per share, these shares are included in weighted average common shares outstanding as of their grant date.

*Stock options*

The following table summarizes stock option activity during the nine months ended September 30, 2020:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Terms (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2019 | 3,265,580 | $ 2.19 | 7.09 | $ 6 |
| Granted | 2,067,800 | $ 0.67 | | |
| Exercised | (34,500) | $ 0.50 | | |
| Unvested forfeited or expired | (394,480) | $ 1.93 | | |
| Vested forfeited or expired | (188,043) | $ 4.20 | | |
| Outstanding at September 30, 2020 | 4,716,357 | $ 1.48 | 8.17 | $ 505 |
| Exercisable at September 30, 2020 | 2,169,690 | $ 1.47 | 7.46 | $ 338 |

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

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

During the nine months ended September 30, 2020 and 2019, the Company recognized $722 and $1,077 of compensation expense relating to vested stock options. As of September 30, 2020, the aggregate amount of unvested compensation related to stock options was approximately $1,594 which will be recorded as an expense in future periods as the options vest.

As of September 30, 2020, the outstanding options have an intrinsic value of $338. The aggregate intrinsic value was calculated as the difference between the closing market price as of September 30, 2020, which was $0.93, and the exercise price of the outstanding stock options.

**13. Stock Warrants**

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

Schedule of Warrant Activity

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Terms (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2019 | 6,413,782 | $ 2.06 | 1.52 | $ - |
| Exercised | - | - | | |
| Forfeited or expired | - | - | | |
| Outstanding at September 30, 2020 | 6,413,782 | $ 2.06 | 0.77 | $ - |
| Exercisable at September 30, 2020 | 6,413,782 | $ 2.06 | 0.77 | $ - |

There were no warrant transactions during the nine months ended September 30, 2020. As of September 30, 2020, the outstanding warrants have no intrinsic value. The intrinsic value was calculated as the difference between the closing market price as of September 30, 2020, which was $0.93, and the exercise price of the Company's warrants to purchase common stock.

**14. Related Party Activities**

On December 31, 2018, the Company completed the sale of its Los Angeles manufacturing plant to California Custom Beverage, LLC ("CCB"), an entity owned by Christopher J. Reed, a related party, and CCB assumed the monthly payments on our lease obligation for the Los Angeles manufacturing plant. Our release from the obligation by the lessor, however, is dependent upon CCB's deposit of $1,200 of security with the lessor. The deposit is secured by Mr. Reed's pledge of common stock to the lessor and guaranteed personally by Mr. Reed and his wife. As of September 30, 2020, $800 has been deposited with the lessor and Mr. Reed has placed approximately 363,000 pledged shares valued at $338 that remain in escrow with the lessor.

Beginning in 2019, we are to receive a 5% royalty on CCB's private label sales to existing customers for three years and a 5% referral fee on CCB's private label sales to referred customers for three years. During the nine months ended September 30, 2020, the Company recorded royalty revenue from CCB of $26. During the nine months ended September 30, 2019, the Company recorded royalty revenue from CCB of $14.

At December 31, 2019, the Company had royalty revenue receivable from CCB of $128. In addition, at December 31, 2019, the Company has outstanding receivable from CCB of $228 consisting of inventory advances to CCB. The aggregate receivable from CCB at December 31, 2019 was $356. During the nine months ended September 30, 2020, the Company recorded additional royalty revenue receivable of $26, advance additional inventory and equipment of $138, and received payments of $129, leaving an aggregate receivable balance of $391 at September 30, 2020.

At September 30, 2020 and December 31, 2019, the Company had accounts payable due to CCB of $211 and $182, respectively.

**15. Subsequent Events**

Subsequent to September 30, 2020, the Company issued 7,000 shares of common stock on the exercise of stock options.

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

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

**Overview**

During the third quarter of 2020, the Company fully utilized their expanded network of co-packers and implemented an upgraded set of quality protocols. In addition to our traditional sales channels, the Company is utilizing their ecommerce platform that includes their branded web sites and Amazon to offer its line of shots, ginger candy and drinks packaged in cans.

A public equity offering, which closed on April 20, 2020, provided the Company with funds for working capital and general corporate purposes. These funds enabled us to initiate the implementation of our 2020 strategy that included driving growth while strategically reducing operating costs.

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

***COVID-19 Considerations***

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

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

Through September 30, 2020, in part due to our innovative response to the COVID-19 pandemic, the COVID-19 pandemic has not negatively impacted the Company's liquidity position as of such date. Shipments to customers in the third quarter were up 14% from the first quarter of the year and down slightly (2%) from the Second quarter of 2020, with fluctuations consistent with historical seasonal patterns. Through September 30, 2020, we continue to generate cash flows to meet our short-term liquidity needs, and we expect to maintain access to the capital markets. We have also not observed any material impairments of our assets or a significant change in the fair value of our assets due to the COVID-19 pandemic.

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

**Results of Operations – Three months ended September 30, 2020**

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

| | Three Months Ended September 30, 2020 | 2019 | Pct. Change |
|---|---|---|---|
| Gross sales (A) | $ 11,897 | $ 10,112 | 18% |
| Less: Promotional and other allowances (B) | 1,335 | 1,372 | -3% |
| Net sales | $ 10,562 | $ 8,740 | 21% |
| Cost of goods produced (C) | 7,176 | 6,238 | 15% |
| *% of Gross sales* | *60%* | *62%* | |
| *% of Net sales* | *68%* | *71%* | |
| Gross profit | $ 3,386 | $ 2,502 | 35% |
| *% of Net sales* | *32%* | *29%* | |
| Expenses | | | |
| Delivery and handling | $ 2,207 | $ 1,902 | 16% |
| *% of Net sales* | *21%* | *22%* | |
| *Dollar per case ($)* | *3.5* | *3.5* | |
| Selling and marketing | 1,872 | 2,508 | -25% |
| *% of Net sales* | *18%* | *29%* | |
| General and administrative | 1,583 | 2,470 | -36% |
| *% of Net sales* | *15%* | *28%* | |
| Total Operating expenses | 5,662 | 6,880 | -18% |
| Loss from operations | $ (2,276) | $ (4,378) | -45% |
| Interest expense and other expense | (314) | (187) | 68% |
| **Net loss** | $ (2,590) | $ (4,565) | -43% |
| **Loss per share – basic and diluted** | $ (0.04) | $ (0.14) | -70% |
| Weighted average shares outstanding - basic & diluted | 62,940,091 | 33,716,359 | 87% |

*(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.*

**Sales, Cost of Sales, and Gross Margins**

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

| | | 2020 | | | | | | 2019 | | | | Q3 Per Case | | | Sept YTD Per Case | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | YTD | Q3 vs PY | YTD vs PY | Q1 | Q2 | Q3 | YTD | 2020 | 2019 | vs PY | 2020 | 2019 | vs PY |
| Cases: | | | | | | | | | | | | | | | | | |
| | Reed's | 288 | 335 | 314 | 937 | 32% | 24% | 238 | 281 | 238 | 757 | | | | | | |
| | Virgil's | 262 | 308 | 319 | 889 | 6% | 4% | 257 | 296 | 302 | 855 | | | | | | |
| | Total Core | 550 | 643 | 633 | 1,826 | 17% | 13% | 495 | 577 | 540 | 1,612 | | | | | | |
| | Non Core | 2 | - | - | 2 | -95% | -92% | 20 | 2 | 4 | 26 | | | | | | |
| | Candy | 8 | 8 | 5 | 21 | -10% | -11% | 9 | 9 | 6 | 24 | | | | | | |
| | Total | 560 | 651 | 639 | 1,850 | 16% | 11% | 524 | 588 | 550 | 1,662 | | | | | | |
| Gross Sales: | | | | | | | | | | | | | | | | | |
| | Core | $ 10,175 | $ 11,940 | $ 11,622 | $ 33,737 | 18% | 15% | $ 9,098 | $ 10,455 | $ 9,809 | $ 29,362 | $ 18.4 | $ 18.2 | 1% | $ 18.5 | $ 18.2 | 1% |
| | Non Core | 102 | 33 | 74 | 209 | -44% | -39% | 181 | 29 | 131 | 341 | $ 350.1 | $ 32.8 | 969% | 94.4 | 13.1 | 619% |
| | Candy | 274 | 256 | 201 | 731 | 17% | 6% | 241 | 274 | 172 | 687 | $ 37.3 | $ 28.7 | 30% | 34.2 | 28.6 | 19% |
| | Total | $ 10,551 | $ 12,229 | $ 11,897 | $ 34,677 | 18% | 14% | $ 9,520 | $ 10,758 | $ 10,112 | $ 30,390 | $ 18.6 | $ 18.4 | 1% | 18.7 | 18.3 | 3% |
| Discounts: | Total | $ (1,028) | $ (1,376) | $ (1,335) | $ (3,739) | -3% | 0% | $ (1,071) | $ (1,278) | $ (1,372) | $ (3,721) | $ (2.1) | $ (2.5) | -16% | $ (2.0) | $ (2.2) | -10% |
| COGS: | | | | | | | | | | | | | | | | | |
| | Core | $ (6,414) | $ (7,674) | $ (7,031) | $ (21,119) | 15% | 15% | $ (5,469) | $ (6,843) | $ (6,094) | $ (18,406) | $ (11.1) | $ (11.3) | -2% | $ (11.6) | $ (11.1) | 4% |
| | Non Core | (59) | (15) | (15) | (89) | -59% | -62% | (167) | (28) | (38) | (233) | (73.2) | (9.5) | 672% | (40.4) | (9.0) | 351% |
| | Candy | (180) | (176) | (129) | (485) | 22% | 10% | (159) | (177) | (106) | (442) | (24.0) | (17.6) | 36% | (22.7) | (18.4) | 23% |
| | Idle Plant | - | | -- | - | - | -100% | (150) | (159) | - | (309) | - | - | 0% | - | (0.2) | -100% |
| | Total | $ (6,653) | $ (7,865) | $ (7,176) | $ (21,694) | 15% | 12% | $ (5,945) | $ (7,207) | $ (6,238) | $ (19,390) | $ (11.2) | $ (11.3) | -2% | $ (11.7) | $ (11.7) | 0% |
| Gross Margin: | | $ 2,870 | $ 2,988 | $ 3,386 | $ 9,244 | 35% | 27% | $ 2,504 | $ 2,273 | $ 2,502 | $ 7,279 | $ 5.3 | $ 4.5 | 17% | $ 5.0 | $ 4.4 | 15% |
| as % Net Sales | | 30% | 28% | 32% | 30% | | | 30% | 24% | 29% | 27% | | | | | | |

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

*Sales*

As a result of our decision to focus on the core Reed's and Virgil's beverage brands and simplify operations by reducing the overall number of SKUs that we offer, the Company's core beverage volume for the quarter ended September 30, 2020, represents 98% of all beverage volume.

Core brand gross revenue increased by 18% to $11,622 compared to the same period last year, driven by Reed's volume growth of 32%. The result is an increase in total gross revenue of 18%, to $11,896 from $10,112 during the same period last year. Price on our core brands increased $0.19 per case or 1% year over year, while volume grew 17% as compared to the same period last year.

Discounts as a percentage of gross sales decreased to 11% in the third quarter of 2020 from 14% in the same period last year. As a result, net sales revenue grew 21% in the third quarter of 2020 to $10,562, compared to $8,740 in the same period last year.

*Cost of Goods Sold and Produced*

Cost of goods sold increased $938 during the third quarter of 2020 as compared to the same period last year. As a percentage of net sales, cost of goods sold in the third quarter of 2020 improved to 68% as compared to 71% for the same period last year.

The total cost of goods per case decreased to $11.24 per case in the third quarter of 2020 from $11.34 per case for the same period last year. The cost of goods sold per case on core brands was $11.11 during the third quarter of 2020, compared to $11.29 and the third quarter of 2019.

*Gross Margin*

Gross margin increased to 32% for the third quarter of 2020, compared to 29% during the same period last year.

**Operating Expenses**

*Delivery and Handling Expenses*

Delivery and handling expenses consist of delivery costs to customers and warehousing costs incurred for handling our finished goods after production. Delivery and handling expenses increased by $306 in the third quarter of 2020 to $2,207 from $1,902 in the same period last year, driven by increased volumes. Delivery costs in the third quarter of 2020 were 21% of net sales and $3.45 per case, compared to 22% of net sales and $3.46 per case during the same period last year.

*Selling and Marketing Expenses*

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

Total selling and marketing expenses were $1,872 during the third quarter of 2020, compared to $2,508 during the same period last year. As a percentage of net sales, selling and marketing costs decreased to 18% during the third quarter of 2020, as compared to 29% during the same period last year. The decrease represents a lapping of the “Fooled Your Mom” campaign in the third quarter of 2019 and a lower level of digital advertising, event sampling and agency fees. In addition, personnel and travel related costs declined.

*General and Administrative Expenses*

General and administrative expenses consist primarily of the cost of executive, administrative, and finance personnel, as well as professional fees. General and administrative expenses decreased in the third quarter of 2020 to $1,583 from $2,470, a decrease of $887 over the same period last year. Decrease was driven by a $643 decrease in severance expense, $214 decrease in stock option expense, and a $74 decrease in professional and consulting fees, partially offset by a $44 increase in other general and administrative expenses.

**Loss from Operations**

The loss from operations was $2,276 for the third quarter of 2020, as compared to a loss of $4,378 in the same period last year driven by increase gross profit and reductions in operating expenses discussed above.

**Interest and Other Expense**

Interest and other expense for the third quarter of 2020, consisted of $322 of interest expense offset by the change in fair value of our warrant liability of $8. During the same period last year, interest and other expense consisted of $318 of interest expense offset by the change in fair value of our warrant liability of $131.

**Modified EBITDA**

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

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

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

| | Three Months Ended September 30, | |
|---|---|---|
| | **2020** | **2019** |
| Net loss | $ (2,590) | $ (4,565) |
| | | |
| Modified EBITDA adjustments: | | |
| Depreciation and amortization | 59 | 38 |
| Interest expense | 322 | 318 |
| Stock option and other noncash compensation | 263 | 368 |
| Change in fair value of warrant liability | (8) | (131) |
| Severance | - | 643 |
| Total EBITDA adjustments | $ 636 | $ 1,236 |
| | | |
| Modified EBITDA | $ (1,954) | $ (3,329) |

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

- Modified EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

- Modified EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- Modified EBITDA does not reflect future interest expense, or the cash requirements necessary to service interest or principal payments, on our debts; and

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Modified EBITDA does not reflect any cash requirements for such replacements.

**Results of Operations – Nine months ended September 30, 2020**

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

| | Nine Months Ended September 30, 2020 | Nine Months Ended September 30, 2019 | Pct. Change |
|---|---|---|---|
| Gross sales (A) | $ 34,677 | $ 30,391 | 14% |
| Less: Promotional and other allowances (B) | 3,739 | 3,721 | -% |
| Net sales | $ 30,938 | $ 26,669 | 16% |
| | | | |
| Cost of goods produced (C) | 21,694 | 19,081 | 14% |
| *% of Gross sales* | *63%* | *63%* | |
| *% of Net sales* | *70%* | *72%* | |
| Cost of goods sold – idle capacity (D) | - | 309 | -100% |
| *% of Net sales* | *-%* | *1%* | |
| Gross profit | $ 9,244 | $ 7,279 | 27% |
| *% of Net sales* | *30%* | *27%* | |
| | | | |
| Expenses | | | |
| Delivery and handling | $ 4,950 | $ 4,369 | 13% |
| *% of Net sales* | *16%* | *16%* | |
| *Dollar per case ($)* | *2.7* | *2.6* | |
| Selling and marketing | 5,382 | 7,718 | -30% |
| *% of Net sales* | *17%* | *29%* | |
| General and administrative | 4,872 | 6,557 | -26% |
| *% of Net sales* | *16%* | *25%* | |
| | | | |
| Total Operating expenses | 15,204 | 18,644 | -18% |
| | | | |
| Loss from operations | $ (5,960) | $ (11,365) | -48% |
| | | | |
| Interest expense and other expense | (960) | (924) | 4% |
| | | | |
| **Net loss** | $ (6,920) | $ (12,289) | -44% |
| | | | |
| **Loss per share – basic and diluted** | $ (0.12) | $ (0.38) | -68% |
| | | | |
| Weighted average shares outstanding - basic & diluted | 56,706,141 | 32,179,119 | 76% |

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

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

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

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

**Sales, Cost of Sales, and Gross Margins**

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

*Sales*

As a result of our decision to focus on the core Reed's and Virgil's beverage brands and simplify operations by reducing the overall number of SKUs that we offer, the Company's core beverage volume for the first nine months of 2020, represents 98% of all beverage volume.

Core brand gross revenue increased by 15% to $33,737 compared to the same period last year, driven by Reed's volume growth of 24%. The result is an increase in total gross revenue of 14%, to $34,677 from $30,391 during the same period last year. Price on our core brands increased $0.26 per case or 1% year over year, while volume grew 13% as compared to the same period last year.

Discounts as a percentage of gross sales decreased to 11% in the first nine months of 2020 from 12% in the same period last year. The decrease in our promotions was driven by lower promotional activity primarily due to the impacts of COVID-19 as promotional execution became a lower priority at retail. As a result, net sales revenue grew 16% in the first nine months of 2020 to $30,938, compared to $26,669 in the same period last year.

*Cost of Goods Sold and Produced*

Cost of goods sold increased $2,304 during the first nine months of 2020 as compared to the same period last year. As a percentage of net sales, cost of goods sold in the first nine months of 2020 improved to 70% as compared to 73% for the same period last year.

The total cost of goods per case increased to $11.73 per case in the first nine months of 2020 from $11.67 per case in the same period last year. The increase is driven by utilization of higher costed inventory remaining from 2019 in the first quarter and a $198 reserve recorded related to packaging material from transition to the FDA mandated nutritional fact requirements disclosure. The cost of goods sold per case on core brands increased to $11.57 during the first nine months of 2020, from the $11.42 for the same period last year. We are continuing to work with suppliers and co-packers to improve our processes and maximize cost efficiencies.

*Gross Margin*

Gross margin increased to 30% for the first nine months of 2020, compared to 27% during the same period last year.

**Operating Expenses**

*Delivery and Handling Expenses*

Delivery and handling expenses consist of delivery costs to customers and warehousing costs incurred for handling our finished goods after production. Delivery and handling expenses increased by $581 in the first nine months of 2020 to $4,950 from $4,369 in the same period last year, driven by increased volumes. Delivery costs in the nine months of 2020 were 16% of net sales and $2.68 per case, compared to 16% of net sales and $2.63 per case during the same period last year. The per case rate increase was driven by market forces impacted by COVID-19.

*Selling and Marketing Expenses*

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

Total selling and marketing expenses were $5,382 during the first nine months of 2020, compared to $7,718 during the same period last year. As a percentage of net sales, selling and marketing costs decreased to 17% during the first nine months of 2020, as compared to 29% during the same period last year. The decrease represents a lapping of the "Fooled Your Mom" campaign which ran in the second quarter of 2019 as well as the Catalina retail register coupon program, which has yet to be used in 2020 and a lower level of digital advertising, event sampling and agency fees. In addition, personnel and travel related costs declined.

*General and Administrative Expenses*

General and administrative expenses consist primarily of the cost of executive, administrative, and finance personnel, as well as professional fees. General and administrative expenses decreased in the first nine months of 2020 to $4,872 from $6,557, a decrease of $1,685 over the same period last year. The decrease was driven by lower severance of $682, forfeiture/expiration of options in the amount of $580, the lapping of a $220 one-time final transition cost incurred in 2019 related to our plant sale and a reduction professional fees and consultants of $70, and lower personnel and travel related costs.

**Loss from Operations**

The loss from operations was $5,960 for the first nine months of 2020, as compared to a loss of $11,365 in the same period last year driven by increase gross profit and reductions in operating expenses discussed above.

**Interest and Other Expense**

Interest and other expense for the first nine months of 2020, consisted of $961 of interest expense offset by the change in fair value of our warrant liability of $1. During the same period last year, interest and other expense consisted of $947 of interest expense offset by the change in fair value of our warrant liability of $23.

**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 nine months ended September 30, 2020 and 2019 (unaudited; in thousands):

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2020 | 2019 |
| Net loss | $ (6,920) | $ (12,289) |
| Modified EBITDA adjustments: | | |
| Depreciation and amortization | 145 | 108 |
| Interest expense | 961 | 947 |
| Stock option and other noncash compensation | 1,007 | 1,597 |
| Change in fair value of warrant liability | (1) | (23) |
| Severance | - | 682 |
| Total EBITDA adjustments | $ 2,112 | $ 3,311 |
| Modified EBITDA | $ (4,808) | $ (8,978) |

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 nine months ended September 30, 2020, the Company recorded a net loss of $6,920 and used cash in operations of $6,768. As of September 30, 2020, we had a cash balance of $875 with borrowing capacity of $3,037, a stockholder's equity of $558 and a negative working capital of $207, compared to a cash balance of $913 with borrowing capacity of $3,235, stockholders' equity of $1,147 and a working capital of $4,885 at December 31, 2019.

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

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

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

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

**Critical Accounting Policies and Estimates**

Use of estimates

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

Revenue Recognition

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

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

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

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

**Recent Accounting Pronouncements**

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

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

**Item 4. Controls and Procedures.**

***Evaluation of Disclosure Controls and Procedures***

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

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

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

***Changes in Internal Control Over Financial Reporting***

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

Remediation Plans

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

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

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

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

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

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

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

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

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

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

A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses we identified are (1) ineffective controls over outsourced IT systems and business processes and (2) inadequate segregation of duties within accounting processes. We identified these material weaknesses initially as of December 31, 2019. The execution of our remediation commenced in the first fiscal quarter of 2020 and entails splitting activities where inadequate segregation of duties existed and seeking an outsourced IT provider that can provide effective controls over outsourced IT systems and business processes. This activity is ongoing and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles. Management expects to complete its remediation plan during its fourth fiscal quarter ending December 31, 2020. Implementation of the Company's remediation plans is being overseen by senior management and the audit committee.

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

**We may not be entitled to forgiveness of our recently received Paycheck Protection Program Loan, and our application for the Paycheck Protection Program Loan could in the future be determined to have been impermissible.**

On April 20, 2020, we were granted a Paycheck Protection Program loan (the "PPP loan") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") administered by the U.S. Small Business Administration (the "SBA") in the aggregate amount of $770,000 pursuant to the Paycheck Protection Program (the "PPP") under the CARES Act. The PPP loan agreement is dated April 20, 2020, matures on April 20, 2022, bears interest at a rate of 1% per annum, with the first six months of interest deferred, is payable monthly commencing on November 2020, and is unsecured and guaranteed by the U.S. Small Business Administration. The loan term may be extended to April 20, 2025, if mutually agreed to by the Company and lender. The PPP loan may be prepaid at any time prior to maturity with no prepayment penalties. Under the CARES Act, as amended in June 2020, loan forgiveness is generally available for the sum of documented payroll costs, covered rent payments, covered mortgage interest and covered utilities during the "Covered Period", which is 8 weeks or 24 weeks (at the election of the Company) beginning on the date of the first disbursement of the PPP Loan. We will be required to repay any portion of the outstanding principal that is not forgiven, along with accrued interest, and we cannot provide any assurance that we will be eligible for loan forgiveness, that we will apply for forgiveness, or that any amount of the PPP Loan will ultimately be forgiven by the SBA. In order to apply for the PPP Loan, we were required to certify, among other things, that the current economic uncertainty made the PPP Loan request necessary to support our ongoing operations. We made this certification in good faith after analyzing, among other things, the maintenance of our workforce, our need for additional funding to continue operations, and our ability to access alternative forms of capital in the current market environment to offset the effects of the COVID-19 pandemic. Following this analysis, we believe that we satisfied all eligibility criteria for the PPP Loan, and that our receipt of the PPP Loan is consistent with the broad objectives of the CARES Act. The certification described above is subject to interpretation. On April 23, 2020, the SBA issued guidance stating that it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith. The lack of clarity regarding loan eligibility under the Paycheck Protection Program has resulted in significant media coverage and controversy with respect to public companies applying for and receiving loans. If, despite our good-faith belief that given our circumstances we satisfied all eligible requirements for the PPP Loan, we are later determined to have not been in compliance with these requirements or it is otherwise determined that we were ineligible to receive the PPP Loan, we may be required to repay the PPP Loan in its entirety and/or be subject to additional penalties. Should we be audited or reviewed by federal or state regulatory authorities as a result of filing an application for forgiveness of the PPP Loan or otherwise, such audit or review could result in the diversion of management's time and attention and the incurrence of additional costs. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema Document* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* |

*filed herewith

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

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

## SIGNATURES

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

| | |
|---|---|
| | Reed's, Inc.<br>(Registrant) |
| Date: November 9, 2020 | */s/ Norman E. Snyder, Jr.* |
| | Norman E. Snyder, Jr.<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: November 9, 2020 | */s/ Thomas J. Spisak* |
| | Thomas J. Spisak<br>Chief Financial Officer<br>(Principal Financial Officer) |

**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 Quarterly Report on Form 10-Q of Reed's, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 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 Quarterly Report on Form 10-Q of Reed's, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 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 Quarterly Report on Form 10-Q of Reed's, Inc., a Delaware corporation (the "Company") for the period ending September 30, 2020 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), Norman E. Snyder, Jr., Interim Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

REED'S, INC.

Date: November 9, 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 Quarterly Report on Form 10-Q of Reed's, Inc., a Delaware corporation (the "Company") for the period ending September 30, 2020 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), Thomas J. Spisak, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

REED'S, INC.

Date: November 9, 2020

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