

REED'S, INC.
Form S-1
February 14, 2018

As filed with the Securities and Exchange Commission on February 14, 2018

Registration No. 333-_____

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

REED'S, INC.

(Exact name of registrant as specified in its charter)

| | | |
|---|---|--|
| Delaware | 2086 | 35-2177773 |
| (State or jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

13000 South Spring Street

Los Angeles, California 90061

(310) 217-9400

(Address and telephone number of principal executive offices and principal place of business)

Valentin Stalowir

Chief Executive Officer

13000 South Spring Street

Los Angeles, California 90061

(310) 217-9400

(Name, address and telephone number of agent for service)

With copy to:

Ruba Qashu

Libertas Law Group, Inc.

225 Santa Monica Boulevard, 5th Floor

Santa Monica, CA 90401

Telephone: (949) 355-5405

Fax: (310) 356-1922

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. ☒ [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective Registration Statement for the same offering. ☐ []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ []

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered (1) | Proposed Maximum Offering Price per Share | Estimated Proposed Maximum Aggregate Offering Price | Amount of Registration Fee |
|--|--|--|--|---|
| <i>Secondary Offering by Selling Shareholders:</i> | | | | |
| Common stock, par value \$0.0001 per Share, issuable upon exercise of warrant | 750,000 | \$ 1.60 | (2) \$ 1,200,000 | |
| Common Stock, par value \$0.0001 per share, issuable upon conversion of Convertible Non-Redeemable Secured Promissory Note | 2,666,667 | \$ 1.60 | (2) \$ 4,266,667 | |
| <u>TOTAL</u> | 3,416,667 | | \$5,466,667 | \$ 680.60 (3) |

(1) Pursuant to Rule 416 under the Securities Act, the shares being registered hereunder include such indeterminate number of shares of common stock as may be issuable with respect to the shares being registered hereunder as a result of stock splits, stock dividends or similar transactions.

(2) Calculated pursuant to Rule 457(g).

(3) Paid upon filing of this registration statement on Form S-1.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. The selling shareholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is prohibited.

Subject to completion, dated February 14, 2018

PRELIMINARY PROSPECTUS

REED'S, INC.

3,416,667 Shares of Common Stock

This prospectus covers the resale by the selling shareholders identified in the "Selling Shareholders" section of this prospectus of up to an aggregate of 750,000 shares of our common stock issuable upon the exercise of a warrant (the "Warrant") and 2,666,667 shares of our common stock issuable upon the conversion of a Convertible Non-Redeemable Secured Promissory Note in the original principal amount of \$3,400,000. We will not receive any of the proceeds from the sale of shares of our common stock by the selling shareholders. We will receive up to \$1,125,000 from the exercise of the warrants.

Shares of our common stock are traded on the NYSE American under the symbol "REED". On February 12, 2018, the closing sales price for our common stock was \$1.60 per share.

Investing in our common stock involves substantial risk. In reviewing this prospectus, you should carefully consider the matters described under the heading "Risk Factors" beginning on page 8.

Neither we nor any selling shareholder has authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense. This is not an offer to sell nor a solicitation of an offer to buy securities in any jurisdiction where it would be unlawful.

The date of this prospectus is [], 2018

TABLE OF CONTENTS

| | |
|--|----|
| <u>ABOUT THIS PROSPECTUS</u> | 3 |
| <u>THE COMPANY</u> | 3 |
| <u>WHERE YOU CAN FIND ADDITIONAL INFORMATION</u> | 4 |
| <u>NOTE REGARDING FORWARD LOOKING STATEMENTS</u> | 5 |
| <u>THE OFFERING</u> | 6 |
| <u>RISK FACTORS</u> | 8 |
| <u>SELLING SHAREHOLDERS</u> | 23 |
| <u>USE OF PROCEEDS</u> | 25 |
| <u>PLAN OF DISTRIBUTION</u> | 25 |
| <u>LEGAL PROCEEDINGS</u> | 26 |
| <u>DESCRIPTION OF OUR COMMON STOCK</u> | 27 |
| <u>DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS</u> | 28 |
| <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u> | 34 |
| <u>LEGAL MATTERS</u> | 35 |
| <u>EXPERTS</u> | 35 |
| <u>DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES</u> | 35 |
| <u>DESCRIPTION OF BUSINESS</u> | 36 |
| <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 45 |
| <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u> | 58 |
| <u>EXECUTIVE COMPENSATION</u> | 60 |
| <u>MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS</u> | 62 |

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

65

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-1 that we filed with the Securities and Exchange Commission (the “SEC”).

Unless the context otherwise requires, “Reed’s,” “Company,” “we,” “us” and “our” refer to Reed’s, Inc., and “selling shareholder” and “selling shareholder” refer to one or more selling shareholders identified in the “Selling Shareholders” section of this prospectus. References to “securities” include any security that we or the selling shareholders might offer under this prospectus or any prospectus supplement.

We have filed or incorporated by reference exhibits to the registration statement of which this prospectus forms a part. You should read the exhibits carefully for provisions that may be important to you.

We have not authorized any dealer, salesperson or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to which it relates, nor does this prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should not assume that the information contained in this prospectus is accurate on any date subsequent to the date set forth on its front cover or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus is delivered or securities are sold on a later date.

THE COMPANY

We currently develop, manufacture, market and sell natural non-alcoholic carbonated soft drinks, and candies. In the past we have manufactured, licensed, marketed and sold several unique product lines that have included:

Reed’s Ginger Brews,

Virgil’s Root Beer, Cream Sodas, Dr. Better and Real Cola, including ZERO diet sodas,

Culture Club Kombucha,

Reed's Ginger candy and other Reed's labeled products,

Sonoma Sparkler and other juice based products under the California Juice Company label.

We also have a private label business.

We sell our products throughout the US and in select international markets. We started in specialty gourmet and natural food stores and have moved more into mainstream over time. We estimate that our products are sold in well over 22,000 natural, conventional, drug, club and mass merchandise accounts in the US, with approximately 10,000 of those being mainstream supermarkets. We sell our products through a network of natural, gourmet and beer distributors and direct to certain large national retailers.

We produce and co-pack our beverage products in part at our facility in Los Angeles, California, known as the LA Plant and in the past "The Brewery". We also have also contracted at co-packing facilities in Pennsylvania and Indiana. Future use of the LA Plant and all co-packers is under review. The co-pack facilities typically service the eastern half of the United States and nationally for certain products that we do not produce at the LA Plant.

Key elements of our business strategy include:

- increase our relationship with and sales to the approximately 15,000 supermarkets that carry our products in natural and mainstream and capture more of the 30,000 supermarkets nationwide,
- expand our distribution network by adding regional direct store delivery (DSD's) and additional direct accounts,
- focus on consumer demand and awareness for our core existing brands and products through promotions and advertising,
- produce our products at the lowest cost locations while maintaining quality,
- produce private-label products for select customers under strategic alliances,
- lower our cost of sales for our products by gaining economies of scale in our purchasing, and
- optimize the size and focus of our sales force to manage our relationships with distributors and retail outlets.

We create consumer demand for our products by:

- supporting in-store sampling programs of our products,
- generating free press through public relations,
- advertising in store publications,
- maintaining a company website (www.reedsinc.com),
- active social media campaigns on [facebook.com](https://www.facebook.com), twitter.com and [youtube.com](https://www.youtube.com),
- participating in large public events as sponsors, and
- in the recent past deployed a national television commercial on cable television networks.

Corporate Information

Our principal executive offices are located at 13000 South Spring Street, Los Angeles, California 90061. Our telephone number is (310) 217-9400. Our corporate website is www.reedsinc.com. Information contained on our website or that is accessible through our website should not be considered to be part of this prospectus. Our transfer agent is Transfer Online, Inc., telephone (503) 227-2950.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1, including exhibits and schedules, under the Securities Act, with respect to the shares of common stock being offered by this prospectus. This prospectus, which constitutes part of the registration statement, does not contain all of the information in the registration statement and its exhibits. For further information about the Company and the common stock offered by this prospectus, we refer you to the registration statement and its exhibits. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and in each instance, we refer you to the copy of the contract or other document filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference.

You can read our SEC filings, including the registration statement, over the Internet at the SEC's website at www.sec.gov. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street, NE, Washington, D.C. 20549. You may also obtain copies of these documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. We will also provide you with a copy of any or all of the reports or documents that have been incorporated by reference into this prospectus or the registration statement of which it is a part upon written or oral request, and at no cost to you. If you would like to request any reports or documents from the company, please contact:

Shareholder Services

Reed's, Inc.

13000 South Spring Street

Los Angeles, California 90061

(310) 217-9400, extension 28 or dmiles@reedsinc.com

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and we will file reports, proxy statements and other information with the SEC. These reports, proxy statements and other information will be available for inspection and copying at the public reference room and web site of the SEC referred to above. We also maintain a website at www.reedsinc.com, at which you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on or accessible through our website is not a part of this prospectus, and the inclusion of our website address in this prospectus is an inactive textual reference only.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, within the meaning of the Federal securities laws, which involve substantial risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "outlook", "believes", "plans", "intends", "expects", "goals", "potential", "continues", "may", "should", "seeks", "will", "would", "approximately", "predicts", "estimate" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these words. You should read statements that contain these words carefully because they discuss our plans, strategies, prospects and expectations concerning our business, operating results, financial condition and other similar matters. We believe that it is important to communicate our future expectations to our investors. There will be events in the future, however, that we are not able to predict accurately or control. The factors listed under "Risk Factors" in this prospectus and in any documents incorporated by reference into this prospectus as well as any

cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Such risks and uncertainties include, among other things, risks and uncertainties related to:

Our ability to generate sufficient cash flow to support capital expansion plans and general operating activities;

Decreased demand for our products resulting from changes in consumer preferences;

Competitive products and pricing pressures and our ability to gain or maintain its share of sales in the marketplace;

The introduction of new products;

We are subject to a broad range of evolving federal, state and local laws and regulations including those regarding the labeling and safety of food products, establishing ingredient designations and standards of identity for certain foods, environmental protections, as well as worker health and safety. Changes in these laws and regulations could have a material effect on the way in which we produce and market our products and could result in increased costs;

Changes in the cost and availability of raw materials and the ability to maintain our supply arrangements and relationships and procure timely and/or adequate production of all or any of our products;

Our ability to penetrate new markets and maintain or expand existing markets;

Maintaining existing relationships and expanding the distributor network of our products;

The marketing efforts of distributors of our products, most of whom also distribute products that are competitive with our products;

Decisions by distributors, grocery chains, specialty chain stores, club stores and other customers to discontinue carrying all or any of our products that they are carrying at any time;

The availability and cost of capital to finance our working capital needs and growth plans;

The effectiveness of our advertising, marketing and promotional programs;

Changes in product category consumption;

Economic and political changes;

Consumer acceptance of new products, including taste test comparisons;

Possible recalls of our products;

Our ability to make suitable arrangements for the co-packing of any of our products;

Our ability to find alternative copacking and production facilities for our Kombucha and Private Label products if our Los Angeles production facility is damaged by a disaster; and

Our ability to continue to meet continued listing requirements for the NYSE American.

Before you invest in our securities, you should be aware that the occurrence of the events described in these risk factors and elsewhere in this prospectus under the heading “Risk Factors” could have a material adverse effect on our business, results of operations and financial position. Any forward-looking statement made by us in this prospectus speaks only as of the date on which we make it. Factors or events that could cause our actual results to differ will emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. You are advised to consult any further disclosures we make on related subjects in the reports we file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act.

THE OFFERING

This prospectus covers the resale by the selling shareholders identified in the “Selling Shareholders” section of this prospectus of up to an aggregate of 3,416,667 shares of our common stock issuable upon the exercise of a warrant and the conversion of a Convertible Non-Redeemable Secured Promissory Note. We will not receive any of the proceeds from the sale of shares of our common stock by the selling shareholders. We will receive up to \$1,125,000 from the exercise of the warrant.

Private Placement of Securities

December 6, 2017, we entered into a definitive Backstop Agreement with Raptor/ Harbor Reeds SPV, LLC, a significant shareholder of the Company, ("Raptor"), whereby Raptor agreed to purchase from us, as a backstop to our 2018 rights offering, a minimum of \$6 million of units pursuant to its subscription rights and in a private placement, subject to customary terms and conditions. As compensation for the backstop commitment and subject to the closing of the rights offering, we issued to Raptor, five-year warrants to purchase 750,000 shares of our common stock. These Warrants have an exercise price equal to \$1.50, are not exercisable for a term of 180 days and have a cashless exercise feature. We also agreed to register the shares of common stock underlying these Warrants. We will be subject to certain liquidated damages if we do not register the shares within the prescribed time frame.

Further, on December 6, 2017, we entered into an amendment agreement with Raptor, extending its Convertible Non-Redeemable Secured Promissory Note in the original principal amount of \$3,400,000 by twenty-four months in exchange for amending the conversion price of the note from \$3.00 to \$1.75. Concurrently with the reduction of the subscription price in the rights offering, we also agreed to further reduce the conversion price to \$1.50. We also agreed to register the shares of common stock issuable upon conversion of the note. We will be subject to certain liquidated damages if we do not register the shares within the prescribed time frame.

The proceeds of the warrant exercises will be used by Reed's for general corporate purposes.

RISK FACTORS

Our business is influenced by many factors that are difficult to predict and that involve uncertainties that may materially affect our actual operating results, cash flows and financial condition. Before making an investment decision in our securities, you should carefully consider the specific factors set forth below together with all of the other information appearing in this prospectus or incorporated by reference into this prospectus in light of your particular investment objectives and financial circumstances.

Risks Relating to Our Business

We have a history of operating losses. If we continue to incur operating losses, we eventually may have insufficient working capital to maintain or expand operations according to our business plan.

Our loss from operations was (\$5,647,000) in the nine months ended September 30, 2017, as compared to a loss of (\$1,352,000) in the same period of 2016 or an overall increase in the loss of \$4,295,000. The loss was comprised of the decrease in net sales revenue of \$5,280,000, and increases in operating expense categories that totaled \$1,744,000. Loss from operations was (\$3,053,000) in the year ended December 31, 2016, as compared to loss from operations of (\$2,730,000) in 2015 or an increase of \$323,000. The increase in the operating loss is due to the decline in sales that were not offset by similar reduction in cost of goods sold that resulted in a lower gross profit of \$2,623,000. The lower gross profit was mirrored by a similar decrease in expenses of \$2,300,000.

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

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

Our ability, through our suppliers, business partners, contract manufacturers, independent distributors and retailers, to produce, transport, distribute and sell products is critical to our success. The Company is currently seeking alternative uses for the LA Plant that may lead to significant changes in our current supply chain model.

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

Failure to realize the goal of discontinuing the allocation of capital to the LA Plant, could adversely affect our business, financial condition and results of operations.

We are currently seeking partners to sell LA Plant equipment that was impaired in our most recent quarter. The estimated value of the impairment in our most recent quarter may not be sufficient to cover further losses. There can be no assurances we will timely dispose of these assets, at expected prices. The sale of the equipment is subject to many variables that are difficult to forecast. Failure to realize our goal of discontinuing the allocation of capital to the LA Plant could adversely affect our business, financial condition and results of operations.

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

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

Restrictive covenants related to our debt obligations may restrict our ability to obtain future financing.

We are prohibited from entering into a Variable Rate Transaction (defined below) for a period of two years expiring April 21, 2019. "Variable Rate Transaction" means a transaction in which the Company (i) issues or sells any debt or equity securities that are convertible into, exchangeable or exercisable for, or include the right to receive additional shares of common stock either (A) at a conversion price, exercise price or exchange rate or other price that is based upon and/or varies with the trading prices of or quotations for the shares of common stock at any time after the initial issuance of such debt or equity securities, or (B) with a conversion, exercise or exchange price that is subject to being reset at some future date after the initial issuance of such debt or equity security or upon the occurrence of specified or contingent events directly or indirectly related to the business of the Company or the market for the common stock (including a price based anti-dilution provision that resets the conversion, exercise or exchange price due to the pricing of a financing that occurs after the date of such transaction) or (ii) enters into any agreement, including, but not limited to, an equity line of credit, whereby the Company may issue securities at a future determined price. We are also restricted from incurring future indebtedness pursuant to our current secured debt obligations.

In addition, we granted certain investors rights of participation in future financings, in the aggregate, of up to 100%. These participation rights could severely impact the Company's ability to engage investment bankers to structure a financing transaction and raise additional financing on favorable terms. Furthermore, negotiating and obtaining a waiver to these participation may either not be possible or may be costly to the Company.

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

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

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

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

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

- the level of demand for our brands and products in a particular distribution area;
- our ability to price our products at levels competitive with those of competing products; and
- our ability to deliver products in the quantity and at the time ordered by distributors, retailers and brokers.

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

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

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

key distributors in one or more of our geographic distribution areas in order to profitably exploit our geographic markets.

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

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

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

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

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

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

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

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

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

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

inventory levels may impair relationships with our independent distributors and key accounts, which, in turn, would likely have a material adverse effect on our ability to maintain effective relationships with those distributors and key accounts.

Increases in costs of packaging and ingredients may have an adverse impact on our gross margin.

Over the past few years, costs of organic ingredients and natural ingredients have increased due to increased demand and required the company to obtain these ingredients from a wider population of qualified vendors. If the company is unable to pass on these costs, the gross margin will be significantly impacted.

Inability to sustain price increases may have an adverse impact on our gross revenue.

The Company has not historically raised prices. As the Company implements pricing corrections in the market place, volume may be negatively impacted resulting in a net decrease in gross revenue.

Increased market spending may not drive volume growth

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

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

Over the past few years, volatility in the global oil markets has resulted in high fuel prices, which many shipping companies have passed on to their customers by way of higher base pricing and increased fuel surcharges. With recent declines in fuel prices, some companies have been slow to pass on decreases in their fuel surcharges. If fuel prices increase again, we expect to experience higher shipping rates and fuel surcharges, as well as energy surcharges on our raw materials. It is hard to predict what will happen in the fuel markets in 2017. Due to the price sensitivity of our products, we may not be able to pass such increases on to our customers.

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

Our ability, through our suppliers, business partners, contract manufacturers, independent distributors and retailers, to make, move and sell products is critical to our success. The Company is currently seeking alternative uses for the LA Plant that may lead to significant changes in our current supply chain model.

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

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

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

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

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

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

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

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

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

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

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

changes in underlying assumptions, estimates or judgments by our management could significantly change our reported results.

If we are unable to maintain effective disclosure controls and procedures and internal control over financial reporting, our stock price and investor confidence could be materially and adversely affected.

We are required to maintain both disclosure controls and procedures and internal control over financial reporting that are effective. Because of their inherent limitations, internal control over financial reporting, however well designed and operated, can only provide reasonable, and not absolute, assurance that the controls will prevent or detect misstatements. Because of these and other inherent limitations of control systems, there is only the reasonable assurance that our controls will succeed in achieving their goals under all potential future conditions. The failure of controls by design deficiencies or absence of adequate controls could result in a material adverse effect on our business and financial results, which could also negatively impact our stock price and investor confidence.

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

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

We could be subject to cybersecurity attacks.

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

Risk Factors Relating to Our Industry

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

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

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

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

Additional taxes levied on us could harm our financial results.

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

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

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

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

We target a niche in the estimated \$100 billion carbonated and non-carbonated soft drink markets in the US, Canada and international markets. Our brands are generally regarded as premium and natural, with upscale packaging and are loosely defined as the artisanal (craft), premium bottled carbonated soft drink category. The soft drink industry is highly fragmented and the craft soft drink category consists of such competitors as, Henry Weinhardts, Thomas Kemper, Hansen's, Izze, Boylan and Jones Soda, to name a few. These brands have the advantage of being seen widely in the national market and being commonly known for years through well-funded ad campaigns. Our products have a relatively high price for an artisanal premium beverage product, minimal mass media advertising and a relatively small but growing presence in the mainstream market compared to many of our competitors.

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

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

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

Failure to introduce new brands, products or product extensions into the marketplace as current ones mature and to meet our consumers' changing preferences could prevent us from gaining market share and achieving long-term profitability. Product lifecycles can vary and consumers' preferences and loyalties change over time. Although we try

to anticipate these shifts and innovate new products to introduce to our consumers, we may not succeed. Customer preferences also are affected by factors other than taste, such as health and nutrition considerations and obesity concerns, shifting consumer needs, changes in consumer lifestyles, increased consumer information and competitive product and pricing pressures. Sales of our products may be adversely affected by the negative publicity associated with these issues. If we do not adequately anticipate or adjust to respond to these and other changes in customer preferences, we may not be able to maintain and grow our brand image and our sales may be adversely affected.

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

The beverage industry, and particularly those companies selling premium beverages like us, can be affected by macro-economic factors, including changes in national, regional, and local economic conditions, unemployment levels and consumer spending patterns, which together may impact the willingness of consumers to purchase our products as they adjust their discretionary spending. The recent disruptions in the overall economy and financial markets as a result of the global economic downturn have adversely impacted the United States and Canada. This reduced consumer confidence in the economy has reduced consumers' discretionary spending and we believe this has negatively affected consumers' willingness to purchase beverage products such as ours. Moreover, adverse economic conditions may adversely affect the ability of our distributors to obtain the credit necessary to fund their working capital needs, which could negatively impact their ability or desire to continue to purchase products from us in the same frequencies and volumes as they have done in the past. If we experience similar adverse economic conditions in the future, sales of our products could be adversely affected, collectability of accounts receivable may be compromised and we may face obsolescence issues with our inventory, any of which could have a material adverse impact on our operating results and financial condition.

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

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

We could be exposed to product liability claims.

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

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

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

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

Various jurisdictions may seek to adopt significant additional product labeling or warning requirements relating to the chemical content or perceived adverse health consequences of certain of our products. These types of requirements, if they become applicable to one or more of our products under current or future environmental or health laws or regulations, may inhibit sales of such products. In California, a law requires that a specific warning appear on any

product that contains a component listed by the state as having been found to cause cancer or birth defects. This law recognizes no generally applicable quantitative thresholds below which a warning is not required. If a component found in one of our products is added to the list, or if the increasing sensitivity of detection methodology that may become available under this law and related regulations as they currently exist, or as they may be amended, results in the detection of an infinitesimal quantity of a listed substance in one of our beverages produced for sale in California, the resulting warning requirements or adverse publicity could affect our sales.

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

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

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

sales of new products could adversely impact sales of existing products;
we may incur higher cost of goods sold and selling, general and administrative expenses in the periods when we introduce new products due to increased costs associated with the introduction and marketing of new products, most of which are expensed as incurred; and
when we introduce new platforms and bottle sizes, we may experience increased freight and logistics costs as our co-packers adjust their facilities for the new products.

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

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

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

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

The loss of our largest customers would substantially reduce revenues.

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

During the year ended December 31, 2016, the Company had two customers who accounted for approximately 22% and 12% of its sales, respectively; and during the year ended December 31, 2015, the Company had two customers who accounted for approximately 28% and 14% of its sales, respectively. No other customer accounted for more than 10% of sales in either year. As of December 31, 2016, the Company had accounts receivable due from one customer who comprised \$719,000 (25%) of its total accounts receivable; and as of December 31, 2015, the Company had accounts receivable due from two customers who comprised \$782,000 (24%) and \$373,000 (12%), respectively, of its total accounts receivable. No other customer accounted for more than 10% of accounts receivable in either year.

During the three months ended September 30, 2017, the Company had two customers that accounted for 19% and 15% of gross sales respectively and 22% and 19% of sales in the same period in the prior year. During the nine months ended September 30, 2017, the Company had two customers that accounted for 21% and 11% respectively of sales and 24% and 13% of sales in the same period in the prior year. No other customer accounted for more than 10% of gross sales in the periods.

The loss of our largest vendors would substantially reduce revenues.

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

During the years ended December 31, 2016 and 2015, the Company had one vendor which accounted for approximately 26% and 25%, respectively of purchases. At December 31, 2016 and 2015, the Company had accounts payable due to two vendors who comprised 13% and 10% as of December 31, 2016, and 14% and 12% of its total accounts payable, as of December 31, 2015. No other account was more than 10% of the balance of accounts payable as of December 31, 2016, and December 31, 2015.

During the three months ended September 30, 2017, the Company had one vendor that accounted for 18% of all purchases, and 24% of all purchases in the same period in the prior year. During the nine months ended September 30, 2017, the Company had one vendor that accounted for 18% of purchases and 26% in the same period in the prior year. No other vendor accounted for more than 10% of purchases in the periods.

As of September 30, 2017, the Company had one vendor that accounted for 24% of all payables. As of December 31, 2016, the Company had one vendor that accounted for 12% of all payables. No other vendor accounted for more than 10% of accounts payable as of that date.

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

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

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

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

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

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

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

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

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

We rely on third parties, called co-packers in our industry, to produce some of our beverages, to produce our glass bottles and to bottle some of our beverages. Our co-packing arrangements with other companies are on a short term basis and such co-packers may discontinue their relationship with us on short notice. Our co-packing arrangements expose us to various risks, including:

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

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

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

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

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

Our manufacturing process is not patented.

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

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

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

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

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

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

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

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

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

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

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

condition or any other established criteria of value, and may not be indicative of the market price for the shares in the future.

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

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

Risk Factors Related to this Offering and Our Common Stock

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

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

increase the sales price and volume for our products;

significantly reduce co-packer fees, packaging and ingredient costs;

resolve supply chain facility operation;

manage our operating expenses to sufficiently support operating activities;

reduce fixed costs at or near current levels by eliminating inefficient operations; and

avoid significant increases in variable costs relating to production, marketing and distribution.

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

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

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

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

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

authorize our board of directors to issue, without further action by the stockholders, shares of undesignated preferred stock;

specify that special meetings of our stockholders can be called only upon the request of a majority of our board of directors or our Chief Executive Officer;

establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors; and

prohibit cumulative voting in the election of directors.

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

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

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

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

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

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

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

Raptor/ Harbor Reeds SPV LLC (“Raptor”), our largest shareholder, holds approximately 28% of our common stock and may greatly influence the outcome of all matters on which stockholders vote.

Because Raptor controls a large portion of our stock, approximately 28%, it may greatly influence the outcome of all matters on which stockholders vote. Daniel J. Doherty, III, a principal and shareholder of Raptor also serves as a

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

Christopher J. Reed, our founder, Chief Innovation Officer, and a member of our Board of Directors, holds approximately 12% of our common stock and may greatly influence the outcome of all matters on which stockholders vote.

Because Christopher J. Reed controls a large portion of our stock, approximately 12%, he may greatly influence the outcome of all matters on which stockholders vote. Mr. Reed's interests may not always coincide with the interests of other holders of our common stock.

Management controls greater than 40% of the Company's outstanding common stock.

Because our management controls greater than 40% of our outstanding common stock, management may greatly influence the outcome of all matters on which stockholders vote. Management's interests may not always coincide with the interests of other holders of our common stock.

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

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

SELLING SHAREHOLDERS

The shares of common stock being offered by the selling shareholders are those issuable to the selling shareholders, upon exercise of the warrants. For additional information regarding the issuances of those warrants, see “The Offering – Private Placement of Securities”. We are registering the shares of common stock in order to permit the selling shareholders to offer the shares for resale from time to time. Raptor/ Harbor Reeds SPV, LLC (“Raptor”), a selling shareholder, as Reed’s largest shareholder, is an affiliate of Reed’s and has a material relationship with Reed’s. Furthermore, Daniel J. Doherty III, a director of Reed’s, is a principal and major shareholder of Raptor. See “Certain Relationships and Related Transactions” beginning on page 54.

The table below lists the selling shareholders and other information regarding the beneficial ownership of the shares of common stock by each of the selling shareholders. The second column lists the number of shares of common stock beneficially owned by each selling shareholder, based on its ownership of the shares of common stock, notes and/ or warrants, as of February 12, 2018, assuming exercise of the warrants held by the selling shareholders and conversion of notes on that date, without regard to any limitations on exercise or conversion.

The third column lists the shares of common stock being offered by this prospectus by the selling shareholders.

In accordance with the terms of warrant exercise agreements with the selling shareholders, this prospectus covers the resale of 3,416,667 shares of common stock issuable upon exercise of warrants and conversion of a promissory note issued to the selling shareholders in private placements, determined as if the outstanding warrants were exercised in full as of the trading day immediately preceding the date this registration statement was initially filed with the SEC and as if the outstanding promissory note was converted in full as of the trading day immediately preceding the date this registration statement was initially filed with the SEC, without regard to any limitations on the exercise of the warrants or conversion of the promissory note. The fourth column assumes the sale of all of the shares offered by the selling shareholders pursuant to this prospectus.

The selling shareholders may sell all, some or none of their shares in this offering. See “Plan of Distribution”.

Any selling shareholders who are affiliates of broker-dealers and any participating broker-dealers are deemed to be “underwriters” within the meaning of the Securities Act and any commissions or discounts given to any such selling stockholder or broker-dealer may be regarded as underwriting commissions or discounts under the Securities Act.

The term “selling shareholders” also includes any pledgees, assignees, or other successors in interest to the selling shareholders named in the table below. Unless otherwise indicated, to our knowledge, each person named in the table below has sole voting and investment power (subject to applicable community property laws) with respect to the shares of common stock set forth opposite such person’s name. We will file a supplement to this prospectus (or a post-effective amendment hereto, if necessary) to name successors to any named selling stockholders who are able to use this prospectus to resell the common stock registered hereby.

| Name of Selling Shareholder | Number of Shares Owned Before Offering | Number of Shares Being Offered | Number of Shares Owned After Offering | Percent of Shares Owned After Offering |
|----------------------------------|--|---|---|---|
| Raptor/ Harbor Reeds SPV LLC (1) | 8,843,334(2) | 3,416,667(3) | 5,426,667(4) | 20.09 %(5) |

(1) James Pallotta and Daniel Doherty have discretionary authority to vote and dispose of the shares of common stock held by Raptor/ Harbor Reeds SPV LLC and may be deemed to be the beneficial owners of these shares. Raptor/ Harbor Reeds SPV LLC is an affiliate of a registered broker dealer. The shares being registered hereunder consist of shares issuable upon conversion of warrants acquired in the ordinary course of business, and, at the time of the acquisition of such securities, Raptor/ Harbor Reeds SPV LLC did not have any arrangements or understandings, directly or indirectly, with any person to distribute such securities.

(2) Includes 2,393,333 shares of common stock issuable upon exercise of currently-exercisable warrants. Also includes 750,000 shares of common stock issuable upon exercise of the Warrant that becomes exercisable on June 20, 2018. Also includes 2,266,667 shares of common stock issuable upon conversion of the Convertible Non-Redeemable Secured Promissory Note in the original principal amount of \$3,400,000.

(3) Consists of 750,000 shares of common stock issuable upon exercise of the Warrant that becomes exercisable on June 20, 2018. Also includes 2,266,667 shares of common stock issuable upon conversion of the Convertible Non-Redeemable Secured Promissory Note in the original principal amount of \$3,400,000.

(4) Assumes the sale of all the shares offered under this prospectus and no additional shares.

(5) The calculation is based on 27,012,924 shares of common stock, which is the sum of 24,619,591 shares of common stock outstanding as of February 12, 2018 and 2,393,333 shares of common stock issuable upon exercise of warrants.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of shares of our common stock by the selling shareholders. We will receive up to \$1,125,000 from the exercise of warrants. The proceeds from the exercise of warrants will be used for general corporate purposes.

PLAN OF DISTRIBUTION

Each selling shareholder of the securities and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their securities covered hereby on the principal trading market or any other stock exchange, market or trading facility on which the securities are traded or in private transactions. These sales may be at fixed or negotiated prices. A selling shareholder may use any one or more of the following methods when selling securities:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales;
- in transactions through broker-dealers that agree with the selling shareholders to sell a specified number of such securities at a stipulated price per security;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- a combination of any such methods of sale; or
- any other method permitted pursuant to applicable law.

The selling shareholders may also sell securities under Rule 144 or any other exemption from registration under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling shareholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling shareholders (or, if any broker-dealer acts as agent for the purchaser of securities, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with FINRA Rule 2440; and in the case of a principal transaction a markup or markdown in compliance

with FINRA IM-2440.

In connection with the sale of the securities or interests therein, the selling shareholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the securities in the course of hedging the positions they assume. The selling shareholders may also sell securities short and deliver these securities to close out their short positions, or loan or pledge the securities to broker-dealers that in turn may sell these securities. The selling shareholders may also enter into option or other transactions with broker-dealers or other financial institutions or create one or more derivative securities which require the delivery to such broker-dealer or other financial institution of securities offered by this prospectus, which securities such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling shareholders and any broker-dealers or agents that are involved in selling the securities may be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the securities purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each selling shareholder has informed the Company that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the securities.

The Company is required to pay certain fees and expenses incurred by the Company incident to the registration of the securities. The Company has agreed to indemnify the selling shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Because selling shareholders may be deemed to be “underwriters” within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act including Rule 172 thereunder. In addition, any securities covered by this prospectus that qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. The selling shareholders have advised us that there is no underwriter or coordinating broker acting in connection with the proposed sale of the resale securities by the selling shareholders.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the securities may be resold by the selling shareholders without registration and without regard to any volume or manner-of-sale limitations by reason of Rule 144, without the requirement for the Company to be in compliance with the current public information under Rule 144 under the Securities Act or any other rule of similar effect or (ii) all of the securities have been sold pursuant to this prospectus or Rule 144 under the Securities Act or any other rule of similar effect. The resale securities will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale securities covered hereby may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale securities may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling shareholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of securities of the common stock by the selling shareholders or any other person. We will make copies of this prospectus available to the selling shareholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act).

LEGAL PROCEEDINGS

We are not party to any lawsuits or legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse affect on our results of operations and financial position, and have no knowledge of any threatened or potential lawsuits or legal proceedings against us. From time to time, we may be involved in litigation relating to claims arising out of operations in the ordinary course of business.

DESCRIPTION OF OUR COMMON STOCK

The following is a summary of the material terms of our common stock. This summary does not purport to be exhaustive and is qualified in its entirety by reference to our amended and restated certificate of incorporation, amended and restated bylaws and to the applicable provisions of Delaware law.

We are authorized to issue 40,000,000 shares of common stock, \$0.0001 par value. Holders of common stock are each entitled to cast one vote for each share held of record on all matters presented to shareholders. Cumulative voting is not allowed; the holders of a majority of our outstanding shares of common stock may elect all directors. Holders of common stock are entitled to receive such dividends as may be declared by our board out of funds legally available and, in the event of liquidation, to share pro rata in any distribution of our assets after payment of liabilities. Our directors are not obligated to declare a dividend. It is not anticipated that dividends will be paid in the foreseeable future. Holders of common stock do not have preemptive rights to subscribe to any additional shares we may issue in the future. There are no conversion, redemption, sinking fund or similar provisions regarding the common stock. All outstanding shares of common stock are fully paid and nonassessable.

Anti-Takeover Effects of Certain Provisions of Delaware Law and Our Certificate of Incorporation and Bylaws

We are subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law. Subject to certain exceptions, the statute prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder unless:

prior to such date, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (1) by persons who are directors and also officers and (2) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

on or after such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

For purposes of Section 203, a “business combination” includes a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an “interested stockholder” is a person who, together with affiliates and associates, owns, or within three years prior to the date of determination whether the person is an “Interested Stockholder” did own, 15% or more of the corporation’s voting stock.

In addition, our authorized but unissued shares of common stock are available for our board to issue without stockholder approval. We may use these additional shares for a variety of corporate purposes, including future public or private offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of our authorized but unissued shares of common stock could render more difficult or discourage an attempt to obtain control of our company by means of a proxy contest, tender offer, merger or other transaction. Our authorized but unissued shares may be used to delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for the shares held by our stockholders. The board of directors is also authorized to adopt, amend or repeal our bylaws, which could delay, defer or prevent a change in control.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS

The following table sets forth certain information with respect to our current directors and executive officers:

| Name | Position | Age |
|-----------------------|------------------------------------|------------|
| Valentin Stalowir | Director, Chief Executive Officer | 54 |
| Christopher J. Reed | Director, Chief Innovation Officer | 59 |
| Daniel V. Miles | Chief Financial Officer | 62 |
| Neal Cohane | Senior Vice President of Sales | 58 |
| John Bello | Chairman of the Board | 71 |
| Stefan Freeman | Chief Operating Officer | 56 |
| Lewis Jaffe | Director | 60 |
| Scott R. Grossman | Director | 39 |
| James Bass | Director | 64 |
| Daniel J. Doherty III | Director | 53 |

Business Experience of Directors and Executive Officers

Valentin Stalowir was appointed Chief Executive Officer of Reed's on June 28, 2017. Also on June 28, 2017, the board of directors of Reed's also expanded the board to six seats and appointed Mr. Stalowir to serve as a director, filling the newly created vacancy. Since November 2016, Mr. Stalowir has served as an independent food and beverage investment consultant working with varied consumer focused private equity groups. Prior, from April 2015 to November 2016, Mr. Stalowir served as Chief Executive Officer of privately held International Harvest, Inc., a leading supplier of certified organic, gluten free, non-GMO, vegan and raw superfoods. In 2011, Mr. Stalowir founded Global Restaurant Group, LLC (GRG) in Kyiv, Ukraine, a privately held, international quick serve restaurant operator and platform that is now YUM! Brands' lead KFC franchisee in Ukraine. Mr. Stalowir served as Chief Executive Officer of GRG until September 2014, when, due to political and economic challenges in Ukraine, much of the investment activity in the country was suspended. GRG LLC continues to operate led by local management and recently announced the opening of an additional restaurant in the capital city of Kyiv. From 2010 to 2012, Mr. Stalowir served as Executive Partner of APTA Capital, LLC, a US private equity firm providing growth equity investments and operational leadership to consumer branded companies. From 2002 to 2010, Mr. Stalowir was Chief Executive Officer of Preferred Brand Holdings, LLC, a private equity fund backed by Emigrant Savings Bank, where he co-founded the consumer practice and led the investment and growth strategies for five portfolio companies in the food and beverage sector. From 1999 to 2001, he served as President, North American division of Tomra Systems, ASA, a publically traded Norwegian company and the global leader for beverage container return and processing systems and reverse vending machines. Prior, Mr. Stalowir served in marketing and general management positions with the Coca-Cola Company and the Quaker Oats Company.

Mr. Stalowir earned his MBA in Marketing and Finance with Distinction from the University of Michigan in 1990 and received dual BA degrees in Economics and Art History from the College of William and Mary in 1985.

Christopher J. Reed founded our company in 1987 and has served as our Chairman, President and Chief Executive Officer since our incorporation in 1991 through April 19, 2017. Currently he serves as Chief Innovation Officer and director. Mr. Reed became interested in natural foods, yoga and meditation in 1977. He studied herbal systems of medicine from India and China and became enamored with ginger for its health properties. In 1987, Mr. Reed founded Reed's Inc. and set out to bring ginger to the world through a natural ginger ale brewed directly from fresh ginger root. From the inception of the company, Mr. Reed has been responsible for developing the original product recipes, proprietary brewing processes, packaging designs and marketing concepts behind our Reed's product lines. These include Reed's Ginger Brews, Reed's Culture Club Kombucha line, Reed's Natural Energy Elixir and Reed's Ginger Candies. In 2000 Reed's acquired Virgil's Root Beer, which Mr. Reed expanded by adding a Virgil's Cream Soda line, Real Cola, Dr. Better and a line of Virgil's stevia sweetened "Zero" beverages.

Prior to starting Reed's Inc., Mr. Reed was a chemical engineer working in gas purification and liquefaction with a specialty in designing liquefied natural gas (LNG) plants. Mr. Reed received a B.S. in Chemical Engineering in 1980 from Rensselaer Polytechnic Institute in Troy, New York.

Daniel V. Miles was appointed Chief Financial Officer of Reed's on May 12, 2015. He is a licensed CPA in the State of California. His career began with Ernst & Young and progressed through financial managerial roles within the beverage industry and other local business enterprises. Mr. Miles managed the financial sector for Coors' largest distributor that grew 250% in 8 years via acquisitions of companies, brands and organic growth. Mr. Miles worked at the Pepsi Bottling Group in corporate finance and field operations in various capacities. Recently Mr. Miles held the position of interim Chief Financial Officer for the Port of Long Beach and the Central Basin Municipal Water District where he led the production of both the annual budget and the reporting of the results of those enterprises. Mr. Miles earned his Bachelor of Science degrees at the University of San Francisco in Biology, California State University Long Beach in Accounting and a Master's Degree from University of Southern California in taxation.

Stefan Freeman is our operations expert and has served as Chief Operating Officer of Reed's since June 28, 2017. He served as Interim Chief Executive Officer of Reed's from April 19, 2017 through June 28, 2017. He has served as director of Reed's from November 29, 2016 through September 29, 2017. Mr. Freeman is a strategic and performance focused executive with more than 25 years in sales operations, manufacturing and supply chain operations in beverages and consumer products. Mr. Freeman has worked for the three largest soda companies in the world and was promoted within each company. From 2011 through 2014, Mr. Freeman was the Regional Vice President of Manufacturing for Coca-Cola Refreshments, managing eight manufacturing plants located throughout Southern California, Arizona and Hawaii. These plants produced 231 million cases with revenues in excess of \$500 million annually. In 2014 Mr. Freeman was promoted from within Coca-Cola Refreshments to Vice President of Fleet Operations in Atlanta, Georgia where he managed one of the five largest fleet operations in North America through April 2016. Prior to working for Coca-Cola, Mr. Freeman was Director of Supply Chain for Dean Foods' Pacific Coast Group, managing nine production facilities with responsibility for a \$155 million annual operating budget. Other prior positions include Director of Sales Operations for Dr. Pepper Snapple Group and Supply Chain Manager and Plant Manager for Pepsi-Cola Bottling Group.

Mr. Freeman holds a Bachelor's of Science in mechanical engineering from Tuskegee University and is an active member of the Cisco Systems Global Manufacturing Advisory Board.

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

John Bello and has served as Reed's Board Chairman since his election on November 29, 2016. He is a sales and marketing expert. Since 2001, Mr. Bello has been the Managing Director of JoNa Ventures, a family venture fund. From 2004 to 2012 Mr. Bello also served as Principal and General Partner at Sherbrooke Capital, a venture capital group dedicated to investing in leading, early stage health and wellness companies. Mr. Bello is the founder and former CEO of South Beach Beverage Company, the maker of nutritionally enhanced teas and juices marketed under the brand name SoBe. The company was sold to PepsiCo in 2001 for \$370 million. In the same year Ernst and Young named Mr. Bello National Entrepreneur of the Year in the consumer products category for his work with SoBe. Before founding SoBe, Bello spent 14 years at National Football League Properties, the marketing arm of the NFL, and served as its President from 1986 to 1993.

Prior to working for the NFL, Mr. Bello served in marketing and strategic planning capacities at the Pepsi Cola Division of Pepsico Inc. and in product management roles for General Foods Corporation in the Sanka and Maxwell House brands. Mr. Bello has also worked with IZZE and Firefighter brands in brand building, marketing and strategic planning capacities.

Mr. Bello earned his BA from Tufts University, cum laude, and received his MBA from the Tuck School of Business at Dartmouth College as an Edward Tuck Scholar. Mr. Bello is extensively involved in non-profit work and currently serves as a Tufts University Trustee and advisory board member (athletics). Additionally, he serves on the boards of: the Gordon Entrepreneurial Center at Tufts, the Tuck Center for Private Equity, the YMCA in Rye, New York and the New York Council Boy Scouts of America. Mr. Bello also serves on the board of Boathouse Sports and is executive director of Luminesce Eye Therapies.

Lewis Jaffe is our Board's governance expert and has served as director of Reed's since his appointment on October 19, 2016. Since August 2014, Mr. Jaffe has been teaching as an Executive-in-Residence and Clinical Faculty at the Fred Kiesner Center for Entrepreneurship, Loyola Marymount University. Since January 2010 Mr. Jaffe has served as Chairman of the Board for FitLife Brands Inc (FTLF:OTCBB) and serves on its audit, compensation and governance committees. Since 2006 he has served on the Board of Directors of York Telecom, a private equity owned company, and serves on its compensation and governance committees. From 2006 to 2008 Mr. Jaffe was Interim Chief Executive Officer and President of Oxford Media, Inc. Mr. Jaffe has also served in executive management positions with Verso Technologies, Inc., Wireone Technologies, Inc., Picturetel Corporation, and he was also previously a Managing Director of Arthur Andersen. Mr. Jaffe was the co-founder of MovieMe Network. Mr. Jaffe also served on the Board of Directors of Benihana, Inc. as its lead independent director from 2004 to 2012.

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

Scott R. Grossman was elected to our board on September 29, 2017. He is the Chief Executive Officer of Vindico Capital, a value-oriented investment firm focused on small-to-medium sized public companies undergoing change which he founded in April 2017. Prior to launching Vindico, Mr. Grossman spent over eleven years at Magnetar Capital, a multi-strategy alternative asset manager with approximately \$14BN AUM, where he most recently served as Senior Portfolio Manager within equities from 2014-2017. Prior to this role, Mr. Grossman served as Portfolio Manager within Magnetar's Event Driven business (2009-2013); Portfolio Manager of Special Situations (2007-2009); and he first joined its Fundamental Credit business in 2006. Before Magnetar, Mr. Grossman was an associate at Soros Private Equity Partners, a \$3.0 billion private equity business within Soros Fund Management focused on middle-market buyouts and late-stage growth investments across various industries. He started his career at Merrill Lynch in its Financials Sponsors Group within its investment banking division. Mr. Grossman is also a non-operating partner and current Board Member of Zeitguide, a privately-held research advisory business that educates leading executives and their teams on the transformational forces impacting culture and global businesses.

Mr. Grossman received an MBA from the Stanford Graduate School of Business and a BA from Columbia University where he graduated magna cum laude majoring in Economics.

James Bass was elected to our board on September 29, 2017. He is a seasoned Senior Level Financial Executive with diversified management experience in the consumer products, high technology and entertainment industries. From 1996 to July, 2017 Mr. Bass served as Senior Vice President and Chief Financial Officer at Sony Interactive Entertainment America, LLC in San Mateo, CA. Over his years at Sony, Mr. Bass became responsible for all financial operations and business performance, including information technology and facility management. Mr. Bass possesses a strong understanding of the retail sales environment and regulatory processes and has focused productively at Sony on inventory control and receivables management. Prior to his current tenure at Sony in San Mateo, Mr. Bass was Vice President of Finance for Sony in New York, New York. There he focused on winding down non-profitable

ventures, building in-roads for future growth and identifying “back office” requirements of the worldwide division. Mr. Bass worked as controller for Wang Laboratories from 1991-1993. From 1977-1990, Mr. Bass worked for Bristol-Myers Squibb Company holding positions in finance and management in New York as well as Lisbon, Portugal and Bangkok, Thailand.

Mr. Bass has his BBA in Accounting and Financial Management from Pace University and was awarded his CPA certification in New York in 1977.

Daniel J. Doherty III was appointed to serve as a director, filling a vacancy, on January 10, 2018. Mr. Doherty has been a principal of Eastern Real Estate, a real estate investment and development company, since July 2001. He is also a principal and significant shareholder of Raptor/ Harbor Reeds, SPV, LLC (“Raptor”), the Company’s largest shareholder, which beneficially owns 27.6% of the Company’s outstanding equity securities, calculated pursuant to Rule 13d-3. Mr. Doherty has joint voting and dispositive control of the equity securities held by Raptor with another of its principals.

Legal Proceedings

To the best of our knowledge, none of our executive officers or directors are parties to any material proceedings adverse to Reed's, have any material interest adverse to Reed's or have, during the past ten years been subject to legal or regulatory proceedings required to be disclosed hereunder.

Employment Agreements

We entered into an at-will employment agreement with Valentin Stalowir to serve as the Chief Executive Officer of Reed's, effective as of June 28, 2017 and continuing thereafter unless terminated by either the Company or Mr. Stalowir with or without notice, and with or without cause, pursuant to the terms of the agreement Pursuant to the agreement, Mr. Stalowir receives a base salary at the initial rate of \$300,000 per year, automatically increasing by \$25,000 per year on each anniversary of the effective date until the base salary has reached \$350,000. On January 10, 2018, pursuant to the employment agreement we granted to Mr. Stalowir 371,218 restricted stock units and options to purchase 371,218 shares of stock. The restricted stock and options vest in equal increments on each of June 28, 2018 and June 28, 2019. These awards were issued pursuant to Reed's 2017 Incentive Compensation Plan. The options have an exercise price of \$1.70. Mr. Stalowir is also eligible to participate in the Company's other benefit plans. The agreement provides for full acceleration of equity grants triggered by a "change of control", as defined in the agreement and contains confidentiality, invention assignment and non-solicitation covenants.

On October 4, 2017, we entered into an at-will employment agreement with Stefan Freeman for his service as the Chief Operating Officer of Reed's, effective immediately and continuing thereafter unless terminated by either the Company or the executive officer with or without notice, and with or without cause, pursuant to the terms of the agreement. Pursuant to the agreement, Mr. Freeman receives a base salary at the initial rate of \$225,000 per year, subject to annual review for increase. Mr. Freeman will also receive a performance based cash bonus structure and equity comprised of stock options and/or restricted stock grants to be granted from the Company's 2017 Incentive Compensation Plan, recently approved by the Company's shareholders. Mr. Freeman is also eligible to participate in the Company's other benefit plans. The agreement provides for full acceleration of equity grants triggered by a "change of control", as defined in the agreement and contains confidentiality, invention assignment and non-solicitation covenants.

Corporate Governance

We are committed to having sound corporate governance principles. We believe that such principles are essential to running our business efficiently and to maintaining our integrity in the marketplace. There have been no changes to

the procedures by which stockholders may recommend nominees to our board of directors.

Director Qualifications

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

Director Independence

The board of directors has determined that four members of our board of directors, Mr. Bello, Mr. Jaffe, Mr. Grossman and Mr. Bass, do not have relationships that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these nominees is an "independent director" as defined under Section 803 of the of the NYSE American Company Guide.

Code of Ethics

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

Board Structure and Committee Composition

As of the date hereof, our board of directors has seven directors and the following three standing committees: Audit Committee, Compensation Committee, and Governance Committee and two non-mandated committees: Operations Committee and Shareholder Committee. The Audit Committee, Compensation Committee and Governance Committee were formed in January 2007. The Operations and Shareholder Committee were formed in 2017.

Board Determination of Independence

Under applicable NYSE American rules, a director will only qualify as an “independent director” if, in the opinion of the Board, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board has determined that John Bello, Lewis Jaffe James Bass and Scott R. Grossman do not have relationships that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is an “independent director” as defined under the listing standards of the NYSE American. We intend to maintain at least three independent directors on our Board at all times in the future. We intend to maintain independent directors constituting our Audit Committee, Compensation Committee and Governance Committee as well.

Committees

The Board has established Audit, Compensation, Governance, Operations and Shareholder Committees. The Board has adopted a written charter for each of these four committees and has in process the development of the charter for the Shareholder that address the make-up and functioning of the Board. The Board has also adopted a Code of Business Conduct and Ethics that applies to all of the Company’s directors, officers and employees. The committee charters and Code of Business Conduct and Ethics are posted on our website at www.reedsinc.com.

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

selecting, hiring and terminating our independent auditors;

evaluating the qualifications, independence and performance of our independent auditors;

approving the audit and non-audit services to be performed by our independent auditors;

reviewing the design, implementation, adequacy and effectiveness of our internal controls and critical accounting policies;

overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;

reviewing, with management and our independent auditors, any earnings announcements and other public announcements regarding our results of operations; and

preparing the audit committee report that the “SEC” requires in our annual proxy statement.

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

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

Specific responsibilities include the following:

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

Governance Committee. Our Governance Committee assists the Board by identifying and recommending individuals qualified to become members of our Board, reviewing correspondence from our stockholders, and establishing, evaluating and overseeing our corporate governance guidelines. Our Governance Committee is currently comprised of Lewis Jaffe and Scott R. Grossman.

Specific responsibilities include the following:

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

Operations Committee. Our Operations Committee is a non-mandated committee assists the Board in fulfilling its oversight responsibilities for matters relating to the Company's operations, particularly those aspects, which are most likely to affect stockholder value. Our Operations Committee is currently comprised of John Bello, Valentin Stalowir, Lewis Jaffe, James Bass and Christopher Reed. In furtherance of this purpose, the Operations Committee has the following general oversight responsibilities:

Specific responsibilities include the following:

reviewing and providing strategic advice and counsel to the Company regarding the business operations; and

presenting to the Board an independent assessment of the Company's business operations as it relates to strategic initiatives.

Shareholder Committee. Our Shareholder Committee is an advisory committee assists the Board in fulfilling its oversight responsibilities for matters relating to maximizing Shareholder value and to communicating such activity to all shareholders. Our Shareholder Committee is currently comprised of Scott Grossman, Valentin Stalowir, Jim Bass and Christopher Reed. In furtherance of this purpose, the Shareholder Committee is developing a charter enumerating the following general oversight responsibilities:

Specific responsibilities include the following:

regularly communicating to shareholders the impact on significant corporate actions; and

presenting to the Board an assessment of the Company's opportunities as it relates to driving shareholder return.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") requires our directors and executive officers and beneficial holders of more than 10% of our common stock to file with the SEC initial reports of ownership and reports of changes in ownership of our equity securities.

To our knowledge, based solely upon a review of Forms 3 and 4 and amendments thereto furnished to Reed's under 17 CFR 240.16a-3(e) during our most recent fiscal year and Forms 5 and amendments thereto furnished to Reed's with respect to our most recent fiscal year or written representations from the reporting persons, we believe that during the year ended December 31, 2016 our directors, executive officers and persons who own more than 10% of our common stock complied with all Section 16(a) filing requirements.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding our shares of common stock beneficially owned as of February 12, 2018 for (i) each shareholder known to be the beneficial owner of 5% or more of our outstanding shares of common stock, (ii) each named executive officer and director, and (iii) all executive officers and directors as a group. A person is considered to beneficially own any shares: (i) over which such person, directly or indirectly, exercises sole or shared voting or investment power, or (ii) of which such person has the right to acquire beneficial ownership at any time within 60 days through an exercise of stock options or warrants or otherwise. Unless otherwise indicated, voting and investment power relating to the shares shown in the table for our directors and executive officers is exercised solely by the beneficial owner or shared by the owner and the owner's spouse or children.

For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares of common stock that such person has the right to acquire within 60 days of February 12, 2017. As of February 12, 2018, the Company had 24,619,591 shares of common stock outstanding. For purposes of computing the percentage of outstanding shares of our common stock held by each person or group of persons named above, any shares that such person or persons has the right to acquire within 60 days of February 12, 2018 is deemed to be outstanding, but is not

deemed to be outstanding for the purpose of computing the percentage ownership of any other person. The inclusion herein of any shares listed as beneficially owned does not constitute an admission of beneficial ownership.

Except as otherwise indicated below, the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them. Unless otherwise indicated, the principal address of each listed executive officer and director is 13000 South Spring Street, Los Angeles, California 90061.

| Named Beneficial Owner | Number of Shares Beneficially Owned | Percentage of Shares Beneficially Owned (1) | |
|--|--|--|---|
| Directors and Executive Officers | | | |
| Valentin Stalowir | 0 | 0 | |
| Christopher J. Reed (2) | 2,420,890 | 12.0 | % |
| John Bello | 637,217 | * | |
| Lewis Jaffe | 130,434 | * | |
| Daniel V. Miles (3) | 148,200 | * | |
| Stefan Freeman (4) | 24,000 | * | |
| Neal Cohane | 185,677 | * | |
| James Bass (5) | 70,412 | * | |
| Scott R. Grossman (6) | 64,412 | * | |
| Daniel J. Doherty III (7) | 8,093,534 | 27.6 | % |
| Judy Holloway Reed (2) | 2,420,890 | 12.0 | % |
| Directors and Named Executive Officers as a group (10 persons) | 3,108,616 | 42.6 | % |
| 5% or greater stockholders | | | |
| Raptor/ Harbor Reeds SPV LLC (7) | 8,093,334 | 27.6 | % |
| * Less than 1%. | | | |

(1) Based on 24,619,591 shares outstanding as of November 12, 2018.

(2) Christopher J. Reed, director and Chief Innovation Officer, and Judy Holloway Reed, Secretary of the Company, our husband and wife and share beneficial ownership of these shares.

(3) Includes 100,000 shares of common stock underlying exercisable stock options.

(4) Includes 24,000 shares of common stock underlying exercisable stock options.

(5) Includes 10,000 shares of common stock underlying exercisable stock options.

(6) Includes 10,000 shares of common stock underlying exercisable stock options.

(7) Principal address is 280 Congress Street, 12th Floor, Boston, Massachusetts 02210. James Pallotta and Daniel J. Doherty III have discretionary authority to vote and dispose of the shares of common stock held by Raptor/ Harbor Reeds SPV LLC and may be deemed to be the beneficial owners of these shares.

Includes 2,393,333 shares of common stock issuable upon exercise of currently-exercisable warrants. Also includes 2,266,667 shares of common stock issuable upon conversion of the Convertible Non-Redeemable Secured Promissory Note in the original principal amount of \$3,400,000.

LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus have been passed upon for us by Libertas Law Group, Inc., Santa Monica, California.

EXPERTS

The financial statements of Reeds, Inc. as of and for the years ended December 31, 2016 and 2015 appearing in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2016 have been audited by Weinberg & Company, PA, an independent registered public accounting firm, to the extent and for the periods indicated in their report appearing herein, and are included in reliance upon such report and upon authority of such firm as experts in accounting and auditing.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In addition, indemnification may be limited by state securities laws.

DESCRIPTION OF BUSINESS

Background

We currently develop, manufacture, market and sell natural non-alcoholic carbonated soft drinks, and candies. In the past we have manufactured, licensed, marketed and sold several unique product lines that have included:

Reed's Ginger Brews,

Virgil's Root Beer, Cream Sodas, Dr. Better and Real Cola, including ZERO diet sodas,

Culture Club Kombucha,

Reed's Ginger candy and other Reed's labeled products,

Sonoma Sparkler and other juice based products under the California Juice Company label.

We also have a private label business.

We sell our products throughout the US and in select international markets. We started in specialty gourmet and natural food stores and have moved more into mainstream over time. Our products are sold in natural, conventional, drug, club and mass merchandise accounts in the US, including mainstream supermarkets. We sell our products through a network of natural, gourmet and beer distributors and direct to certain large national retailers.

We produce and co-pack our beverage products in part at our facility in Los Angeles, California, known as the LA Plant and in the past "The Brewery". We also have also contracted at co-packing facilities in Pennsylvania and Indiana. Future use of the LA Plant and all co-packers is under review. The co-pack facilities typically service the eastern half of the United States and nationally for certain products that we do not produce at the LA Plant.

Key elements of our business strategy include:

increase our relationship with and sales to the approximately 15,000 supermarkets that carry our products in natural and mainstream and capture more of the 30,000 supermarkets nationwide,
expand our distribution network by adding regional direct store delivery (DSD's) and additional direct accounts,

focus on consumer demand and awareness for our core existing brands and products through promotions and advertising,
produce our products at the lowest cost locations while maintaining quality,
produce private-label products for select customers under strategic alliances,
lower our cost of sales for our products by gaining economies of scale in our purchasing, and
optimize the size and focus of our sales force to manage our relationships with distributors and retail outlets.

We create consumer demand for our products by:

supporting in-store sampling programs of our products,
generating free press through public relations,
advertising in store publications,
maintaining a company website (www.reedsinc.com),
active social media campaigns on [facebook.com](https://www.facebook.com), [twitter.com](https://www.twitter.com) and [youtube.com](https://www.youtube.com),
participating in large public events as sponsors, and
in the recent past deployed a national television commercial on cable television networks.

Corporate Information

Our principal executive offices are located at 13000 South Spring Street, Los Angeles, California 90061. Our telephone number is (310) 217-9400. Our corporate website is www.reedsinc.com. Information contained on our website or that is accessible through our website should not be considered to be part of this prospectus. Our transfer agent is Transfer Online, Inc., telephone (503) 227-2950.

Historical Development

Reed's Original Ginger Brew created in 1987 by Christopher J. Reed, our founder, former Chief Executive Officer, and current Chief Innovation Officer was introduced to the market in Southern California stores in 1989. By 1990, we began marketing our products through United Natural Foods Inc. (UNFI) and other natural food distributors and moved our production to a larger facility in Boulder, Colorado.

In 1991, we incorporated our business operations in the state of Florida under the name of Original Beverage Corporation and moved all production to a co-pack facility in Pennsylvania. Throughout the 1990's, we continued to develop and launch new Ginger Brew varieties. Reed's Ginger Brews reached broad placement in natural and gourmet foods stores nationwide through UNFI and other major specialty, natural/gourmet and mainstream food and beverage distributors.

In 1997, we began licensing the products of China Cola and eventually acquired the rights to that product in 2000. In 1999, we purchased the Virgil's Root Beer brand from the Crowley Beverage Company. In 2000, we moved into an 18,000-square foot warehouse property, the Brewery, in Los Angeles, California, to house our west coast production and warehouse facility. The Brewery also serves as our principal executive offices. In 2001, pursuant to a reincorporation merger, we changed our state of incorporation to Delaware and also changed our name to "Reed's, Inc".

On December 12, 2006, we completed the sale of 2,000,000 shares of our common stock at an offering price of \$4.00 per share in our initial public offering. The public offering resulted in gross proceeds of \$8,000,000. Following the public offering, we expanded sales and operations dramatically, initially using a direct store delivery strategy in Southern California, along with other regional independent direct store distributors (DSD). The relationships with DSD's were supported by our sales staff. In 2007 we raised a net of \$7,600,000 in a private placement. We re-focused our sales strategy to eliminate company direct store delivery sales and to expand sales to DSD's and natural food distributors on a national level. We also started selling directly to supermarket grocery stores, which has become a significant portion of our business today.

We continually introduce new products and line extensions, such as our California Juice Company products in 2009, Virgil's diet line of ZERO beverages introduced in 2010 and Dr. Better and Light 55 Calories Extra Ginger Brew in 2011. We commenced offering private label products in 2010 and in 2012 we launched our Culture Club Kombucha line that has been expanded as sales have grown. In 2015 we launched Stronger Ginger Brew that contains 50% more fresh ginger than our best-selling Reed's Extra Ginger Brew.

Until earlier this year, our Company was led by founder Chris Reed. Our newly elected board determined it was in the best interests of the Company to invest in our brands and reduce expansion of manufacturing capabilities. To accomplish this goal, the board appointed Valentin Stalowir as the new Chief Executive Officer to reorganize the focus of our Company. We expect to realize improved financial results driven by four initiatives we are implementing to accomplish this business transformation. *Fiscal 2017 markers based on management's estimates through year end.*

1. Grow two primary brands. Our gross sales will have declined during Fiscal 2017 between 5 and 10%. In 2018 we plan to grow core case volume by 10 to 15% by focusing on just two brands; Reed's and Virgil's. Within these brands we will grow the volume by organic growth, introducing both a new no sugar line and a new can package line.
2. Improve margins. Our net margin will have remained flat in Fiscal 2017 from Fiscal 2016 at a range of 18 and 22%. In 2018 we expect to grow net margin significantly by reducing idle plant costs, entering into agreements with new key vendors to improve pricing, streamlining our portfolio in favor of more higher margin products and launching higher margin can packaging on core brands.

Increase profits. Our operating loss is expected to be between \$5 to 6 million for Fiscal 2017. Through improved margins, focus on our core brands and the addition of a new logistics partner and rationalized delivery costs, we expect improvements in operating income for 2018.

Reduce debt. Our borrowing costs are expected to have grown almost \$3 million during Fiscal 2017. Using the proceeds of this rights offering, we intend to restructure debt to market rates, pay down stretched payables and CAPEX loan and realize value on non-core assets.

We believe that by executing these four initiatives, our Company will be in position to expand its position in the market. These goals and projections are based on assumptions and estimates that management believes are reasonable based on currently available information; however, management's assumptions and the Company's future performance are subject to a wide range of business risks and uncertainties, and there is no assurance that these goals and projections can or will be met within the aforementioned timeframes, if at all. Any number of factors could cause actual results to differ materially from management's expectations. See "Risk Factors" beginning on page [] of this prospectus.

Industry Overview

We offer natural premium carbonated soft drinks (CSD), which are a growing segment of the estimated \$10 billion CSD market nationwide. Within natural food store markets, we are among the top-selling natural soft drinks. This market is steady and growing. We also sell in major grocery chains nationally. The trend in grocery stores is to expand offerings of natural products and we have the scale and capability to develop these direct customer relationships.

Our Products

We primarily manufacture and sell beverages and candies or other ginger related products. We source premium all-natural ingredients for our products. Ingredients in our beverage line are purchased from suppliers that certify the ingredients are GMO free. Our core brands are our Reed's ginger brew line and our Virgil's line of root beer and our candy products that include Reed's Crystallized Ginger Candy and Reed's Chews represent a lesser portion of revenues. We have sold ginger ice cream in prior years.

Reed's Ginger Brews

Ginger ale is one of the oldest known soft drinks. Before modern soft drink technology existed, non-alcoholic beverages were brewed at home directly from herbs, roots, spices, and fruits. These handcrafted brews were highly prized for their taste and their tonic, health-giving properties. Reed's Ginger Brews are a revival of this lost art of home brewing sodas. We make them with care and attention to wholesomeness and quality, using the finest fresh herbs, roots, spices, and fruits.

We believe that Reed's Ginger Brews are unique in their kettle-brewed origin among all mass-marketed soft drinks. Reed's Ginger Brews contain between 8 and 39 grams of fresh ginger in every 12-ounce bottle. We use pure cane sugar as the sweetener. Our products differ from commercial soft drinks in three particular characteristics: sweetening, carbonation and coloring for greater adult appeal. Instead of using injected-based carbonation, we produce our carbonation naturally, through slower, beer-oriented techniques. This process produces smaller, longer lasting bubbles that do not dissipate rapidly when the bottle is opened. We do not add coloring. The color of our products comes naturally from herbs, fruits, spices, roots and juices and our beverages are GMO free.

In addition, since Reed's Ginger Brews are pasteurized, they do not require or contain any preservatives. In contrast, modern commercial soft drinks generally are produced using natural and artificial flavor concentrates prepared by flavor laboratories, tap water, and highly refined sweeteners. Typically, manufacturers make a centrally processed concentrate that will lend itself to a wide variety of situations, waters and filling systems. The final product is generally cold-filled and requires preservatives for stability. Colors are added that are either natural, although highly processed, or artificial.

Our Reed's line contains the following products:

Reed's Original Ginger Brew was our first creation and is a Jamaican recipe for homemade ginger ale using 17 grams of fresh ginger root, lemon, lime, honey, raw cane sugar, pineapple, herbs and spices. Reed's Original Ginger Brew is 20% fruit juice.

Reed's Premium Ginger Brew is sweetened only with honey and pineapple juice. Reed's Premium Ginger Brew is 20% fruit juice and contains 17 grams of fresh ginger root.

Reed's Raspberry Ginger Brew is brewed from 17 grams of fresh ginger root, raspberry juice and lime. Reed's Raspberry Ginger Brew is 20% raspberry juice.

Reed's Spiced Apple Brew uses 8 grams of fresh ginger root, the finest tart German apple juice and such apple pie spices as cinnamon, cloves and allspice. Reed's Spiced Apple Brew is 50% apple juice.

Reed's Light 55 Calories Extra Ginger Brew is a reduced calorie version of our top selling Reed's Extra Ginger Brew that was made possible by using Stevia. We use the same recipe of 26 grams of fresh ginger root, honey, pineapple, lemon and lime juices and exotic spices.

Reeds Extra Ginger Brew *is the same recipe as Original Ginger Brew, but has 26 grams of fresh ginger root for a stronger bite.*

Reeds Stronger Ginger Brew has 50% more ginger than the Extra Ginger Brew and has the highest ginger content of any of our beverage products.

Reed's Natural Energy Elixir is an energy drink infused with all natural ingredients designed to provide consumers with a healthy and natural boost to energy levels

Virgil's Root Beer

Virgil's is a premium craft root beer. We use all-natural ingredients, including filtered water, unbleached cane sugar, anise from Spain, licorice from France, bourbon vanilla from Madagascar, cinnamon from Sri Lanka, clove from Indonesia, wintergreen from China, sweet birch and molasses from the southern United States, nutmeg from Indonesia, pimento berry oil from Jamaica, balsam oil from Peru and cassia oil from China. We collect these ingredients worldwide and gather them together at the brewing and bottling facilities. We combine these ingredients under strict specifications and finally heat-pasteurize Virgil's Root Beer, to ensure quality. We sell Virgil's Root Beer in three packaging styles: 12-ounce bottles in a four-pack, a special swing-lid style pint bottle and a 5-liter self-tapping party keg. The Virgil's soda line is GMO free.

In addition to our Virgil's Root Beer, we also offer the following products under our Virgil's brand:

Virgil's Cream Soda,

Virgil's Orange Cream Soda,

Virgil's Black Cherry Cream Soda,

Virgil's Real Cola,

Virgil's Dr. Better,

Virgil's ZERO line, including Root Beer, Cream Soda, Real Cola, Dr. Better and Black Cherry Cream Soda. (Our ZERO line is naturally sweetened with Stevia), and

Reed's Culture Club Kombucha

We introduced our Culture Club Kombucha in 2012. Kombucha is a fermented tea that dates its origin back thousands of years. Among consumers, Kombucha is believed to have healing and cleansing characteristics. Sweetened tea is introduced to a “starter” culture and lightly fermented to produce an acetic drink. We make the finest Kombucha possible, using a combination of Oolong and Yerba Mate teas, spring water and a combination of ginger, organic juices and flavors. Initially, we produced four flavors, Goji Ginger, Hibiscus Ginger Grapefruit, Lemon Ginger Raspberry and Cranberry Ginger. We introduced four additional flavors in 2013, Pomegranate Ginger, Coconut Water Lime, Cabernet Grape, and Passion Mango Ginger. Currently the Company has limited distribution until market conditions and financial conditions present opportunities to re-introduce the brand back into the marketplace.

Other Beverage Brands

We have other popular brands that currently have limited distribution, including California Juice, Sonoma Sparkler and Flying Cauldron Butterscotch Beer. We are continually developing new brands and products.

Private Label Products

We design and manufacture drinks for private label customers in multiple facilities. We are experts in flavor development and in matching existing products in the market. We develop the recipe and may design the label and/or the bottle style. We do not private label any of our own branded product recipes.

Our private label products have been variations of any of our offerings. We develop the sources for glass and ingredients. We have a variety of packaging options, including swing-lid bottles, foil capsules and various label types. Our Los Angeles facility is certified as SQF level 2 compliant.

New Product Development

We are always working on ideas and products to continue expanding our Reed's Ginger Brews, Virgil's product line, Reed's Ginger Candy product lines and packaging styles. Current focus in our research is for reduced sugar offerings. Among the advantages of our self-operated Brewery are the flexibility to try innovative packaging and the capability

to experiment with new product flavors at less cost to our operations or capital.

We have developed and are currently field testing an all-natural fountain offering. We expect the testing to be completed in 2017 and to begin distribution later in the year.

We have developed and are currently preparing a no sugar based beverage line. We expect retailer acceptance to be completed in 2017 and to begin distribution in 2018.

Our private label products require continual product development. We are able to be nimble and innovative, producing new products in a short amount of time. We expect private label initiatives to decrease in 2018 as the result of the focus on the core brands and new initiatives.

Manufacture of Our Products

We produce our carbonated beverages in multiple facilities:

a facility in Los Angeles, California, known as The Brewery, at which we currently produce Kombucha, certain soda products and our private label products, and

two packing, or co-pack facilities in Pennsylvania and an additional co-packer in Indiana which supplies us with product we do not produce at The Brewery. The co-packer assembles our products and charges us a fee, generally by the case, for the products they produce.

We follow a “fill as needed” manufacturing model to the best of our ability and we have no significant backlog of orders. Substantially all of the raw materials used in the preparation, bottling and packaging of our products are purchased by us or by our contract packers in accordance with our specifications. Reed’s Crystallized Ginger is made to our specifications in Fiji. Reed’s Ginger Candy Chews are made and packed to our specifications in Indonesia.

Generally, we obtain the ingredients used in our products from domestic suppliers and each ingredient has several reliable suppliers. We have no major supply contracts with any of our suppliers. As a general policy, we pick ingredients in the development of our products that have multiple suppliers and are common ingredients. This provides a level of protection against a major supply constriction or calamity.

We believe we will be able to keep up with increased production demands. The LA Plant (Brewery) upgrade has been put on hold as the Company explores different opportunities to redeploy capital. The redeployment decision will be based on long term needs and uses of capital that will compete with brand marketing efforts. To the extent that any significant increase in business requires us to supplement or substitute our current co-packers, we are developing a pre-qualification for all prospective co-packers, so that there would not be a significant delay or interruption in fulfilling orders and delivery of our products.

Our Primary Markets

We target a niche in the carbonated and non-carbonated soft drink markets in the US, Canada and International markets. Our brands are generally regarded as premium and natural, with upscale packaging and are loosely defined as the artisanal (craft), premium bottled carbonated soft drink category.

The soft drink industry is highly fragmented and the craft soft drink category consists of such competitors as, Henry Weinhardts, Thomas Kemper, Hansen’s, Izze, Boylan and Jones Soda, to name a few. These brands have the advantage of being seen widely in the national market and being commonly known for years through well-funded ad campaigns. Despite our products having a relatively high price for an artisanal premium beverage product, minimal mass media advertising and a relatively small but growing presence in the mainstream market compared to many of our competitors, we believe that results to date demonstrate that Reed’s Ginger Brews and Virgil’s sodas are making strong inroads and market share gains against some of the larger brands in the market.

We sell the majority of our products in the natural food store, mainstream supermarket chains and foodservice locations, primarily in the United States and, to a lesser degree, in Canada and Europe.

Natural Food Stores

Our primary and historical marketing and distribution source of our products has been natural food and gourmet stores throughout the US. These stores include Whole Foods Market, Trader Joe's, Sprouts, The Fresh Market, Earth Fare, and New Seasons, just to name a few. Our brands are also sold in gourmet restaurants and delis nationwide. With the advent of large natural food store chains and specialty merchants, the natural foods segment continues to grow each year, helping fuel the continued growth of our brands.

Mainstream Supermarkets and Retailers

We also sell our products to direct store delivery distributors (DSD) who specialize in distributing and selling our products directly to mainstream retail channels, natural foods, and specialty retail stores. Our brands are further sold directly to some retailers who require that we sell directly to their distribution centers since they have developed their own logistics capabilities. Examples of chains that fall into the "direct" category are retailers such as, Costco, Trader Joe's, some Whole Foods Market Regions and Kroger.

Supermarkets, particularly supermarket chains and prominent local/regional chains, often impose slotting fees in order to gain shelf presence within their stores. These fees can be structured to be paid one-time only or in installments. We utilize selective slotting in supermarket chains throughout the US and to a lesser degree, in Canada. However, our local and national sales team has been able to place our products without having to pay significant slotting fees.

Food Service Placement

We also market our beverages to industrial cafeterias (corporate feeders), and to on premise bars and restaurants. As our business continues to mature, we intend to place our beverages in stadiums, sport arenas, concert halls, theatres, and other cultural centers as long-term marketing and pouring relationships are developed within this business segment.

International Sales

Our products are supplied to distributors that distribute in Canada, Europe and Asia. Sales outside of North America currently represent 3% of our total gross sales. Sales in Canada represent about 1.3% of our total sales. We believe that there are good opportunities for expansion of sales in Canada, Middle East, England and Australia and we are increasing our marketing focus on those markets. Other international sales become cost prohibitive, except in specialty sales circumstances, since our premium sodas are packed in glass, which involves substantial freight to move overseas. We are open to opportunities to export and to co-pack internationally and expand our brands into foreign markets, and we are holding preliminary discussions with trading companies and import/export companies for the distribution of our products throughout Asia, Europe, Australia and South America. We believe that these areas are a natural fit for Reed's ginger products, because of the importance of ginger in international markets, especially the Asian market where ginger is a significant part of diet and nutrition.

Distribution, Sales and Marketing

We currently have a national network of mainstream, natural and specialty food distributors in the United States and Canada. We sell directly to our distributors, who in turn sell to retail stores. We also use our own internal sales force and an independent sales representative to promote our products for our distributors and direct sales to our retail customers. One of the main goals of our sales and marketing efforts is to increase sales and grow our brands. Our sales force consists of senior sales representatives in five geographic regions across the country who are supported in their region by local Reeds sales staff. Generally, our sales managers are responsible for all activities related to the sales, distribution and marketing of our brands to our entire distributor and retail partner network in North America. We distribute our products primarily through several national natural foods distributors and an increasing number of regional mainstream DSD distributors. We have entered into agreements with some of our distributors that commit us to "termination fees" if we terminate our agreements early or without cause. These agreements call for our customer to have the right to distribute our products to a defined type of retailer within a defined geographic region. As is customary in the beverage industry, if we should terminate the agreement or not automatically renew the agreement, we would be obligated to make certain payments to our customers. We are in constant review of our distribution agreement with our partners across North America. We also offer our products and promotional merchandise directly to consumers via the Internet through our website, www.reedsgingerbrew.com.

Marketing to Distributors

We market to distributors using a number of marketing strategies, including direct solicitation, telemarketing, trade advertising and trade show exhibition. These distributors include natural food, gourmet food and mainstream distributors. Our distributors sell our products directly to natural food, gourmet food and mainstream supermarkets for sale to the public. We maintain direct contact with our distributor partners through our in-house sales managers. From time to time and in very limited markets, when use of our own sales force is not cost effective, we will utilize independent sales brokers and outside representatives.

Marketing to Retail Stores

The primary focus of our sales efforts is supermarket sales. We have a small highly trained sales force that is directly contacting supermarket chains and setting up promotional calendars. In addition, we market to retail stores by utilizing trade shows, trade advertising, telemarketing, direct mail pieces and direct contact with the store. Our sales managers and representatives visit these retail stores to sell directly in many regions. Sales to retail stores are coordinated through our distribution network and our regional warehouses.

Competition

The beverage industry is highly competitive. The principal areas of competition are pricing, packaging, development of new products and flavors and marketing campaigns. Our products compete with a wide range of drinks produced by a relatively large number of manufacturers. Most of these brands have enjoyed broad, well-established national recognition for years, through well-funded ad and other branding campaigns. In addition, the company's manufacturing these products generally have greater financial, marketing and distribution resources than we do. Important factors affecting our ability to compete successfully include taste and flavor of products, trade and consumer promotions, rapid and effective development of new, unique cutting edge products, attractive and different packaging, branded product advertising and pricing. We also compete for distributors who will concentrate on marketing our products over those of our competitors, provide stable and reliable distribution and secure adequate shelf space in retail outlets. Competitive pressures in the soft drink category could cause our products to be unable to gain or to lose market share or we could experience price erosion. We believe that our all natural innovative beverage recipes, packaging, use of premium ingredients and a trade secret brewing process provide us with a competitive advantage and that our commitments to the highest quality standards and brand innovation are keys to our success.

The Kombucha market is dominated by a few producers who sell their products nationally. The remainder of the producers is comprised of mostly fragmented regional or local companies. There are companies that gain market share in certain regions; however, most do not have the scale and capability to effectively sell and distribute on a national basis. We believe that Reed's Kombucha market share was achieved in a relatively short period of time, by leveraging our existing distribution channels and customer relationships to expand our sales volume quickly. We also have in-house production capabilities that can be scaled up as needed to make this a primary brand for Reed's. We believe that our existing infrastructure creates a competitive advantage, including product design, manufacturing & production and a network of sales & distribution.

Proprietary Rights

We own trademarks that we consider material to our business. Two of our material trademarks are registered trademarks in the U.S. Patent and Trademark Office: Reed's Original Ginger Brew All-Natural Jamaican Style Ginger Ale ® and Virgil's ®. Registrations for trademarks in the United States will last indefinitely as long as we continue to use and police the trademarks and renew filings with the applicable governmental offices. We have not been challenged in our right to use any of our material trademarks in the United States. We intend to obtain international registration of certain trademarks in foreign jurisdictions.

In addition, we consider our finished product and concentrate formulae, which are not the subject of any patents, to be trade secrets. Our brewing process is a trade secret. This process can be used to brew flavors of beverages other than ginger ale and ginger beer, such as root beer, cream soda, cola and other spice and fruit beverages. We have not

sought any patents on our brewing processes because we would be required to disclose our brewing process in patent applications.

We generally use non-disclosure agreements with employees and distributors to protect our proprietary rights.

Government Regulation

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

A California law requires that a specific warning appear on any product that contains a component listed by the state as having been found to cause cancer or birth defects. The law exposes all food and beverage producers to the possibility of having to provide warnings on their products. This is because the law recognizes no generally applicable quantitative thresholds below which a warning is not required. Consequently, even trace amounts of listed components can expose affected products to the prospect of warning labels. Products containing listed substances that occur naturally or that are contributed to such products solely by a municipal water supply are generally exempt from the warning requirement. No Company beverages produced for sale in California are currently required to display warnings under this law. We are unable to predict whether a component found in a Company product might be added to the California list in the future, although the state has initiated a regulatory process in which caffeine will be evaluated for listing. Furthermore, we are also unable to predict when or whether the increasing sensitivity of detection methodology that may become applicable under this law and related regulations as they currently exist, or as they may be amended, might result in the detection of an infinitesimal quantity of a listed substance in a beverage of ours produced for sale in California.

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

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

Environmental Matters

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

Employees

Edgar Filing: REED'S, INC. - Form S-1

We have 62 full-time equivalent employees on our corporate staff down from 69 in the year ending December 31, 2015. The table below lists the departments. We employ additional people on a part-time basis as needed. We have never participated in a collective bargaining agreement. We believe that the relationship with our employees is good.

| Department | Number of FTE's | | |
|------------------------|--------------------|------|--------|
| | 2016 | 2015 | Change |
| General Management | 4.0 | 4.0 | - |
| Administrative Support | 9.2 | 11.1 | (1.9) |
| Research & Development | 5.5 | 4.0 | 1.5 |
| Sales | 16.0 | 17.4 | (1.4) |
| Production & Warehouse | 27.7 | 32.9 | (5.2) |
| Total | 62.4 | 69.4 | (7.0) |

Description of Property

We lease a facility of approximately 76,000 square feet, which serves as our principal executive offices, our West Coast Brewery and bottling plant and our Southern California warehouse facility. Approximately 30,000 square feet of the total space is leased under a long-term lease expiring in 2024. We also lease a warehouse of approximately 18,000 square feet under a lease expiring in October 2017, a warehouse of approximately 13,000 square feet under a lease expiring in November 2017, and a warehouse of 15,000 square feet on a month-to-month basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

In our second quarter of 2017, we announced the installation of a new Chief Executive Officer, a new Chief Operating Officer and created the new position of Chief Innovation Officer. This newly installed leadership team has conducted a thorough review of the business including its current performance and core strategies. The Company is now in the process of executing significant changes to the Company's strategy that includes a prioritization on the core Reed's and Virgil's brands, a discontinuing of non-core SKU's and potentially repositioning the Company operationally to further outsource the manufacturing of its products. As such, the company is in the process of evaluating the current production capabilities of the Company which may allow for additional sales and marketing investment. Since it is, *more likely than not*, that the recently purchased equipment will not be installed in the LA Plant, in the quarter, the Company impaired the production assets that are not already in use.

In addition, the ultimate use of the LA Plant will be analyzed by a leading professional services team once engaged to determine the Company's options going forward. The analysis is focused on existing equipment, the infrastructure improvements in use, the real estate agreements in effect and other transition costs used in those operations. It is not known at this time what the ultimate resolution will be. The net assets under review have a current net book value of approximately \$5,000,000 in addition to the impaired assets.

The Company recently announced key components to the transition and therefore the financial results presented and discussed here do not yet reflect the improvements currently underway led by the reconstituted board and the new management leadership. Our third quarter 2017 results reflect the first price increase in seven years which compressed volume temporarily in August but led to a record increase in gross revenue as measured by a 12-ounce case of \$0.43 in the quarter just ended. The Company's continued high manufacturing costs have led management to pursue the engagement of a professional services company to help reposition the Company's manufacturing footprint and strategy.

Since 2016, the Company has had sales and production of 111 separate SKU's. The Company has streamlined the portfolio to focus on a total of 28 SKUs which are made up of two brands; Reed's and Virgil's with twelve flavors and two primary packaging configurations consisting of 24 pack cases and 12 pack cases. There are two other segments of SKU's that we use to categorize our portfolio; non-core and discontinued. The non-core category is comprised of SKU's that are being evaluated and include such products as ginger candy, private label and swing top lid beverages. The discontinued category is defined as SKU's not in the immediate plans of the company. Reed's may re-introduce these items as market conditions change or improve.

Core brand focus - During the just completed third quarter, the Company took its first general price increase for established brands in almost seven years. Up to this point, the Company's practice was to fully absorbed material price increases in its various input costs which negatively impacted our gross margins. While volume was compressed in the month after the increase, shipments and future orders have rebounded leading us to believe that the market has absorbed the price increase and the core brands may continue to improve in volume. Core brands represented 80% of the volume and increased gross selling price by \$0.43 per 12-ounce case while COGS decreased \$0.11 per 12-ounce case. As management continues to optimize and refine its pricing and discounting strategies, we believe there will be opportunities for further positive improvements in both price and targeted discounting.

Non-core brands and SKU's – During the just completed quarter, non-core brands were almost exclusively private label and totaled 18% of the volume. Gross selling price decreased by \$0.07 per 12-ounce case while COGS increased \$0.36 per 12-ounce case.

Discontinued brands and SKUs – During the just completed quarter, discontinued brands were almost exclusively secondary packaging and specialty brands that totaled 2% of the volume. Gross selling price decreased by \$4.24 per 12-ounce case while COGS decreased \$1.33 per 12-ounce case.

Historical year over year top line comparisons

The total portfolio volume rate of decline slowed to 12.7% from 16.4% in the third quarter over the same quarter in the prior year for the nine months ended September 30, 2017. Total gross revenue rate of decline slowed to 10.8% in the third quarter over the same quarter in the prior year as compared to 13.8% for the nine months ended September 30, 2017.

Discounts as a percentage of revenue increased 0.9% versus the same quarter in the prior year and increased 2.2% versus the year to date period in the prior year.

Cost of goods sold for all products declined in the third quarter 12.3% while non-core products cost of goods sold declined 51.8% versus the same quarter in the prior year. Year to date cost of goods sold for all products declined in the third quarter 14.8% and non-core products cost of goods sold year to date declined 53.8% over the same period in the prior year. Cost of goods sold for core products declined 5.4% in the third quarter and 7.0% year to date over the same period in the prior year.

Net margin declined 4.4% and 4.9% over the same quarter and year to date periods versus the prior year driven by increased idle plant charges.

Overall expenses during the third quarter increased by 13.3% but continue down 3.0% year to date over the prior year.

Delivery and General and administrative related expenses were up 24.2% and 26.3% respectively versus the same prior year periods. The delivery expense increase was due to a higher number of transports from east coast manufacturers to the west coast, while the General and administrative increase reflects higher director, higher filing fees, timing of the shareholder meeting and executive expenses. Sales expenses decreased 9.8% and 19.5% over the same time periods in the prior year primarily driven by lower employee costs, third party broker fees and consultant usage. Interest and warrant liability expense grew 345% year to date over the same time period in the prior year reflecting the change in fair value of the warrant liability.

The operating loss increased 601% in the third quarter and 168% year to date versus the same time periods in the prior year reflecting the decline in the non-core product volume, increased delivery expenses, increased idle plant cost and additional interest carrying costs.

RESULTS OF OPERATIONS

Results of Operations – Nine-months ended September 30, 2017

The following table sets forth key statistics for the Nine Months Ended September 30, 2017 and 2016, respectively.

| | Nine months ended Sept. 30, | | Pct. | |
|--|-----------------------------|----------------|--------|---|
| | 2017 | 2016 | Change | |
| Gross sales | 31,151,000 | \$36,141,000 | -14 | % |
| Less: Promotional and other allowances | 3,105,000 | 2,815,000 | 10 | % |
| Net sales | \$28,046,000 | \$33,326,000 | -16 | % |
| Cost of tangible goods sold | 21,149,000 | 24,820,000 | -15 | % |
| As a percentage of: | | | | |
| Gross sales | 68 | % 69 | % | |
| Net sales | 75 | % 74 | % | |
| Cost of goods sold – idle capacity | 2,067,000 | 1,125,000 | 84 | % |
| As a percentage of net sales | 7 | % 3 | % | |
| Gross profit | 4,830,000 | \$7,381,000 | -35 | % |
| Gross profit margin as a percentage of net sales | 17 | % 22 | % | |
| Expenses | | | | |
| Delivery and handling | \$2,731,000 | \$2,815,000 | -3 | % |
| Selling and marketing | 2,344,000 | 2,911,000 | -19 | % |
| General and administrative | 3,402,000 | 3,007,000 | 13 | % |
| Impairment expense (Note 4) | 2,000,000 | - | 100 | % |
| Total Operating expenses | \$10,477,000 | \$8,733,000 | 20 | % |
| Income from operations | \$(5,647,000) | \$(1,352,000) | 318 | % |
| Interest expense and other expense | (1,810,000) | (1,239,000) | 46 | % |
| Net loss to stockholders | \$(7,457,000) | \$(2,591,000) | 188 | % |
| Shares outstanding | 14,336,000 | 13,504,000 | 10 | % |
| Net income(loss) per share | \$(0.52) | \$(0.19) | 162 | % |

Metrics

| Gross Sales | Nine Months Ended September 30, 2017 | | | | | | | | | | |
|--------------------------------|--------------------------------------|-----------|---------|------------------------------|--------------|---------|---------------|--------|--------|-------|---|
| | 12 Ounce Volume | | | 12 Ounce Gross Sales Revenue | | | Per 12 ounces | | | | |
| | 2017 | 2016 | Change | 2017 | 2016 | Change | 2017 | 2016 | Change | % | % |
| Reeds Beverages | 904,000 | 979,000 | -7.7 % | 15,421,000 | 16,285,000 | -5.3 % | 17.06 | 16.63 | 0.42 | 2.6 | % |
| Virgil's | 576,000 | 630,000 | -8.6 % | 10,166,000 | 11,194,000 | -9.2 % | 17.65 | 17.77 | (0.12) | -0.7 | % |
| Kombucha | 15,000 | 63,000 | -76.2 % | 300,000 | 1,404,000 | -78.6 % | 20.00 | 22.29 | (2.29) | -10.3 | % |
| All Other Reeds Beverages | 99,000 | 106,000 | -6.6 % | 1,678,000 | 1,790,000 | -6.3 % | 16.95 | 16.89 | 0.06 | 0.4 | % |
| Private Label | 169,000 | 331,000 | -48.9 % | 2,348,000 | 4,052,000 | -42.1 % | 13.89 | 12.24 | 1.65 | 13.5 | % |
| Reeds Candy | | | | 1,164,000 | 1,343,000 | -13.3 % | | | | | |
| All Other Non-Beverages | - | | | 74,000 | 73,000 | 1.4 % | | | | | |
| Total Gross Sales | 1,763,000 | 2,109,000 | -16.4 % | 31,151,000 | 36,141,000 | -13.8 % | 17.67 | 17.14 | 0.53 | 3.1 | % |
| Sales Discounts | | | | | | | | | | | |
| Unallocated to Specific SKU's* | | | | (3,105,000) | (2,815,000) | 10.3 % | (1.76) | (1.33) | (0.43) | 31.9 | % |
| Net Sales | 1,763,000 | 2,109,000 | -16.4 % | \$28,046,000 | \$33,326,000 | -15.8 % | 15.91 | 15.80 | 0.11 | 0.7 | % |
| Gross Sales per 12 ounce | | | | \$17.67 | \$17.14 | 3.1 % | | | | | |
| Net Sales per 12 ounce | | | | \$15.91 | \$15.80 | 0.7 % | | | | | |
| Cost of Goods Sold | | | | | | | | | | | |
| Reeds Beverages | 904,000 | 979,000 | -7.7 % | 10,378,000 | 10,740,000 | -3.4 % | 11.48 | 10.97 | 0.51 | 4.6 | % |
| Virgils | 576,000 | 630,000 | -8.6 % | 6,426,000 | 6,961,000 | -7.7 % | 11.16 | 11.05 | 0.11 | 1.0 | % |
| Kombucha | 15,000 | 63,000 | -76.2 % | 184,000 | 733,000 | -74.9 % | 12.27 | 11.63 | 0.63 | 5.4 | % |
| All Other Reeds Beverages | 99,000 | 106,000 | -6.6 % | 1,111,000 | 1,133,000 | -1.9 % | 11.22 | 10.69 | 0.53 | 5.0 | % |
| Private Label | 169,000 | 331,000 | -48.9 % | 1,543,000 | 2,723,000 | -43.3 % | 9.13 | 8.23 | 0.90 | 11.0 | % |
| Costs | | | | | | | | | | | |
| Unallocated to Specific SKU's* | | | | 419,000 | 1,228,000 | -65.9 % | | | | | |
| Reeds Candy | | | | 824,000 | 1,001,000 | -17.7 % | | | | | |
| All Other Non-Beverages | | | | 264,000 | 301,000 | -12.3 % | | | | | |
| Cost of Goods Sold | 1,763,000 | 2,109,000 | -16.4 % | \$21,149,000 | \$24,820,000 | -14.8 % | 12.00 | 11.77 | 0.23 | 1.9 | % |

Edgar Filing: REED'S, INC. - Form S-1

| | | | | | | | | | |
|--|-----------|-----------|--------------|--------------|----------|-------|-------|------|---------|
| Additional Cost of Goods Produced Idle Plant | | | 2,067,000 | 1,125,000 | 83.7 % | 1.17 | 0.53 | 0.64 | 119.8 % |
| Cost of Goods produced and Sold | 1,763,000 | 2,109,000 | \$23,216,000 | \$25,945,000 | -10.5 % | 13.17 | 12.30 | 0.87 | 7.0 % |
| Cost of Goods Sold Per 12 ounce | | | \$12.00 | \$11.77 | 1.9 % | | | | |
| Cost of Goods Produced Per 12 ounce | | | \$13.17 | \$12.30 | 7.0 % | | | | |
| Gross Profit including Idle Plant | | | 4,830,000 | 7,381,000 | -34.6 % | | | | |
| Gross Profit on a 12 ounce basis including Idle Plant | | | 2.74 | 3.50 | -21.7 % | | | | |
| Gross Margin including Idle Plant | | | 17.2 | % 22.1 | % -4.9 % | | | | |

*** Discounts and costs incurred that do not relate to specific SKU's**

** Gross sales is 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 is 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 has 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.*

*** Although the expenditures described in this line item are determined in accordance with GAAP and meet GAAP requirements, the disclosure thereof does not conform with 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.*

Sales

Gross sales decreased for the Nine-months ended September 30, 2017 to \$31,151,000 from \$36,141,000 in the same period in 2016. On a 12-ounce serving basis, gross sales increased \$0.53 per 12-ounce case or 3.1% year over year. The main driver of the increase was a price increase in the third quarter of 2017.

Net sales decreased for the Nine-months ended September 30, 2017 to \$28,046,000 from \$33,326,000 in the same period in 2016. Although gross revenue increased \$0.53 per 12-ounce case for the Nine-months ended September 30, 2017, net sales only increased \$0.11 per 12-ounce case or 0.7% year over year. The main driver of the difference was a 31.9% increase or \$0.42 per 12-ounce case in promotional costs.

Cost of Goods Sold and Produced

Cost of tangible goods sold consists of the costs of raw materials utilized in the manufacture of products, co-packing fees, repacking fees, in-bound freight charges, inventory adjustments and internal transfer costs. Idle capacity consists of direct production costs of our Los Angeles plant in excess of charges allocated to our finished goods in production. Plant costs include labor costs, production supplies, repairs and maintenance, and depreciation. 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. Plant costs in excess of production allocations are expensed in the period incurred rather than added to the cost of finished goods produced.

Cost of goods *sold* decreased for the Nine-months ended September 30, 2017 to \$21,149,000 from \$24,820,000 in the same period in 2016. On a 12-ounce serving basis, cost of goods *sold* decreased \$0.23 per 12-ounce case or 14.8% year over year. The main driver of decrease was a volume decrease of 16.9% partially offset by raw material price increases of 2.1% over the prior year.

Cost of goods *produced* decreased for the Nine-months ended September 30, 2017 to \$23,216,000 from \$25,945,000 in the same period in 2016. On a 12-ounce serving basis, cost of goods *produced* increased \$0.87 per 12-ounce case or 7.0% year over year. The main driver of the increase is the LA Plant Idle Plant costs and raw material price increases. Idle Plant costs increased \$0.64 per 12-ounce case or 119.6% and raw materials increased \$0.23 per 12-ounce case or 1.9% over the same period in 2016.

Gross Margin

Gross margin declined for the Nine-months ended September 30, 2017 to \$4,830,000 from \$7,381,000 in the same period in 2016. On a 12-ounce serving basis, gross margin declined \$1.03 per 12-ounce case or 28% year over year. The main drivers of the decrease were the \$0.54 increase per 12-ounce case in sales discounts and \$0.55 per 12-ounce case increase in idle plant costs.

Delivery and Handling Expenses

Delivery and handling expenses consist of delivery costs to customers and warehouse costs incurred for handling our finished goods after production. Delivery and handling expenses decreased for the Nine-months ended September 30, 2017 to \$2,731,000 from \$2,815,000 or 2.9% in the same period in 2016. This decrease was impacted by a need to transport finished goods from the east coast to customers on the west coast when the LA Plant was being used for private label production. As a percentage of net sales, delivery costs increased to 9.7% from 8.4% over the same period in the prior year.

Selling and Marketing Expenses

Selling and marketing expenses consist primarily of direct charges for staff compensation costs, advertising, sales promotion, marketing and trade shows. Selling and marketing expenses continued their decline for the Nine-months ended September 30, 2017 to \$2,344,000 from \$2,911,000 or 19.5% versus the same period in 2016. As a percentage of net sales, selling and marketing costs remained flat at 8.4%. The Company kept expenses in line with sales revenue

by reducing employee costs, trade shows expenses and broker fee reductions.

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 increased for the Nine-months ended September 30, 2017 to \$3,402,000 from \$3,007,000 or 12.9% versus the same period in 2016. As a percentage of net sales, General and administrative costs increased 3.1% to 12.1% from 9.0%. The main driver of the increase was due to net employee transition costs, director's compensation and legal costs.

Loss from Operations

The loss from operations was (\$5,647,000) in the Nine Months Ended September 30, 2017, as compared to a loss of (\$1,352,000) in the same period of 2016 or an overall increase in the loss of \$4,295,000. The loss was comprised of the decrease in net sales revenue of \$5,280,000, and increases in operating expense categories that totaled \$1,744,000.

Interest and Finance Related Expenses

Interest expense and bank related charges increased to \$2,270,000 in the Nine Months Ended September 30, 2017, compared to expenses of \$1,239,000 in the same period of 2016. The increase is primarily due to increased borrowing on the April 21 convertible note accrued interest of \$181,000 and debt discount amortization of \$567,000.

Warrant and financing cost totaled \$460,000. This amount is made up of \$2,776,000 in the convertible note related costs offset by a derivative gain in the third quarter of \$3,236,000 as explained in Note #11 above.

Modified EBITDA

In addition to our GAAP results, we present Adjusted EBITDA as a supplemental measure of our performance. However, Adjusted 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 Adjusted EBITDA as net income (loss), plus interest expense, depreciation and amortization, stock-based compensation, and changes in fair value of warrant expense.

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 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 Adjusted 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 Adjusted 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 September 30, 2017 and 2016:

MODIFIED EBITDA SCHEDULE

Edgar Filing: REED'S, INC. - Form S-1

| | Nine months ended Sept. 30, | |
|---|--------------------------------|---------------|
| | 2017 | 2016 |
| | (unaudited) | (unaudited) |
| Net income (loss) | \$(7,457,000) | \$(2,591,000) |
| Modified EBITDA adjustments: | | |
| Depreciation | 430,000 | 689,000 |
| Interest expense | 2,270,000 | 1,239,000 |
| Stock option and warrant compensation | 298,000 | 449,000 |
| Impairment costs | 2,000,000 | - |
| Financing costs and warrant modification | 2,776,000 | - |
| Change in fair value of warrant liability | (3,236,000) | - |
| Total EBITDA adjustments | 4,538,000 | 2,377,000 |
| Modified EBITDA | \$(2,919,000) | \$(214,000) |

The \$2,705,000 decrease in modified EBITDA for the Nine Months ended September 30, 2017 is due to the increase in net loss, impairment charges, the increase in interest expense and the net warrant related charges.

We present Adjusted 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. We believe investors will realize that the accounting required for liabilities as described in Note #10, impacts this quarter. In addition, we use Adjusted EBITDA in developing our internal budgets, forecasts and strategic plan; in analyzing the effectiveness of our business strategies in evaluating potential acquisitions; and in making compensation decisions and in communications with our board of directors concerning our financial performance. Adjusted EBITDA has limitations as an analytical tool, which includes, among others, the following:

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

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

Adjusted 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 Adjusted EBITDA does not reflect any cash requirements for such replacements.

Results of Operation for the Year Ended December 31, 2016 as Compared to the Year Ended December 31, 2015

The following table sets forth key statistics for the years ended December 31, 2016 and 2015, respectively.

| | Year Ended December 31, | | Pct. Change | |
|--|----------------------------|--------------|----------------|---|
| | 2016 | 2015 | | |
| Gross sales (a) | 46,198,000 | 49,713,000 | -7 | % |
| Less: Promotional and other allowances (b) | 3,726,000 | 3,765,000 | -1 | % |
| Net sales | \$42,472,000 | \$45,948,000 | -8 | % |
| Cost of tangible goods sold (c) | 31,626,000 | 32,295,000 | -2 | % |
| As a percentage of: | | | | |
| Gross sales | 68 | % | 65 | % |
| Net sales | 74 | % | 70 | % |
| Cost of goods sold – idle capacity (d) | 1,864,000 | 2,048,000 | -9 | % |
| As a percentage of net sales | 4 | % | 4 | % |
| Gross profit | 8,982,000 | 11,605,000 | -23 | % |

Edgar Filing: REED'S, INC. - Form S-1

| | | | | |
|---|----------------|---|----------------|-------|
| Gross profit margin as a percentage of net sales | 21 | % | 25 | % |
| Operating Expenses | | | | |
| Delivery and handling expenses | 3,902,000 | | 5,100,000 | -23 % |
| Selling and marketing expense | 3,701,000 | | 4,867,000 | -24 % |
| General and administrative expense | 3,948,000 | | 4,368,000 | -10 % |
| Impairment of assets | 484,000 | | - | |
| Total operating expenses | 12,035,000 | | 14,335,000 | -16 % |
| Loss from operations | (3,053,000) | | (2,730,000) | 12 % |
| Interest expense | (1,724,000) | | (1,231,000) | 40 % |
| Change in fair value of warrant liability | (232,000) | | - | |
| Net loss | (5,009,000) | | (3,961,000) | 26 % |
| Preferred Stock Dividends | (5,000) | | (5,000) | |
| Net loss attributable to common stockholders | \$(5,014,000) | | \$(3,966,000) | 26 % |
| Loss per share – basic and diluted | \$(0.36) | | \$(0.30) | 19 % |
| Weighted average number of shares outstanding – basic and diluted | 13,982,230 | | 13,147,815 | 6 % |

(a) Gross sales is 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 is not a measure that is recognized under Generally Accepted Accounting Principles "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 has 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 with 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 tangible goods sold 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 tangible goods sold is used internally by management to measure the direct costs of goods sold, aside from unallocated plant costs. Cost of tangible goods sold 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 consists of direct production costs in excess of charges allocated to our finished goods in production. 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. Plant costs in excess of production allocations are expensed in the period incurred rather than added to the cost of finished goods produced. 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.

Gross Sales

Gross sales for all of Reeds products decreased 7% to \$46,198,000 for the year ended December 31, 2016 from \$49,713,000 in the prior year.

Sales were down an average of 9% in all selling channels. All customers representing at least one percent of sales in 2015 were still customers in 2016. We believe that the decline in all channels was due to consumer preferences away from all sugar sodas including our natural based sugars. In response to the general consumer trend, the Company's research and development efforts have focused on all natural alternatives that have 12 calories per 12 ounce serving. We are in tests in the market place and expect to have these offerings available in the marketplace in the second half of this year.

Gross sales of items such as candy, ingredients, packaging and mail order are not included in the discussion above. These items as a group totaled \$1,684,000 in gross sales, a decrease of \$743,000 or 31% over 2015. The decrease in candy was \$597,000 and was the direct result of a California lawsuit that has required the Company to find reliable alternative suppliers.

Promotional and other allowances

Promotions and allowances for beverage products decreased in dollars 1% to \$3,726,000 (8.1% of gross sales) for the year ended December 31, 2016 from \$3,765,000 (7.6% of gross sales) in the prior year.

Net Sales

Net sales of all items decreased 7.6% or \$3,476,000 to \$42,472,000 for the year ended December 31, 2016 from \$45,948,000 in the prior year.

Cost of Goods Sold

Cost of goods sold 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 sold also consists of direct production costs in excess of charges allocated to our finished goods in production. Plant costs include labor costs, production supplies, and repairs and maintenance. 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. Plant costs in excess of production allocations are expensed in the period incurred rather than added to the cost of finished goods produced.

Total cost of goods sold decreased to \$33,490,000 in the year ended December 31, 2016, a decrease of \$853,000 or 2.5% from 2015. The decrease was due to net volume decrease of 7.6% and increases in cost of production. Had total cost of goods decreased at a rate equal to the volume decrease of 7.6%, total cost of goods would have decreased a total of \$3,228,000. The company incurred an additional \$2,376,000 in the rate of cost of goods sold.

Gross Profit

Our gross profit of \$8,982,000 in the year ended December 31, 2016 represents a decrease of \$2,623,000, or 22.6% from 2015. As a percentage of sales, our gross profit decreased to 21.1% in 2016 as compared to 25.3% in 2015. As noted above, the gross profit is the result of a decrease in net selling price of 4.1% and an increase cost of goods sold of 7.1%.

The Company has in place for the first quarter of 2017 cost cutting initiatives related to ingredient usage and package pricing that are on track to drive over 200 basis point improvement for the full year. In addition, the Company LA plant is scheduled for production in May that will enable the Company to realize an overdue savings of an additional 350 basis points on an annualized basis from that initiative. We believe that since these initiatives are under our control, the savings will be realized in 2017.

Delivery and Handling Expenses

Delivery and handling expenses consist of delivery costs to customers and warehouse costs incurred for handling our finished goods after production. Delivery and handling costs decreased to \$3,902,000 in the year ended December 31, 2016 compared to \$5,100,000 in 2015. The \$1,198,000 (23%) decrease is due to lower volume but higher full truck quantities. Current rates of 9% are comparable to historic rates. The Company expects costs to decrease further when the L.A. Brewery upgrade is finalized.

Selling and marketing expenses

Selling and marketing expenses consist primarily of three categories; direct charges for staff compensation costs in sales labor, sales operations consisting of travel and entertainment, office rent and communications and sales support consisting primarily of brokers fees, advertising and consultants. Selling and marketing costs for 2016 were \$3,701,000 or a decrease of 24% when compared to \$4,867,000 in 2015.

The decrease of \$1,166,000 is the result of decreases in sales labor costs of \$461,000, sales operations of \$188,000 and sales support of \$517,000.

Our sales staff decreased to 16 full time equivalents (FTE's) employees at December 31, 2016, from 17 FTE's at December 31, 2015.

General and Administrative Expenses

General and administrative expenses consist primarily of three categories; direct charges for staff compensation costs in office and general management, General and administrative operations consisting of office rent, facility depreciation, utilities, General and administrative support in information, SEC filings, shareholder meetings, legal and audit and finally; miscellaneous expenses such as amortization of intangibles and bad debt expense. General and administrative costs for 2016 were \$4,208,000 or a decrease of 4% when compared to \$4,368,000 in 2015.

The total decrease of \$160,000 is due to a decrease in administrative wage related expenses of \$257,000, a decrease of administrative operations of \$154,000, an increase administrative support expenses of \$251,000. Impairment loss of \$224,000 driven by the China Cola brand impairment.

The general management and administrative staff decreased to 13 FTE's at December 31, 2016, from 15 at December 31, 2015.

Loss from Operations

Loss from operations was \$3,053,000 in the year ended December 31, 2016, as compared to loss from operations of \$2,730,000 in 2015 or an increase of \$323,000. The increase in the operating loss is due to the decline in sales that were not offset by similar reduction in cost of goods sold that resulted in a lower gross profit of \$2,623,000. The lower gross profit was mirrored by a similar decrease in expenses of \$2,300,000.

Interest Expense

Interest expense increased to \$1,724,000 in the year ended December 31, 2016, compared to interest expense of \$1,231,000 in the same period of 2015. During 2016 and 2015 the Company's losses incurred liquidity shortages that required an infusion of capital. A total of \$3,000,000 was obtained that also changed the terms of the existing line of credit and CAPEX loan. As the plant approached completion, further borrowing was obtained to complete the plant. As a direct consequence of the term change and the additional borrowing, the Company's net interest charge increased.

MODIFIED EBITDA

In addition to our GAAP results, we present Adjusted EBITDA as a supplemental measure of our performance. However, Adjusted 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 Adjusted EBITDA as net income (loss), plus interest expense, depreciation and amortization, stock-based compensation, and changes in fair value of warrant expense.

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 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 Adjusted 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 Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

We present Adjusted 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 Adjusted EBITDA in developing our internal budgets, forecasts and strategic plan; in analyzing the effectiveness of our business strategies in evaluating potential acquisitions; and in making compensation decisions and in communications with our board of directors concerning our financial performance. Adjusted EBITDA has limitations as an analytical tool, which includes, among others, the following:

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

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

Adjusted 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 Adjusted EBITDA does not reflect any cash requirements for such replacements.

Set forth below is a reconciliation of Adjusted EBITDA to net income (loss) for the fiscal years ended December 31, 2016 and 2015:

| | Year ended December 31, | |
|---|-------------------------|---------------|
| | 2016 | 2015 |
| | (unaudited) | (unaudited) |
| Net loss | \$(5,009,000) | \$(3,961,000) |
| Modified EBITDA adjustments: | | |
| Depreciation and amortization | 642,000 | 933,000 |
| Interest expense | 1,724,000 | 1,231,000 |
| Reserve for replacement on fixed assets | 260,000 | - |
| Stock option and warrant compensation | 658,000 | 877,000 |

Edgar Filing: REED'S, INC. - Form S-1

| | | |
|---|---------------|---------------|
| Stock compensation for services | 15,000 | 1,000 |
| Impairment loss on brand names | 224,000 | - |
| Change in fair value of warrant liability | 232,000 | - |
| Total EBITDA adjustments | \$3,755,000 | \$1,811,000 |
| Modified EBITDA | \$(1,254,000) | \$(2,150,000) |

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, 2017 the Company recorded net loss of \$7,457,000 and used cash from operations of \$4,729,000. As of September 30, 2017, we had a working capital deficiency of \$3,643,000 and a stockholders' deficit of \$2,312,000. For the year ended December 31, 2016, the Company recorded a net loss of \$5,009,000 and utilized cash in operations of \$2,533,000. As of December 31, 2016, we had stockholder's deficit of \$1,657,000 and working capital deficit of \$1,563,000.

As of September 30, 2017, the Company had a cash balance of \$348,000 and had additional available borrowing on our existing line of credit of \$305,000. Furthermore, during the year ended December 31, 2016, we were able to extend the maturity date of our operating line of credit and our other bank loans through October 21, 2018. We estimate the Company currently has sufficient cash and liquidity to meet its anticipated working capital through the next twelve months.

On April 21, 2017, the Company issued a convertible note resulting in net proceeds of \$3,083,000 to one purchaser. The note bears interest at a rate of 12% per annum, compounded monthly on a 365-day year/ 30-day month basis. The note is secured by a second priority security interest in the Company's assets, which is subordinate to the first priority security interest of PMC Financial Services Group, LLC ("PMC"). The note matures on the two-year anniversary of the closing date and may not be prepaid.

As a condition to obtaining the consent of PMC to the financing transaction and the purchaser's subordinated security interest, Reed's agreed to change the maturity dates of its loans with PMC from January 1, 2019, to October 21, 2018. Our Loan and Security Agreement with PMC provides a \$6,000,000 revolving line of credit, \$3,000,000 term loans, and a capital expansion loan up to \$4,700,000. Notwithstanding the other borrowing terms, if Excess Borrowing Availability under the \$6 million revolving line of credit remains more than \$1,500,000 at all times during the preceding month (currently Reed's Borrowing Availability is zero) the Interest Rate shall remain unchanged for the asset based lending that includes the revolving working capital loan, CAPEX capital improvement loan and Term Loan A. The six month Term Loan B rates are to remain the same at 14.85%.

At September 30, 2017 and December 31, 2016, the aggregate amount outstanding under the PMC revolving line of credit was \$5,153,000 and \$4,384,000, respectively. The interest rate on the revolving loan was the prime rate plus .35% but was modified on December 7, 2016, such that the rate charge will be calculated on a sliding scale based on the trailing 6 month Earnings Before Interest Taxes and Depreciation ("EBITDA"). If the EBITDA measuring point stays below \$1,000,000 where it is now, the rate will rise to 12% from the current rate of 9%. If EBITDA rises to \$1,500,000 then the rate will be reduced to 9%. As of September 30, 2017, our effective rate under the revolving line

was 9.5%. The monthly management fee is .45% of the average monthly loan balance. The revolving line of credit is based on 85% of accounts receivable and 60% of eligible inventory and is secured by substantially all of the Company's assets.

The PMC term loans are secured by all of the unencumbered assets of the Company. The annual interest rate on the first loan was prime plus 5.75% (currently 9.5%), and the rate on the second loan was prime plus 11.60% (currently 14.85%) but was modified on December 7, 2016 such that the new rate will be based on the trailing 6 month EBITDA. If the EBITDA measuring point stays below \$1,000,000 where it is now, the rate will rise to 12% from the current rate of 9%. If EBITDA rises to \$1,500,000 then the rate will be reduced to 9%. As of March 31, 2017, and December 31, 2016, the amount outstanding was \$3,000,000 and \$3,000,000 respectively.

The CAPEX loans, after amendment, allow a total borrowing of \$4,700,000. The loans are secured by all of the property and equipment purchased under the loan. The interest rate on the CAPEX loan is the prime rate plus 5.75% (9.5% at September 30, 2017). Interest only is payable on CAPEX loans through January 31, 2017, at which time principal and interest will be aggregated and repaid in equal monthly payments of principal and interest based on 48 month amortization. Currently and until the second tranche has been closed, the estimated amount that will become due in the next twelve months is \$953,000. At September 30, 2017 and December 31, 2016, the balance on the CAPEX loan balance was \$4,135,000 and \$3,950,000 respectively, and as of September 30, 2017 and December 31, 2016, the Company had future borrowing availability of \$305,000 and \$0, respectively. Reed's agreed to pre-pay the CAPEX Loan by at least \$300,000 from the proceeds of the sale of idle equipment, if such sale were to occur. In conjunction with this loan the Company placed equipment with a cost of \$250,000 at a co-packing facility to enable the co-packer to manufacture our products. Should the Company be unable to secure access to the equipment in the event of failure of the co-packer, the amount will become due and payable by the Company immediately.

We believe that the Company currently has the necessary working capital to support existing operations for at least the next 12 months. We are in the process of a thorough evaluation of the business and are establishing both short and long term goals to return to higher levels of profitability. In short, we are simplifying the business without sacrificing our core brands or flavors. We have implemented a program to reduce the number of product packaging options by more than 100. We believe this stock keeping unit (SKU) rationalization will be a significant benefit to our co-packers, customers and our own production operations. Our primary capital source will be positive cash flow from operations. If our sales goals do not materialize as planned, we believe that the Company can reduce its operating costs and can be managed to maintain positive cash flow from operations. Historically, we have financed our operations primarily through private sales of common stock, preferred stock, convertible debt, a line of credit from a financial institution and cash generated from operations.

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

Historically, we have financed our operations primarily through private sales of common stock, preferred stock, a line of credit from a financial institution and cash generated from operations. We anticipate that our primary capital source will be positive cash flow from operations. If our sales goals do not materialize as planned, we believe that the Company can reduce its operating costs and achieve positive cash flow from operations. However, we may not generate sufficient revenues from product sales in the future to achieve profitable operations. If we are not able to achieve profitable operations at some point in the future, we may have insufficient working capital to maintain our operations as we presently intend to conduct them or to fund our expansion, marketing, and product development plans. There can be no assurance that we will be able to obtain such financing on acceptable terms, or at all.

Critical Accounting Policies and Estimates

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

Revenue Recognition. Revenue is recognized on the sale of a product when the product is shipped, which is when the risk of loss transfers to our customers, and collection of the receivable is reasonably assured. A product is not shipped without an order from the customer and credit acceptance procedures performed. The allowance for s is regularly reviewed and adjusted by management based on historical trends of returned items. Amounts paid by customers for shipping and handling costs are included in sales. The Company reimburses its wholesalers and retailers for promotional discounts, samples and certain advertising and promotional activities used in the promotion of the Company's products. The accounting treatment for the reimbursements for samples and discounts to wholesalers results in a reduction in the net revenue line item. Reimbursements to wholesalers and retailers for certain advertising activities are included in selling and marketing expenses.

Long-Lived Assets. Our management regularly reviews property, equipment and other long-lived assets, including identifiable amortizing intangibles, for possible impairment. This review occurs quarterly or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. If there is indication of impairment of property and equipment or amortizable intangible assets, then management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. The fair value is estimated at the present value of the future cash flows discounted at a rate commensurate with management's estimates of the business risks. Quarterly, or earlier, if there is indication of impairment of identified intangible assets not subject to amortization, management compares the estimated fair value with the carrying amount of the asset. An impairment loss is recognized to write down the intangible asset to its fair value if it is less than the carrying amount. Preparation of estimated expected future cash flows is inherently subjective and is based on management's best estimate of assumptions concerning expected future conditions. The Company recorded a reserve for impairment on equipment held for sale of \$2,000,000 during the Nine Months Ended September 30, 2017.

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

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 of the accompanying financial statements for the quarterly period ending September 30, 2017 for a discussion of recent accounting pronouncements.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following includes a summary of transactions since the beginning of fiscal 2016, or any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at year end for the last two completed fiscal years and in which any related person had or will have a direct or indirect material interest (other than compensation described under "Executive Compensation"). We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to or better than terms available or the amounts that would be paid or received, as applicable, in arm's-length transactions.

Our board of directors reviews all transactions, arrangements or relationships between Reed's and any of its executive officers, directors, director nominees or 5% or greater stockholders (or their immediate family members), each of whom we refer to as a "related person," in which such related person has a direct or indirect material interest.

If a related person proposes to enter into such a transaction, arrangement or relationship, defined as a "related party transaction", the related party must report the proposed related party transaction to our Chief Financial Officer. The policy calls for the proposed related party transaction to be reviewed and, if deemed appropriate, approved by the Nominations and Governance Committee. The board of directors has determined that all of the members of the Nominations and Governance Committee are independent under the rules of the NYSE American Company Guide. If practicable, the reporting, review and approval will occur prior to entry into the transaction. If advance review and approval is not practicable, the Nominations and Governance Committee will review, and, in its discretion, may ratify the related party transaction. Any related party transactions that are ongoing in nature will be reviewed annually at a minimum. The related party transactions listed below were reviewed by the full board of directors.

During the period ended June 30, 2017, Chris Reed (the former Chief Executive Officer and current Chief Innovation Officer), Daniel Miles (Chief Financial Officer) and Robert Reed (brother of Chris Reed, Chief Innovation Officer) advanced funds of \$260,000, \$120,000 and \$120,00 respectively to the Company for working capital uses. During the period, the Company repaid to Mr. Chris Reed the \$120,000 that was advanced from him, and also repaid Robert Reed \$103,000 of the advances due him. As of June 30, 2017, the aggregate amount due for the remaining unpaid advances was \$277,000. The advances are unsecured, non-interest bearing with no formal terms of repayment.

Judy Holloway Reed, wife of Christopher J. Reed, served as Corporate Secretary since October 1996 and served as one of our directors from June 2004 to November 29, 2017. She has agreed to remain as Corporate Secretary until a replacement can be found.

Raptor/Harbor Reeds SPV LLC

On December 6, 2017, we entered into a definitive Backstop Agreement with Raptor/ Harbor Reeds SPV, LLC, a significant shareholder of the Company, ("Raptor"), whereby Raptor, as a backstop to our 2017 rights offering, agreed to purchase from us a minimum of \$6 million of units pursuant to its subscription rights and in a private placement, subject to customary terms and conditions. Raptor will exercise its basic subscription right for a minimum of 750,000 units and may exercise its over-subscription privilege as a rights holder in the rights offering (subject to pro-rata as described elsewhere in this prospectus), but has no obligation to do so. The backstop commitment will be reduced by the subscription price paid by Raptor for its exercise of the basic subscription right (if any) and over-subscription privilege (if any) in the rights offering. The backstop commitment will also be reduced to the extent aggregate gross proceeds to Company from the exercise of rights by rights holders exceeds \$8 million and is subject to other customary terms and conditions. The backstop commitment is scheduled to close not later than the third trading day following the expiration date of the rights offering. Investment of any amount greater than \$6 million will be made in Raptor's sole discretion, subject to limitations of NYSE American Company Guide Section 713 and shareholder approval obtained at the Company's 2017 Annual Meeting of Stockholders.

As compensation for the backstop commitment and subject to the closing of the rights offering, we issued to Raptor, five- year warrants to purchase 750,000 shares of our common stock. These backstop warrants have an exercise price equal to \$1.50, are not exercisable for a term of 180 days and will have a cashless exercise feature. We also agreed to register the shares of common stock underlying the units (including shares of common stock underlying the warrants contained in the units) and shares of common stock underlying the backstop warrants. We will be subject to certain liquidated damages if we do not register the shares within the prescribed time frame.

Further, on December 6, 2017, we entered into an amendment agreement with Raptor, extending its subordinated convertible non-redeemable secured note in the principal amount of \$3.4 million by twenty-four months in exchange for amending the conversion price of the note from \$3.00 to \$1.75. Concurrently with the reduction of the subscription

price in the rights offering, we also agreed to further reduce the conversion price to \$1.50. We also agreed to register the shares of common stock issuable upon conversion of the note. We will be subject to certain liquidated damages if we do not register the shares within the prescribed time frame. This amendment to the note is subject to closing of the rights offering and will be null and void if the rights offering is terminated, for any reason.

We also reimbursed Raptor/ Harbor Reeds SPV, LLC for all reasonable out-of-pocket fees and expenses (including attorneys' fees and expenses) incurred by them in connection with the backstop agreement and the transactions contemplated in the amount of \$25,000.

On July 13, 2017, we entered into a Warrant Exercise Agreement with Raptor to induce Raptor to purchase 766,667 shares of our common stock. The repriced warrants have an exercise price per share of \$1.50 and were revised to modify language pertaining to "Fundamental Transactions". Restrictions upon exercise were waived as to the repriced warrants. Reed's received gross proceeds of \$1,150,000 from Raptor's exercise of the repriced warrants. We also issued to the Raptor additional second tranche warrants to purchase up to 350,000 shares of our common stock and additional third tranche warrants to purchase up to 60,000 shares of our common stock. Second tranche warrants have a term of five years, may be exercised commencing 6 months from the date of issuance and have an exercise price equal to \$2.00. The third tranche warrants were exercisable immediately upon issuance for a term of five-years, with an exercise price equal to \$1.55. Raptor was also granted the right to appoint a non-voting observer to our board of directors for so long as Raptor or its affiliates is a beneficial owner of our stock. As of the date hereof, Raptor has not made such an appointment.

On April 21, 2017, pursuant to a Securities Purchase Agreement, we sold and issued a secured convertible subordinated non-redeemable note in the principal amount of \$3,400,000 and a warrant to purchase 1,416,667 shares of common stock to Raptor. The note bears interest at a rate of 12% per annum, compounded monthly on a 360-day year/ 30-day month basis. The note is secured by a second priority security interest in the Company's assets, which is subordinate to the first priority security interest of PMC Financial Services Group, LLC. The note may not be prepaid and originally matured on April 21, 2021. After 180 days, the note may be converted, at any time and from time to time, into 1,133,333 shares of common stock of the Company. The warrant will expire on April 21, 2019 and has an exercise price equal to \$4.00 per share. The note and warrant contain customary anti-dilution provisions and the shares of common stock issuable upon conversion of the note and exercise of the warrant have been registered on Form S-1. Raptor was also granted a right to participate in future financing transactions of the Company for a term of two years.

On January 10, 2018, the board of directors of Reed's appointed Daniel J. Doherty III to serve as a director, filling a vacancy. Mr. Doherty is a principal and significant shareholder of Raptor, the Company's largest shareholder, which beneficially owns approximately 27.64% of the Company's outstanding equity securities, calculated pursuant to Rule 13d-3. Mr. Doherty has joint voting and dispositive control of the equity securities held by Raptor with another of its principal

Executive Compensation

The following table summarizes all compensation for fiscal years 2017 and 2016 received by our principal executive officer, current and former principal financial officers, current and former chief operating officers, and our current Senior Vice principal of Sales who were and currently are our "Named Executive Officers".

| Name and Principal Position | Year | Salary | Bonus | Stock Awards | Option Awards (\$)(1) | Non-Equity Incentive Compensation | Non-Qualified Deferred Compensation Earnings | All Other Compensation | Total |
|--|-------------|---------|--------|--------------|-----------------------|-----------------------------------|--|------------------------|---------|
| Christopher J. Reed Chief Executive Officer, Chief Innovation Officer | 2017 | 227,000 | | | | | | | 227,000 |
| | 2016 | 227,000 | 40,000 | | | | | 4,320 | 271,320 |
| Daniel V. Miles Principal Financial Officer | 2017 | 175,000 | | | | | | | 175,000 |
| | 2016 | 175,000 | 40,000 | | 93,420 | | | 4,320 | 312,740 |
| Stefan Freeman | 2017 | 155,192 | | | | | | - 5,100 | 160,000 |

| | | | | | | | | |
|--|-------------|---------|--------|---|--------|---|--------|---------|
| Interim Chief Executive Officer, Chief Operating Officer | | - | - | - | - | - | - | - |
| Valentin Stalowir Chief Executive Officer | 2017 | 150,000 | - | - | - | - | 10,500 | 160,500 |
| Neal Cohane SVP Sales | 2017 | 210,000 | | | | | 3,000 | 213,000 |
| | 2016 | 210,000 | 40,000 | | 51,472 | | 12,000 | 313,472 |

(1) The amounts represent the fair value for share-based payment awards issued during the year. The award is calculated on the date of grant in accordance with Financial Accounting Standards, excluding any impact of assumed forfeiture rates.

(2) Other compensation includes both cash payments and the estimated value of the use of company assets.

Employment Agreements

We entered into an at-will employment agreement with Valentin Stalowir to serve as the Chief Executive Officer of Reed's, effective as of June 28, 2017 and continuing thereafter unless terminated by either the Company or Mr. Stalowir with or without notice, and with or without cause, pursuant to the terms of the agreement. Pursuant to the agreement, Mr. Stalowir receives a base salary at the initial rate of \$300,000 per year, automatically increasing by \$25,000 per year on each anniversary of the effective date until the base salary has reached \$350,000. On January 10, 2018, pursuant to the employment agreement we granted to Mr. Stalowir 371,218 restricted stock units and options to purchase 371,218 shares of stock. The restricted stock and options vest in equal increments on each of June 28, 2018 and June 28, 2019. These awards were issued pursuant to Reed's 2017 Incentive Compensation Plan. The options have an exercise price of \$1.70. Mr. Stalowir is also eligible to participate in the Company's other benefit plans. The agreement provides for full acceleration of equity grants triggered by a "change of control", as defined in the agreement and contains confidentiality, invention assignment and non-solicitation covenants.

On October 4, 2017, we entered into an at-will employment agreement with Stefan Freeman for his service as the Chief Operating Officer of Reed's, effective immediately and continuing thereafter unless terminated by either the Company or the executive officer with or without notice, and with or without cause, pursuant to the terms of the agreement. Pursuant to the agreement, Mr. Freeman receives a base salary at the initial rate of \$225,000 per year, subject to annual review for increase. Mr. Freeman will also receive a performance based cash bonus structure and equity comprised of stock options and/or restricted stock grants to be granted from the Company's 2017 Incentive Compensation Plan, recently approved by the Company's shareholders. Mr. Freeman is also eligible to participate in the Company's other benefit plans. The agreement provides for full acceleration of equity grants triggered by a "change of control", as defined in the agreement and contains confidentiality, invention assignment and non-solicitation covenants.

Christopher Reed is currently paid an annual salary of \$227,000. Neal Cohane is paid an annual salary of \$210,000. Daniel Miles is currently paid an annual salary of \$175,000. Any bonuses are discretionary.

Outstanding Equity Awards At Fiscal Year-End

The following table sets forth information regarding unexercised options and equity incentive plan awards for each Named Executive Officer outstanding as of December 31, 2017.

| Name and Position | Number of Securities | Number of Securities | Equity Incentive | Option Exercise | Option Expiration |
|-------------------|----------------------|----------------------|------------------|-----------------|-------------------|
|-------------------|----------------------|----------------------|------------------|-----------------|-------------------|

Edgar Filing: REED'S, INC. - Form S-1

| | Underlying Unexercised Options (#) Exercisable | Underlying Unexercised Options (#) Unexercisable | Plan Awards: Number of Securities Underlying Unexercised Unearned Options | Price | Date |
|--|---|---|--|---------|-----------|
| Christopher J. Reed, Chief Executive Officer | 25,000 | | -1 | \$ 4.00 | 3/3/2018 |
| | 30,000 | 10,000 | -2 - | \$ 4.60 | 4/9/2019 |
| | 40,000 | 30,000 | -4 | \$ 5.01 | 1/15/2020 |
| Daniel Miles, Chief Financial Officer | 66,667 | 33,333 | -3 - | \$ 5.01 | 5/8/2020 |
| Neal Cohane, SVP Sales | 30,000 | | -2 - | \$ 4.00 | 3/3/2018 |
| | 30,000 | 10,000 | -2 - | \$ 4.60 | 4/9/2019 |
| | 40,000 | 30,000 | -4 - | \$ 5.01 | 1/15/2020 |

(1) Options vest 25% immediately and 25% per year.

(2) These options vest 33% per year.

(3) These options vest 50% per year.

(4) These options vest 25% per year.

Director Compensation

The following table summarizes the compensation paid to our directors for the fiscal year ended December 31, 2016

| Name | Fees Earned or Paid in Cash | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | All Other Compensation | Total |
|----------------------------|---|-----------------|------------------|--|---------------------------|----------|
| Judy Holloway Reed (1) | \$4,062 | | | | | \$4,062 |
| Mark Harris (2) | - | \$ 900 | | | | \$900 |
| Daniel S.J. Muffoletto (1) | \$11,230 | | | | | \$11,230 |
| Michael Fischman | \$3,000 | | | | | \$3,000 |
| Stefan Freeman | \$1,667 | | | | | \$1,667 |
| Lewis Jaffe | \$2,117 | | | | | \$2,117 |
| Charles Cargile | \$1,667 | | | | | \$1,667 |
| John Bello | \$16,666 | | | | | \$16,666 |

(1)Former directors, term ended November 29, 2016

(2)Former director, resigned June 1, 2016

(3)Former director, resigned January 6, 2018.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed for trading on the NYSE American trading under the symbol “REED”. The following is a summary of the high and low bid prices of our common stock on the NYSE American for the periods presented:

| | Sales Price | |
|-------------------------------|-------------|--------|
| | High | Low |
| Year Ending December 31, 2015 | | |
| First Quarter | \$7.00 | \$5.32 |
| Second Quarter | 6.64 | 5.08 |
| Third Quarter | 6.39 | 4.44 |
| Fourth Quarter | 5.90 | 4.50 |
| Year Ending December 31, 2016 | | |
| First Quarter | \$5.46 | \$4.62 |
| Second Quarter | 4.85 | 2.37 |
| Third Quarter | 3.74 | 2.51 |
| Fourth Quarter | 4.25 | 3.86 |
| Year Ending December 31, 2017 | | |
| First Quarter | \$4.35 | \$3.55 |
| Second Quarter | 4.75 | 2.30 |
| Third Quarter | 2.65 | 1.50 |
| Fourth Quarter | 2.30 | 1.35 |

As of February 12, 2018, there were approximately 4,500 stockholders of record of the common stock (including only non-objecting beneficial owners of record) and 24,619,591 outstanding shares of common stock.

Dividend Policy

We have never declared or paid dividends on our common stock. We currently intend to retain future earnings, if any, for use in our business, and, therefore, we do not anticipate declaring or paying any dividends in the foreseeable future. Payments of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including the terms of our credit facility and our financial condition, operating results, current and anticipated cash needs and plans for expansion.

We are obligated to pay a non-cumulative 5% dividend from lawfully available assets to the holders of our Series A preferred stock in additional shares of common stock at our discretion. In 2016 and 2015, we paid dividends on our Series A preferred stock in an aggregate of 1,504 and 751 shares of common stock in each such year, respectively and anticipate that we will be obligated to issue at least this many shares annually to the holders of the Series A preferred stock so long as such shares are issued and outstanding.

Securities Authorized for Issuance Under Equity Compensation Plans

2007 Stock Option Plan and 2015 Incentive and Non-statutory stock option plan

On October 8, 2007, our board of directors adopted the 2007 Stock Option Plan for 1,500,000 shares and the plan was approved by our stockholders on November 19, 2007. All of the shares granted under our 2007 Stock Option Plan have been issued. Forfeited options issued under the 2007 plan can be reissued prior to expiration of the plan. On April 6, 2015, our board of directors adopted the 2015 Incentive and Non-statutory Stock Option Plan for 500,000 shares and the plan was approved by our stockholders on December 30, 2015. Forfeited options issued under the 2015 plan cannot be reissued.

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

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

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

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

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

For the 2007 plan, when a stock award expires or is terminated before it is exercised, the shares set aside for that award are returned to the pool of shares available for future awards. For the 2015 plan, when a stock award expires or is terminated before it is exercised, the shares are canceled and cannot be reissued.

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

2017 Equity Compensation Plan

On September 29, 2017, our shareholders approved our 2017 Equity Compensation Plan, which allows for the issuance of up to 3,000,000 shares of stock of common stock. The plan allows for the issuance of incentive stock options intended to qualify under Section 422 of the Code, nonstatutory stock options, and equity-based or equity-related awards ("Other Stock- Based Awards) in such amounts and on such terms as the plan committee shall determine, subject to the terms and conditions set forth in the plan. Without limiting the generality of the preceding sentence, each such "Other Stock-Based Award" may (i) involve the transfer of actual shares of common stock to participants, either at the time of grant or thereafter, or payment in cash or otherwise of amounts based on the value of shares of common stock, (ii) be subject to performance-based and/or service-based conditions, (iii) be in the form of stock appreciation rights, phantom stock, restricted stock, restricted stock units, performance shares, deferred share units, or share-denominated performance units, (iv) be designed to comply with applicable laws of jurisdictions other than the United States, and (v) be designed to qualify as performance based compensation; provided, that each Other Stock-Based Award shall be denominated in, or shall have a value determined by reference to, a number of shares of common stock that is specified at the time of the grant of such award.

Equity Compensation Plan Information

The following table provides information, as of December 31, 2016, with respect to equity securities authorized for issuance under compensation plans:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in Column (a)) |
|--|--|--|---|
| Equity compensation plans approved by security holders | 1,048,500 | \$ 4.68 | 87,500 |
| Equity compensation plans not approved by security holders | 803,909 | \$ 4.50 | - |
| TOTAL | 1,852,409 | \$ 4.60 | 87,500 |

Index to Consolidated Financial Statements

INTERIM FINANCIAL STATEMENTS

| | |
|--|-------------|
| <u>Condensed Balance Sheets - September 30, 2017 (unaudited) and December 31, 2016</u> | F-1 |
| <u>Condensed Statements of Operations for the Three month and Nine month periods ended September 30, 2017 and 2016 (unaudited)</u> | F-2 |
| <u>Condensed Statement of Changes in Stockholders' Deficiency for the Nine months ended September 30, 2017 (unaudited)</u> | F-3 |
| <u>Condensed Statements of Cash Flows for the Nine months ended September 30, 2017 and 2016 (unaudited)</u> | F-4 |
| <u>Notes to Condensed Financial Statements (unaudited)</u> | F-5 to F-17 |

ANNUAL FINANCIAL STATEMENTS

| | |
|--|--------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | F-18 |
| <u>Balance Sheets as of December 31, 2016 and December 31, 2015</u> | F-19 |
| <u>Statements of Operations for the Years Ended December 31, 2016 and 2015</u> | F-20 |
| <u>Statements of Stockholders' Equity (Deficit) for the Years Ended December 31, 2016 and 2015</u> | F-21 |
| <u>Statements of Cash Flows for the Years Ended December 31, 2016 and 2015</u> | F-22 |
| <u>Notes to Financial Statements</u> | F-23 to F-39 |

REED'S INC.**CONDENSED BALANCE SHEETS**

| | September 30, 2017 (Unaudited) | December 31, 2016 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 348,000 | \$ 451,000 |
| Trade accounts receivable, net of allowance for doubtful accounts and returns and discounts of \$378,000 and \$256,000, respectively | 3,188,000 | 2,485,000 |
| Inventory, net of reserve for obsolescence of \$290,000 and \$115,000, respectively | 7,815,000 | 6,885,000 |
| Prepaid and other current assets | 301,000 | 500,000 |
| Total Current Assets | 11,652,000 | 10,321,000 |
| Property and equipment, net of accumulated depreciation of \$5,280,000 and \$4,863,000, respectively | 4,089,000 | 7,726,000 |
| Equipment held for sale, net of reserve of \$2,000,000 | 2,465,000 | - |
| Brand names | 805,000 | 805,000 |
| Total assets | \$ 19,011,000 | \$ 18,852,000 |
| LIABILITIES AND STOCKHOLDER'S DEFICIENCY | | |
| Current liabilities: | | |
| Accounts payable | \$ 6,992,000 | \$ 5,959,000 |
| Accrued expenses | 181,000 | 215,000 |
| Advances from officers | 277,000 | - |
| Line of credit | 5,153,000 | 4,384,000 |
| Current portion of long term financing obligations | 214,000 | 190,000 |
| Current portion of capital leases payable | 194,000 | 183,000 |
| Current portion of bank notes | 953,000 | 953,000 |
| Total current liabilities | 13,964,000 | 11,884,000 |
| Other long term liabilities | | |
| Long term financing obligation, less current portion, net of discount of \$742,000 and \$825,000, respectively | 1,283,000 | 1,363,000 |
| Capital leases payable, less current portion | 286,000 | 438,000 |
| Bank notes, net of discount \$0 and \$78,000, respectively | 6,182,000 | 5,919,000 |
| Convertible note, net of discount \$2,833,000 and \$0, respectively | 748,000 | - |
| Warrant liability | 74,000 | 775,000 |
| Other long term liabilities | 117,000 | 130,000 |
| Total Liabilities | 22,654,000 | 20,509,000 |
| Stockholders' Deficiency | | |
| Series A Convertible Preferred stock, \$10 par value, 500,000 shares authorized, 9,411 shares issued and outstanding | 94,000 | 94,000 |
| Common stock, \$.0001 par value, 40,000,000 shares authorized, 15,286,258 and 13,982,230 shares outstanding | 1,000 | 1,000 |
| Additional paid in capital | 35,447,000 | 29,971,000 |

Edgar Filing: REED'S, INC. - Form S-1

| | | |
|--|--------------|--------------|
| Accumulated deficit | (39,185,000) | (31,723,000) |
| Total stockholders' deficiency | (3,643,000) | (1,657,000) |
| Total liabilities and stockholders' deficiency | \$19,011,000 | \$18,852,000 |

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

F-1

REED'S, INC.**CONDENSED STATEMENTS OF OPERATIONS****(Unaudited)**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|---------------|------------------------------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net Sales | \$ 10,887,000 | \$ 12,329,000 | \$ 28,046,000 | \$ 33,326,000 |
| Cost of goods sold | 8,825,000 | 9,443,000 | 23,216,000 | 25,945,000 |
| Gross profit | 2,062,000 | 2,886,000 | 4,830,000 | 7,381,000 |
| Operating expenses: | | | | |
| Delivery and handling expenses | 1,119,000 | 901,000 | 2,731,000 | 2,815,000 |
| Selling and marketing expense | 828,000 | 918,000 | 2,344,000 | 2,911,000 |
| General and administrative expense | 1,105,000 | 871,000 | 3,402,000 | 3,007,000 |
| Impairment of assets | 2,000,000 | - | 2,000,000 | - |
| Total operating expenses | 5,052,000 | 2,690,000 | 10,477,000 | 8,733,000 |
| Income/(loss) from operations | (2,990,000) | 196,000 | (5,647,000) | (1,352,000) |
| Interest expense | (757,000) | (415,000) | (2,270,000) | (1,239,000) |
| Financing costs and warrant modification | (1,798,000) | - | (2,776,000) | - |
| Change in fair value of warrant liability | (72,000) | - | 3,236,000 | - |
| Net loss | (5,617,000) | (219,000) | (7,457,000) | (2,591,000) |
| Preferred Stock Dividends | - | - | (5,000) | (5,000) |
| Net loss attributable to common stockholders | \$(5,617,000) | \$(219,000) | \$(7,462,000) | \$(2,596,000) |
| Weighted average number of shares outstanding – basic and diluted | 15,033,083 | 13,908,247 | 14,336,375 | 13,504,223 |
| Loss per share – basic and diluted | \$(0.37) | \$(0.02) | \$(0.52) | \$(0.19) |

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

REED'S, INC.**CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY****Nine months ended September 30, 2017****(Unaudited)**

| | Common Stock | | Preferred Stock | | Additional Paid In Capital | Accumulated Deficit | Total Shareholders Deficiency |
|---|--------------|----------|-----------------|----------|----------------------------------|------------------------|-------------------------------------|
| | Shares | Amount | Shares | Amount | | | |
| Balance, December 31, 2016 | 13,982,230 | \$ 1,000 | 9,411 | \$94,000 | \$29,971,000 | \$(31,723,000) | \$(1,657,000) |
| Fair value of vesting of options to employees and directors | | | | | 199,000 | | 199,000 |
| Fair value of common shares issued for services | 62,365 | - | | | 99,000 | | 99,000 |
| Common shares issued upon exercise of warrants, net | 1,122,376 | - | | | 1,650,000 | | 1,650,000 |
| Extinguishment of warrant liability | | | | | 2,634,000 | | 2,634,000 |
| Fair value of warrants issued for financing costs | | | | | 689,000 | | 689,000 |
| Common shares issued for cash | 117,647 | - | | | 200,000 | | 200,000 |
| Preferred dividends paid in Common stock | 1,640 | - | | | 5,000 | (5,000) | - |
| Net loss | | | | | | (7,457,000) | (7,457,000) |
| Balance, September 30, 2017 | 15,286,258 | \$ 1,000 | 9,411 | \$94,000 | \$35,447,000 | \$(39,185,000) | \$(3,643,000) |

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

REED'S, INC.**CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)**

| | Nine months ended | |
|---|-------------------|---------------|
| | 9/30/2017 | 9/30/2016 |
| Cash flows from operating activities: | | |
| Net loss | \$(7,457,000) | \$(2,591,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 430,000 | 503,000 |
| Amortization | 728,000 | 186,000 |
| Fair value of vested stock options issued to employees | 199,000 | 449,000 |
| Fair value of common stock issued for services | 99,000 | - |
| (Decrease) increase in allowance for doubtful accounts | 122,000 | (100,000) |
| Reserve for impairment on equipment held for sale | 2,000,000 | - |
| Fair value of warrants issued as financing cost | 908,000 | |
| Modification cost of warrants | 1,868,000 | - |
| Change in fair value of warrant liability | (3,236,000) | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (825,000) | (61,000) |
| Inventory | (930,000) | 122,000 |
| Prepaid expenses and other assets | 199,000 | 6,000 |
| Accounts payable | 1,033,000 | (301,000) |
| Accrued expenses | 176,000 | 182,000 |
| Other long term liabilities | (43,000) | - |
| Net cash used in operating activities | (4,729,000) | (1,605,000) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (535,000) | (585,000) |
| Net cash used in investing activities | (535,000) | (585,000) |
| Cash flows from financing activities: | | |
| Net borrowings (repayments) on advances from officers | 277,000 | - |
| Proceeds from sale of common stock | 200,000 | 2,230,000 |
| Proceeds from warrant exercises | 1,650,000 | 45,000 |
| Principal payments on capital expansion loan | (538,000) | (168,000) |
| Proceeds from issuance of convertible note | 3,083,000 | - |
| Principal repayments on long term financial obligation | (139,000) | (117,000) |
| Principal repayments on capital lease obligation | (141,000) | (131,000) |
| Net borrowings (repayments) on existing line of credit | 769,000 | 462,000 |
| Net cash provided by financing activities | 5,161,000 | 2,321,000 |
| Net (decrease) increase in cash | (103,000) | 131,000 |
| Cash at beginning of period | 451,000 | 1,816,000 |
| Cash at end of period | \$348,000 | \$1,947,000 |

Supplemental disclosures of cash flow information:

Cash paid during the period for:

| | | |
|---|-------------|--------------|
| Interest | \$2,074,000 | \$ 843,000 |
| Non Cash Investing and Financing Activities | | |
| Property and equipment acquired through capital expansion loan | \$723,000 | \$ 1,307,000 |
| Property and equipment acquired through capital lease obligations | - | 86,000 |
| Reclass of property to equipment held for sale | 4,465,000 | - |
| Fair value of warrants granted as debt discount | 3,083,000 | 54,000 |
| Dividends payable in common stock | 5,000 | 5,000 |
| Extinguishment of warrant liability | 2,634,000 | - |

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

REED'S, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

Nine Months Ended September 30, 2017 and 2016 (Unaudited)

1. Basis of Presentation and Liquidity

The accompanying interim condensed financial statements are unaudited, but in the opinion of management of Reed's, Inc. (the "Company"), contain all adjustments, which include normal recurring adjustments necessary to present fairly the financial position at September 30, 2017 and the results of operations and cash flows for the Three and Nine Months Ended September 30, 2017 and 2016. The balance sheet as of December 31, 2016 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, although management of the Company believes 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, as filed with the Securities and Exchange Commission on April 24, 2017.

The results of operations for the Nine Months ended September 30, 2017 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2017.

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, 2017 the Company recorded a net loss of \$7,457,000 and used cash from operations of \$4,729,000. As of September 30, 2017, we had a stockholder's deficit of \$3,643,000 and working capital deficit of \$2,312,000 compared to stockholder's deficit of \$1,657,000 and working capital deficit of \$1,563,000 at December 31, 2016.

As of September 30, 2017, the Company had a cash balance of \$348,000 and had available borrowing on our existing line of credit of \$305,000. Furthermore, the Company has bank loans of \$12,288,000 due to its major lender that become due October 21, 2018 as discussed in Note 7.

We believe that the Company currently has the necessary working capital to support existing operations for at least the next twelve months. The Company believes that we will be successful in renewing or renegotiating the PMC loans and/or other debt. But, there are no assurances that this refinancing will be completed. We anticipate that our primary capital source will be positive cash flow from operations. We believe we can achieve positive cash flow by a combination of achieving our sales goals and implementing cost reductions. Historically, we have financed our operations primarily through private sales of common stock, preferred stock, convertible debt, lines of credit and cash generated from operations.

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

The Company has engaged a specialty valuation and advisory services firm to assist management and the board of directors in determining a plan to maximize the value of property, plant and equipment. As of this report date, management is considering various alternatives and has not yet committed to any specific plans to sell or dispose of any assets and/or to exit or cease any of the current activities. The Company expects that a decision related to the plan to maximize the value of property plant and equipment may occur either shortly before the pending rights offering or in early 2018. Accordingly, as decisions are made, and actions are committed to, the Company will recognize the results in the financial statements. These actions may lead to certain charges including, but not limited to additional cash-related expenses, non-cash impairment charges, discontinued operations and/or other costs in connection with exit and disposal activities. Such transactions will be recognized when appropriate and may require cash payments for obligations such as one-time employee involuntary termination benefits, lease and other contract termination costs, costs to close facilities, employee relocation costs and ongoing benefit arrangements.

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

2. Significant Accounting Policies

Income (Loss) per Common Share

Basic income (loss) per share is computed by dividing the net income (loss) applicable to common stock holders by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share is computed by dividing the net income (loss) applicable to common stock holders 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.

The Company had potentially dilutive securities that consisted of:

| | September 30, | |
|--------------------------|---------------|-----------|
| | 2017 | 2016 |
| Warrants | 1,908,616 | 803,909 |
| Series A Preferred Stock | 37,644 | 37,644 |
| Options | 714,500 | 952,000 |
| Total | 2,660,760 | 1,793,553 |

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 and 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, impairment reserve on equipment held for sale, analysis of impairments of recorded intangibles, accruals for potential liabilities, assumptions made in valuing stock instruments issued for services, assumptions made in valuing derivative liabilities and valuation of deferred tax assets.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers”. ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. Under ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has recently issued ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, and ASU 2016-20 all of which clarify certain implementation guidance within ASU 2014-09. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted only in annual reporting periods beginning after December 15, 2016, including interim periods therein. The standard can be adopted either retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company has concluded that this new pronouncement will require a reclassification of discount expenses currently included in bad debt expense as a reduction of net sales by the same amount. No other impact of adopting this new guidance on its financial position, results of operations, and cash flows is expected. The Company will adopt the provisions of this statement in the first quarter of fiscal 2018.

In February 2016, the FASB issued ASU No. 2016-02, “Leases”. ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest period presented in the financial statements. The Company has evaluated the expected impact that the standard could have on its financial statements and related disclosures and expects to adopt standard with the reporting period ending December 31, 2018.

In July 2017, the FASB issued ASU No. 2017-11, “Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features; (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception” (“ASU 2017-11”). ASU 2017-11 allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity’s own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted for as derivative liabilities. A company will recognize the value of a down round feature only when it is triggered, and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, an entity will treat the value of the effect of the down round as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings. ASU 2017-11 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The guidance in ASU 2017-11 can be applied using a full or modified retrospective approach. The adoption of ASU 2017-11 is not expected to have any impact on the Company’s financial statement presentation or disclosures.

Other recent accounting pronouncements issued by the FASB, including 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 consolidated financial statements.

Concentrations

During the three months ended September 30, 2017, the Company had two customers that accounted for 19% and 15% of gross sales respectively and 22% and 19% of sales in the same period in the prior year. During the Nine Months ended September 30, 2017, the Company had two customers that accounted for 21% and 11% respectively of sales and 24% and 13% of sales in the same period in the prior year. No other customer accounted for more than 10% of gross sales in the periods.

As of September 30, 2017, the Company had two customers that accounted for 19% and 17% respectively, of accounts receivable. As of December 31, 2016, the Company had two customers that accounted for 28% and 12% of accounts receivable. No other customer accounted for more than 10% accounts receivable as of those dates.

During the three months ended September 30, 2017, the Company had one vendor that accounted for 18% of all purchases, and 24% of all purchases in the same period in the prior year. During the Nine Months ended September 30, 2017, the Company had one vendor that accounted for 18% of purchases and 26% in the same period in the prior year. No other vendor accounted for more than 10% of purchases in the periods.

F-7

As of September 30, 2017, the Company had one vendor that accounted for 24% of all payables. As of December 31, 2016, the Company had one vendor that accounted for 12% of all payables. No other vendor accounted for more than 10% of accounts payable as of that date.

Fair Value of Financial Instruments

The Company uses various inputs in determining the fair value of its investments and measures these assets on a recurring basis. Financial assets recorded at fair value in the balance sheets are categorized by the level of objectivity associated with the inputs used to measure their fair value. Authoritative guidance provided by the FASB defines the following levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these financial assets:

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 due to the fact that the interest rates on these obligations are based on prevailing market interest rates.

As of September 30, 2017, and December 31, 2016, the Company's balance sheets included the warrant liability of \$74,000 and \$775,000 respectively, which were based on Level 2 measurements.

3. Inventory

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

Edgar Filing: REED'S, INC. - Form S-1

| | September 30, 2017 | December 31, 2016 |
|-----------------------------|-----------------------|----------------------|
| Raw Materials and Packaging | \$4,844,000 | \$3,874,000 |
| Finished Goods | 2,971,000 | 3,011,000 |
| Total Inventory | \$7,815,000 | \$6,885,000 |

During the nine months ended September 30, 2017, the Company increased our reserve for obsolescence to \$290,000 from \$115,000 as of December 31, 2016.

4. Property and Equipment

Property and equipment are comprised of the following as of:

| | September 30, 2017 | December 31, 2016 |
|--------------------------------|-----------------------|----------------------|
| Land | \$1,107,000 | \$1,107,000 |
| Building | 2,360,000 | 1,875,000 |
| Vehicles | 651,000 | 666,000 |
| Machinery and equipment | 2,090,000 | 3,686,000 |
| Equipment under capital leases | 226,000 | 226,000 |
| Office equipment | 506,000 | 475,000 |
| Construction In Progress | 2,429,000 | 4,554,000 |
| Book value | 9,369,000 | 12,589,000 |
| Accumulated depreciation | (5,280,000) | (4,863,000) |
| Net book value | \$4,089,000 | \$7,726,000 |

Depreciation expense for the Nine Months ended September 30, 2017 and 2016 was \$430,000 and \$503,000, respectively.

During the three months ended September 30, 2017, the Company engaged a specialty valuation and advisory services firm to assist management and the board of directors in determining a plan to maximize the value of property, plant and equipment. As of September 30, 2017, management is considering various alternatives and has not yet committed to any specific plans. However, management has identified certain assets classified as equipment held for sale that are likely to be divested. Management has estimated the fair value of the assets to be approximately \$2,465,000, and accordingly the Company recognized an impairment loss during the three months ended September 30, 2017 in the amount of \$2,000,000.

Edgar Filing: REED'S, INC. - Form S-1

| | September 30, 2017 | December 31, 2016 |
|-------------------------|-----------------------|----------------------|
| Equipment Held for sale | \$4,465,000 | \$ - |
| Reserve | (2,000,000) | \$ - |
| Net book value | \$2,465,000 | \$ - |

F-8

5. Intangible Assets and Impairment Policy

Intangible assets are comprised of indefinite-lived brand names acquired and have been assigned an indefinite life as we currently anticipate that these brand names 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 is appropriate. As part of our impairment test, we first assess qualitative factors to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired. If further testing is necessary, we compare the estimated fair value of our indefinite-lived intangible asset with its book value. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, as determined by its discounted cash flows, 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, 2017.

| | September 30, 2017 | December 31, 2016 |
|-----------------|-----------------------|----------------------|
| Virgil's | \$ 576,000 | \$ 576,000 |
| Sonoma Sparkler | 229,000 | 229,000 |
| Brand names | \$ 805,000 | \$ 805,000 |

6. Advances from Related Parties

During the year ended September 30, 2017, Chris Reed (the former CEO and current CIO), Daniel Miles (CFO) and Robert Reed (brother of Chris Reed, CIO) advanced funds of \$260,000 and \$120,00 respectively to the Company for working capital uses. During the period, the Company repaid to Mr. Chris Reed \$120,000 that was advanced from him, and also repaid Robert Reed \$103,000 of the advances due him. As of September 30, 2017, the aggregate amount due for the remaining unpaid advances was \$277,000. The advances are unsecured, non-interest bearing with no formal terms of repayment.

7. Notes Payable

The Company has a Loan and Security Agreement with PMC Financial Services Group, LLC (PMC) that provides a \$6,000,000 revolving line of credit, a \$3,000,000 term loan and a Capital Expansion loan up to \$4,700,000. The loans are secured by substantially all the assets of the Company and were initially due on January 1, 2019. As a condition to PMC's approval of the transaction described in Note 10, and Purchaser's subordinated security interest, on April 21, 2017, Reed's Inc. and PMC entered into Amendment Number Fifteen to Amended and Restated Loan and Security Agreement changing the Revolving Loan Maturity Date, Term Loan Maturity Date, Cap Ex Loan Maturity Date and Term Loan B Maturity Date from January 1, 2019, to October 21, 2018.

The notes are as follows:

Revolving Line of Credit

The agreement provides a \$6,000,000 revolving line of credit. Consistent with prior year, the revolving line of credit has been expanded by an additional \$630,000 to accommodate prepaid inventory. This expansion is payable by the end of the current year. At September 30, 2017 and December 31, 2016, the aggregate amount outstanding under the line of credit was \$5,153,000 and \$4,384,000, respectively.

The interest rate on the Revolving Loan is discussed below. In addition, there is a monthly management fee of .45% of the average monthly loan balance.

F-9

The revolving line of credit is based on 85% of accounts receivable and 60% of eligible inventory and is secured by substantially all of the Company's assets. As of September 30, 2017, the Company had \$305,000 borrowing availability under the line of credit agreement.

The line of credit matures on October 21, 2018 and was subject to a 1% prepayment penalty for prepayment prior to the first anniversary of the effective date.

Bank Notes

Bank notes consist of the following as of September 30, 2017 and December 31, 2016:

| | September 30, 2017 | December 31, 2016 |
|--------------------|-----------------------|----------------------|
| Term Loans | \$3,000,000 | \$3,000,000 |
| Capex loan | 4,135,000 | 3,950,000 |
| Valuation discount | - | (78,000) |
| Net | 7,135,000 | 6,872,000 |
| Current portion | (953,000) | (953,000) |
| Long term portion | \$6,182,000 | \$5,919,000 |

(A) Term Loans

In connection with the Loan and Security Agreement with PMC, the Company entered into two Term Loans of \$1,500,000 each, for an aggregate borrowing of \$3,000,000. The term loans are secured by all of the unencumbered assets of the Company and are due on October 21, 2018. The annual interest rate on the loans are discussed below. As of September 30, 2017, and December 31, 2016, the amount outstanding was \$3,000,000 and \$3,000,000 respectively.

(B) Capital Expansion ("CAPEX") Loan

In connection with the Loan and Security Agreement with PMC, the Company entered into a Capital expansion loan which, after amendment allows a total borrowing of \$4,700,000. The loans are secured by all of the property and equipment purchased under the loan. The interest rate on the CAPEX loan is the prime rate plus 5.75% (9.5% at September 30, 2017). Interest only is payable on CAPEX Loans through January 31, 2017, at which time principal and interest will be aggregated and repaid in equal monthly payments of principal and interest based on 48 month

amortization. Currently and until the second tranche has been closed, the estimated amount that will become due in the next twelve months is \$953,000. At September 30, 2017 and December 31, 2016, the total balance on the CAPEX loan was \$4,135,000 and \$3,950,000 respectively, and as of September 30, 2017, the Company had future borrowing availability of \$330,000.

In addition, the Company agreed to pre-pay the CAPEX Loan by at least \$300,000 from the proceeds of the sale of idle equipment, if such sale were to occur.

In conjunction with this loan the Company placed equipment with a cost of \$341,000 and a net book value of \$250,000 at a co-packing facility to enable the co-packer to manufacture our products. Should the Company be unable to secure access to the equipment in the event of failure of the co-packer, the amount will become due and payable by the Company.

(C) Issuance of Warrants upon Amendments

In prior years, the Company issued 225,000 warrants to PMC as part of various restructuring of the notes. The aggregate value of the warrants were valued at \$179,000 using the Black Scholes Merton option pricing model and was recorded as a valuation discount and is being amortized over the term loans.

On December 7, 2016, the Company agreed to reprice the exercise price of 175,000 common stock purchase warrants granted. The incremental value of the warrants before and after the modification of \$38,000 is being amortized over the remaining term of the loans.

As of December 31, 2016, the unamortized balance of the loans was \$78,000. During the Nine Months ended September 30, 2017 the remaining unamortized balance was fully amortized.

(D) Interest Rates

Notwithstanding the other borrowing terms above, if Excess Borrowing Availability under the \$6 million Revolving line of credit remains more than \$1,500,000 at all times during the preceding month (currently the Company's Borrowing Availability is \$305,000) the additional interest rate for all loans will be eliminated. The following chart summarizes the loans as of September 30, 2017,

| Description | Rate | Base Interest Rate | Increase in Prime | Current Original rate | Additional Interest | Current rate |
|-----------------------------|-----------|--------------------------|----------------------|-----------------------------|------------------------|-----------------|
| Term A | P+5.75 % | 9.00 % | 1.00 % | 10.00 % | 3.00 % | 13.00 % |
| Term B | P+11.60 % | 14.85 % | 1.00 % | 15.85 % | 0.00 % | 15.85 % |
| Line of Credit (Prime Plus) | P+0.35 % | 3.60 % | 1.00 % | 4.60 % | 3.00 % | 7.60 % |
| Capital Loans | P+5.75 % | 9.00 % | 1.00 % | 10.00 % | 3.00 % | 13.00 % |

As noted above, there is a .45% monthly monitoring fee for the line of credit. When added to current rate, the current annual rate is approximately 13.5%

8. Obligations under Capital Leases

The Company leases equipment for its brewery operations with an aggregate value of \$944,000 under Nine non-cancelable capital leases. Monthly payments range from \$341 to \$10,441 per month, including interest, at interest rates ranging from 6.51% to 17.31% per annum. At September 30, 2017, monthly payments under these leases aggregated \$19,000. The leases expire at various dates through 2020.

F-11

Future minimum lease payments under capital leases are as follows:

| Years Ending September 30, | |
|---|------------|
| 2018 | \$ 195,000 |
| 2019 | 246,000 |
| 2020 | 84,000 |
| 2021 | 16,000 |
| 2022 | - |
| Total payments | \$541,000 |
| Less: Amount representing interest | (61,000) |
| Present value of net minimum lease payments | \$480,000 |
| Less: Current portion | (194,000) |
| Non-current portion | \$286,000 |

9. Long-term Financing Obligation

Long term financing obligation is comprised of the following as of:

| | September 30,2017 | December 31,2016 |
|------------------------------------|----------------------|---------------------|
| Financing obligation | \$2,239,000 | \$2,378,000 |
| Valuation discount | (742,000) | (825,000) |
| Net long term financing obligation | \$1,497,000 | \$1,553,000 |
| Less current portion | (214,000) | (190,000) |
| Long term financing obligation | \$1,283,000 | \$1,363,000 |

On June 15, 2009, the Company closed escrow on the sale of its two buildings and its brewery equipment and concurrently entered into a long-term lease agreement for the same property and equipment. In connection with the lease the Company has the option to repurchase the buildings and brewery equipment from 12 months after the commencement date to the end of the lease term at the greater of the fair market value or an agreed upon amount. Since the lease contains a buyback provision and other related terms, the Company determined it had continuing involvement that did not warrant the recognition of a sale; therefore, the transaction has been accounted for as a long-term financing. The proceeds from the sale, net of transaction costs, have been recorded as a financing obligation in the amount of \$3,056,000. Monthly payments under the financing agreement of approximately \$35,000 are recorded as interest expense and a reduction in the financing obligation at an implicit rate of 9.9%. During the period ended September 30, 2017 and 2016, the Company recorded interest expense of \$172,000 and \$184,000, respectively.

In connection with the financing obligation and subsequent amendments, the Company issued an aggregate of 600,000 warrants to purchase its common stock. The 600,000 warrants were valued at an aggregate amount of \$1,336,000 and were recorded as valuation discount at date of issuance, and are being amortized over 15 years, the term of the purchase option. The balance of the unamortized valuation discount at December 31, 2016 was \$825,000. Amortization of valuation discount was \$83,000 during the Nine Months ended September 30, 2017 and the unamortized balance as of September 30, 2017 was \$742,000.

10. Convertible Note

Convertible note consists of the following:

| | September 30,2017 | December 31,2016 |
|-------------------------------|----------------------|---------------------|
| 12% Convertible Note Payable | \$3,400,000 | \$ - |
| Accrued Interest | 181,000 | |
| Valuation Discount | (2,833,000) | 0 |
| Convertible Note Payable, Net | \$748,000 | \$ - |

On April 21, 2017 (“Closing Date”), pursuant to a Securities Purchase Agreement (“Purchase Agreement”), the Company sold and issued a secured convertible subordinated non-redeemable note in the principal amount of \$3,400,000 (“Note”) and a warrant to purchase 1,416,667 shares of common stock (“Warrant Shares”) to Raptor/Harbor Reeds SPV LLC (“Purchaser”). The Note bears interest at a rate of 12% per annum, compounded monthly on a 360-day year/ 30-day month basis. The Note is secured by a second priority security interest in the Company’s assets, which is subordinate to the first priority security interest of PMC Financial Services Group, LLC (“PMC”). The Note matures on the two-year anniversary of the Closing date and may not be prepaid. After 180 days, the Note may be converted, at any time and from time to time, into 1,133,333 shares of common stock of the Company (“Conversion Shares”). Wunderlich Securities, the Company’s placement agent, received a fee of \$160,000 for placement agency services. In addition the Company incurred other direct costs of \$157,000 resulting in net proceeds to the Company of \$3,083,000.

The Warrant Shares will expire on the fifth (5th) anniversary of the Closing Date and have an exercise price equal to \$4.00. The Warrant Shares will not be exercisable until 180 days after the Closing date. The Note and Warrant contain customary anti-dilution provisions and the Conversion Shares and Warrant Shares are subject to a registration rights agreement. The investor was granted a right to participate in future financing transactions of the Company for a term of two years. In addition, the warrants issued to the investor included a fundamental transaction provision, and, as such, were accounted for as warrant liability. Upon their issuance, the fair value of these warrants was determined to be \$3,302,000 using the Black-Scholes-Merton option pricing model (see Note 11 for further discussion of warrant liability). In accordance with the current accounting guidance \$3,083,000 of this amount was recorded as a valuation discount, and the excess of the fair value of the warrant liability at the issuance date over the amount allocated to valuation discount of \$219,000 was accounted for as a financing cost. As such, the Company recognized a debt discount at the dates of issuance in the aggregate amount of \$3,400,000 related to the fair value of the warrant liability of \$3,083,000 and cash offering costs of \$317,000. The debt discount is to be amortized over the term of the note. Amortization of the note discount during the Nine Months ended September 30, 2017 was \$567,000, and the unamortized debt discount at September 30, 2017 was \$2,833,000.

On April 19, 2017, three accredited investors that are party to the Securities Purchase Agreement dated May 26, 2016 and hold participation rights in the Company's financing transactions agreed to waive their participation rights with regard to the April 21, 2017 financing. In consideration, these investors' participation rights, expiring in May 2017, were extended for a period of two years. In addition, the Company increased the terms of their outstanding warrants by one year and reduced the exercise price from \$4.25 to \$3.00. The incremental change in their fair value of \$187,000 was accounted for as an increase in the fair value of the warrant liabilities as of the date of modification and recorded as a cost of warrant modification. In addition, the Company also issued five-year warrants to purchase an aggregate of 210,111 shares of common stock at the exercise price of \$3.00 to these investors. The newly issued warrants contain customary anti-dilution provisions and included a fundamental transaction provision, and were accounted for as warrant liability. As such, the fair value of the new warrants of \$571,000 was accounted for as a warrant liability and a financing cost at the issue date. Fair value was determined using the Black-Scholes-Merton option pricing model.

On July 13, 2017, the Company entered into warrant exercise agreements with the investors to reprice the warrants to purchase 1,416,667 and 210,111 shares of our common stock discussed above (see Note 11 for additional information).

11. Warrants

Warrant Activity

The Company has issued warrants to investors and a placement agent as part of our financing transactions. The following table summarizes warrant activity for the Nine Months ended September 30, 2017:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Terms (Years) | Aggregate Intrinsic Value |
|-----------------------------------|-------------|---------------------------------|--|---------------------------|
| Outstanding at December 31, 2016 | 803,909 | \$ 4.50 | 4.00 | \$ 26,000 |
| Granted | 2,227,083 | \$ 1.62 | | |
| Exercised | (1,122,376) | \$ 1.50 | | |
| Forfeited or expired | - | | | |
| Outstanding at September 30, 2017 | 1,908,616 | \$ 2.50 | 4.22 | \$ 709,000 |
| Exercisable at September 30, 2017 | 611,507 | \$ 4.19 | 3.32 | \$ 57,000 |

On April 21, 2017 and April 19, 2017, the Company granted warrants to purchase 1,416,667 shares and 210,111 shares, respectively, of our common stock in connection with a debt financing transaction (see Note 10 for additional information). These warrants initially included a “fundamental transaction clause” that resulted in the fair value of these warrants of \$3,873,000 being characterized as liabilities (see Note 11). All such warrants were included in the July 13, 2017 repricing discussed below.

On July 13, 2017, the Company entered into warrant exercise agreements with certain investors holding participation rights in our financing transactions to reprice warrants to purchase 1,906,925 shares of our common stock. The warrants were also revised to lower the exercise price from \$3 and \$4 per share to \$1.50 per share. The Company determined that the incremental cost before and after the modification of the warrants resulted in an incremental charge of \$1,109,000. The warrants were also changed to modify language pertaining to a “fundamental transaction” that eliminated these warrants from being classified as warrant liabilities. As a result, the investors exercised warrants into 1,122,376 shares of common stock at the repriced \$1.50 per share resulting in proceeds to the Company of \$1,650,000. The Company’s modification of the fundamental transaction clause enabled the remaining investor warrants of 784,549 with a fair value of \$1,033,000 to be reclassified from a liability to equity during the third quarter ended September 30, 2017 (see Warrant Liability below for additional information).

Additionally, as part of the warrant exercise agreements, the Company issued to the investors, pro rata based on the number of shares each investor exercised, a second tranche of warrants to purchase 512,560 shares of our common stock and on July 19, 2017 a third tranche of warrants to purchase 87,745 shares of our common stock. The second tranche of warrants have a term of 5 years, may be exercised commencing six months after issuance and have an exercise price of \$2.00. The third tranche of warrants were exercisable immediately upon issuance for a term of 5 years and have an exercise price of \$1.55. The newly issued warrants contain customary anti-dilution provisions. As such, the aggregate fair value of the new warrants of \$689,000 was accounted for as a financing cost as of their respective issue dates. Fair value was determined using the Black-Scholes-Merton option pricing model with a volatility of 53.75% an interest free rate of 1.65% and a stock price of \$2.35. During the Nine Months ended September 30, 2017, the Company's statement of operations includes a charge of \$1,480,000 related to warrant financing costs.

The intrinsic value was calculated as the difference between the closing market price, which was \$2.20 and the exercise price of the Company's common stock warrants as of September 30, 2017.

Warrant Liability

As of December 31, 2016, the Company had 418,908 outstanding warrants that included certain fundamental transaction terms. The Company determined that the fundamental transaction terms of these warrants could give rise to an obligation of the Company to pay cash to the warrant holders. As such, in accordance with Accounting Standards Codification Topic 480, "Distinguishing Liabilities from Equity", the fair value of these warrants was classified as a liability on the Company's balance sheet and the corresponding changes in fair value is required to be recorded in the Company's statements of operations in each subsequent reporting period. The fair value of these warrant liabilities at December 31, 2016 was \$775,000. During the period ended September 30, 2017 the Company issued an additional 1,626,778 of these warrants with a fair value of \$3,873,000 that contained the same terms that required the recognition of these warrants as liabilities. During the period ended September 30, 2017 holders converted 1,122,376 of these warrants into common shares. The fair value of the liability of these warrants at the date of exercise was \$1,601,000, and was recorded as an adjustment to paid in capital. At the same date, the Company and the holders of the remaining warrants agreed to modify the language of the fundamental transaction clause where the definition became dependent on obtaining board approval, thus eliminating the need for the liability classification of warrants. As such, the fair value of these warrants of \$1,033,000 was recorded as an adjustment to capital. Outstanding shares at September 30, 2017 include 138,762 warrants with a fair value of \$74,000 which are classified as a warrant liability.

The warrant liability fair value was valued at the following reporting, issuance and modification dates using the Black-Scholes-Merton option pricing model with the following assumptions:

| | As of December 31, 2016 | Upon Issuance April 21, 2017 | Upon Modification April 21, 2017 | Upon Modification July 13, 2017 | As of September 30, 2017 |
|-------------------------|-------------------------------|---------------------------------------|---|--|--------------------------------|
| Stock Price | \$4.10 | \$4.75 | \$ 4.75 | \$2.35 | \$2.20 |
| Risk free interest rate | 1.58 % | 1.51 % | 1.51 % | 1.65 % | 1.62 % |
| Expected Volatility | 54.71 % | 49.33 % | 49.33 % | 53.75 % | 53.95 % |
| Expected life in years | 4.42 | 5.00 | 5.00 | 4.77 to 4.89 | 3.67 |
| Expected dividend yield | 0.00 % | 0.00 % | 0.00 % | 0.00 % | 0.00 % |
| Number of Warrants | 418,909 | 1,626,778 | 280,147 | 1,906,925 | 138,762 |
| Fair Value of Warrants | \$ 775,000 | \$3,873,000 | \$ 187,000 | \$1,109,000 | \$ 74,000 |

The risk-free interest rate used in the calculation was based on rates established by the Federal Reserve Bank. The Company uses the historical volatility of its common stock to estimate the expected volatility. The expected life of the warrant was determined by the remaining contractual life of the warrant instrument. The expected dividend yield was determined to be zero based on the fact that the Company has not paid dividends to its common stockholders in the past and does not expect to pay dividends to its common stockholders in the future.

During the Nine Months ended September 30, 2017, the Company's statement of operations includes a gain of \$3,236,000 related to the change in fair value of the warrant liability and a charge of \$1,296,000 related to warrant modification costs. In addition to the fair value gain, the warrant liability balance for the Nine Months ended September 30, 2017 was further reduced by \$2,634,000 from exercised shares and a reclassification to equity as discussed in Warrant Activity above.

12. Stockholders' Equity

Preferred Stock

On June 28, 2017 dividends were paid on the Series A Preferred stock in the amount of \$5,000, by issuing 1,640 shares of common stock.

Common Stock

During the Nine Months ended September 30, 2017, the Company:

Issued 58,065 shares of its common stock to certain members of the board of directors valued at \$1.55 per share with an aggregate value of \$90,000 for services rendered.

Issued 4,300 shares of its common stock to a related party valued at \$2.20 per share with an aggregate value of \$9,000 for services rendered.

Issued 1,122,376 shares of its common stock at \$1.50 per share with gross proceeds of \$1,684,000 in connection with the exercise of investor warrants (see Note 11 for additional information).

Sold 117,647 shares of its common stock to a member of the board of directors valued at \$1.70 per share with total proceeds of \$200,000.

13. Share-Based Payments

Stock options granted under our equity incentive plans generally vest over 3 years from the date of grant, at 33% per year or over 4 years at 25% per year and expire 5 years from the date of grant. Stock options may be granted to eligible employees, directors and consultants of the Company. The following table summarizes stock option activity for the Nine Months ended September 30, 2017:

| Shares | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual | Aggregate Intrinsic Value |
|--------|---|--|---------------------------------|
|--------|---|--|---------------------------------|

| | | | Terms (Years) | |
|-----------------------------------|------------|---------|------------------|-----------|
| Outstanding at December 31, 2016 | 1,048,500 | \$ 4.68 | 3.80 | \$ 61,000 |
| Granted | - | \$ - | | |
| Exercised | - | \$ - | | |
| Forfeited or expired | (334,000) | \$ 4.85 | | |
| Outstanding at September 30, 2017 | 714,500 | \$ 4.60 | 3.34 | \$ - |
| Exercisable at September 30, 2017 | 503,200 | \$ 4.65 | 2.23 | \$ - |

During the Nine Months ended September 30, 2017, the Company did not grant any stock options to any employee or other party.

The aggregate intrinsic value was calculated as the difference between the closing market price, which was \$2.20, and the exercise price of the Company's stock options as of September 30, 2017. Stock-based compensation recognized on the Company's statement of operations for the Nine Months Ended September 30, 2017 and 2016 was \$199,000 and \$449,000, respectively. As of September 30, 2017, unamortized stock-based compensation of \$220,000 is expected to be recognized over a period of 1.24 years.

14. Subsequent Events

On October 23, 2017, the Company filed with the SEC a rights offering (Form S-1). The rights offering is an offer to existing shareholders to purchase Company stock for purposes of enabling the Company to fund key initiatives and retire certain debt.

We completed the rights offering on December 22, 2017. Pursuant to the rights offering, the Company sold an aggregate of 9,333,333 units consisting of an aggregate of 9,333,333 shares of common stock and warrants to purchase 4,666,666 shares of common stock, with each warrant exercisable for one share of common stock at an exercise price of \$2.025 per share, resulting in net proceeds to the Company of approximately \$13,018,000 million, after deducting offering expenses and dealer manager fees and expenses.

On December 6, 2017, we entered into a backstop agreement with Raptor/ Habor Reeds SPV,LLC whereby Raptor agreed to purchase from us a minimum of \$6 million of units pursuant to its subscription rights and in a private placement, subject to customary terms and conditions in the rights offering. In the rights offering Raptor exercised its basic and over-subscription rights to purchase 2,666,667 units and acquired 2,666,667 shares of common stock and warrants to purchase up to 1,333,333 shares of common stock for an aggregate purchase price of \$4,000,000. In addition, pursuant to the backstop commitment agreement, as amended, the Company issued to Raptor warrants to purchase 750,000 shares of common stock. These warrants have an exercise price equal to \$1.50, are not exercisable for a term of 180 days from the date of issuance and have a cashless exercise feature and registration rights. We will be subject to certain liquidated damages if we do not register the warrant shares within the prescribed time frame.

Prior to the rights offering, Raptor beneficially owned 16.93% of the Company's equity securities, calculated pursuant to Rule 13d-3 of the Securities Exchange Act of 1934 ("Rule 13d-3"). On a post-transaction basis, Raptor beneficially owns approximately 28% of the Company's outstanding equity securities, calculated pursuant to Rule 13d-3. Raptor is now the largest shareholder of the Company, and a change of control was triggered under NYSE American rules.

On December 6, 2017, we entered into an amendment to note ("First Amendment to Note") with Raptor/ Harbor Reeds SPV LLC, extending our subordinated convertible non-redeemable secured note in the principal amount of \$3.4 million by twenty-four months in exchange for reducing the conversion price of the note from \$3.00 to \$1.75. We also agreed to file a registration statement registering the shares of common stock issuable upon conversion of the note after completion of the rights offering. We will be subject to certain liquidated damages if we do not register the shares within the prescribed time frame.

On December 12, 2017, in connection with the reduction of the offering price in the rights offering to \$1.50, we entered into a second amendment to the note ("Second Amendment to Note") further reducing the conversion price of the note to \$1.50.

On January 10, 2018, pursuant to the employment agreement with Valentin Stalowir, we granted to Mr. Stalowir 371,218 restricted stock units and options to purchase 371,218 shares of stock. The restricted stock and options vest in equal increments on each of June 28, 2018 and June 28, 2019. These awards were issued pursuant to Reed's 2017 Incentive Compensation Plan. The options have an exercise price of \$1.70.

On October 10, 2017, we entered into a non-binding term sheet with Raptor/ Harbor Reeds SPV, LLC, significant shareholder of the Company, ("Raptor"). Raptor agreed to purchase from us a minimum of \$6 million of unregistered units not subscribed in the rights offering in a private placement, subject to customary terms and conditions and execution of a definitive agreement. This backstop commitment will be reduced to the extent aggregate gross proceeds to Company from the exercise of rights by rights holders exceed \$8 million and also to the extent of Raptor's participation in the rights offering as a rights holder. The backstop commitment is scheduled to close not later than the third trading day following the expiration date of the rights offering.

As compensation for the backstop commitment and subject to the closing of the rights offering, we agreed to issue to Raptor, 5-year warrants to purchase a minimum of 750,000 shares of our common stock. In the event Raptor funds more than \$6 million pursuant to the Backstop Agreement, we will grant to Raptor additional warrants equal to 12.5% of funding in excess of \$6 million. The warrants will have an exercise price equal to the last closing price of our common stock immediately before entering into the definitive agreement, will not be exercisable for a term of 180 days and will have a cashless exercise feature. We also agreed to register the shares of common stock underlying the warrants. The warrants are issuable to Raptor upon conclusion of the rights offering in consideration for the backstop commitment, subject to closing the rights offering, or, in the alternative, as a break-up fee if we enter into a definitive backstop commitment agreement for this rights offering with a third party unaffiliated with Raptor.

Further, subject to NYSE American rules, we agreed to use our best efforts to appoint up to two individuals designated by Raptor to serve on our board of directors.

Regardless of whether the transactions contemplated by the backstop agreement are consummated, we must reimburse Raptor for all reasonable out-of-pocket fees and expenses (including attorneys' fees and expenses) incurred by them in connection with the backstop agreement and the transactions contemplated thereby, not to exceed \$50,000.

Further, we agreed to enter into an Extension Agreement with Raptor, extending its subordinated non-redeemable note in the principal amount of \$3.4 million by twenty four months in exchange for amending the conversion price of the note from \$3.00 to the subscription price of the rights offering. We also agreed to file a registration statement registering the shares of common stock issuable upon conversion of the note after completion of the rights offering.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Reed's, Inc.

We have audited the accompanying balance sheets of Reed's, Inc. as of December 31, 2016 and 2015, and the related statements of operations, changes in stockholders' equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Reed's, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Weinberg & Company, P.A.

Los Angeles, California
April 24, 2017

REED'S INC.**BALANCE SHEETS**

| | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$451,000 | \$1,816,000 |
| Trade accounts receivable, net of allowance for doubtful accounts and returns and discounts of \$256,000 and \$356,000, respectively | 2,485,000 | 2,894,000 |
| Inventory, net of reserve for obsolescence of \$115,000 and \$290,000, respectively | 6,885,000 | 7,974,000 |
| Prepaid and other current assets | 500,000 | 769,000 |
| Total Current Assets | 10,321,000 | 13,453,000 |
| Property and equipment, net of accumulated depreciation of \$4,719,000 and \$4,216,000, respectively | 7,726,000 | 5,369,000 |
| Brand names | 805,000 | 1,029,000 |
| Total assets | \$18,852,000 | \$19,851,000 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current Liabilities: | | |
| Accounts payable | \$5,959,000 | \$7,458,000 |
| Accrued expenses | 215,000 | 168,000 |
| Line of credit | 4,384,000 | 4,443,000 |
| Current portion of long term financing obligations | 190,000 | 160,000 |
| Current portion of capital leases payable | 183,000 | 153,000 |
| Current portion of bank notes | 953,000 | 341,000 |
| Total current liabilities | 11,884,000 | 12,723,000 |
| Other Long Term Liabilities | 130,000 | - |
| Long term financing obligation, less current portion, net of discount of \$825,000 and \$935,000, respectively | 1,363,000 | 1,443,000 |
| Capital leases payable, less current portion | 438,000 | 490,000 |
| Bank notes, net of discount \$78,000 and \$132,000, respectively | 5,919,000 | 4,410,000 |
| Warrant liability | 775,000 | - |
| Total Liabilities | 20,509,000 | 19,066,000 |
| Stockholders' equity (deficit): | | |
| Series A Convertible Preferred stock, \$10 par value, 500,000 shares authorized, 9,411 shares issued and outstanding | 94,000 | 94,000 |
| Common stock, \$.0001 par value, 19,500,000 shares authorized, 13,982,230 and 13,160,860 shares issued and outstanding, respectively | 1,000 | 1,000 |
| Additional paid in capital | 29,971,000 | 27,399,000 |
| Accumulated deficit | (31,723,000) | (26,709,000) |

Edgar Filing: REED'S, INC. - Form S-1

| | | |
|--|--------------|--------------|
| Total stockholders' equity (deficit) | (1,657,000) | 785,000 |
| Total liabilities and stockholders' equity (deficit) | \$18,852,000 | \$19,851,000 |

The accompanying notes are an integral part of these financial statements

F-19

REED'S, INC.**STATEMENTS OF OPERATIONS****For the Years Ended December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|-----------------------|-----------------------|
| Net Sales | \$42,472,000 | \$45,948,000 |
| Cost of goods sold | 33,490,000 | 34,343,000 |
| Gross profit | 8,982,000 | 11,605,000 |
| Operating expenses: | | |
| Delivery and handling expenses | 3,902,000 | 5,100,000 |
| Selling and marketing expense | 3,701,000 | 4,867,000 |
| General and administrative expense | 4,208,000 | 4,368,000 |
| Impairment of assets | 224,000 | - |
| Total operating expenses | 12,035,000 | 14,335,000 |
| Loss from operations | (3,053,000) | (2,730,000) |
| Interest expense | (1,724,000) | (1,231,000) |
| Change in fair value of warrant liability | (232,000) | - |
| Net loss | (5,009,000) | (3,961,000) |
| Preferred Stock Dividends | (5,000) | (5,000) |
| Net loss attributable to common stockholders | \$(5,014,000) | \$(3,966,000) |
| Loss per share – basic and diluted | \$(0.37) | \$(0.30) |
| Weighted average number of shares outstanding – basic and diluted | 13,619,930 | 13,147,815 |

The accompanying notes are an integral part of these financial statements

REED'S, INC.**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)****For the Years Ended December 31, 2016 and 2015**

| | Common Stock | | Preferred Stock | | Additional Paid In | Accumulated | Total Shareholder Equity (Deficit) |
|--|--------------|----------|-----------------|----------|-----------------------|----------------|---|
| | Shares | Amount | Shares | Amount | Capital | Deficit | |
| Balance, January 1, 2014 | 13,068,058 | \$ 1,000 | 9,411 | \$94,000 | \$26,300,000 | \$(22,743,000) | \$3,652,000 |
| Fair Value of common stock issued for services | 247 | | | | 1,000 | | 1,000 |
| Common shares issued upon exercise of warrants | 57,112 | | | | | | - |
| Common shares issued upon exercise of options | 34,692 | | | | 75,000 | | 75,000 |
| Fair value of warrants granted as valuation discount | | | | | 141,000 | | 141,000 |
| Fair value vesting of options issued to employees | | | | | 877,000 | | 877,000 |
| Series A preferred stock dividend | 751 | | | | 5,000 | (5,000) | - |
| Net Loss | | | | | | (3,961,000) | (3,961,000) |
| Balance, December 31, 2015 | 13,160,860 | 1,000 | 9,411 | 94,000 | 27,399,000 | (26,709,000) | 785,000 |
| Fair value of common stock issued for services | 4,228 | | | | 15,000 | | 15,000 |
| Common shares issued upon exercise of warrants | 16,260 | | | | 45,000 | | 45,000 |
| Common shares issued upon exercise of options | 76,966 | | | | 71,000 | | 71,000 |
| Fair value of vested options | | | | | 658,000 | | 658,000 |
| Common shares issued upon sale of securities | 722,412 | | | | 1,687,000 | | 1,687,000 |
| Fair value vesting of warrants issued as debt discount | | | | | 91,000 | | 91,000 |
| Series A preferred stock dividend | 1,504 | | | | 5,000 | (5,000) | - |
| Net Loss | | | | | | (5,009,000) | (5,009,000) |
| Balance, December 31, 2016 | 13,982,230 | \$ 1,000 | 9,411 | \$94,000 | \$29,971,000 | \$(31,723,000) | \$(1,657,000) |

The accompanying notes are an integral part of these financial statements

F-21

REED'S, INC.**STATEMENTS OF CASH FLOWS****For the Years Ended December 31, 2016 and 2015**

| | 2016 | 2015 |
|---|---------------|---------------|
| Cash flows from operating activities: | | |
| Net loss | \$(5,009,000) | \$(3,961,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 642,000 | 933,000 |
| Fair value of vested stock options issued to employees | 658,000 | 877,000 |
| Fair value of common stock issued for services | 15,000 | 1,000 |
| (Decrease) increase in allowance for doubtful accounts | (100,000) | 103,000 |
| (Decrease) increase in reserve for impairment of assets | 484,000 | - |
| Change in fair value of warrant liability | 232,000 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 509,000 | (497,000) |
| Inventory | 1,089,000 | (381,000) |
| Prepaid expenses and other assets | 269,000 | (25,000) |
| Accounts payable | (1,499,000) | 1,564,000 |
| Accrued expenses | 17,000 | 38,000 |
| Increase in other long term obligations | 160,000 | - |
| Net cash used in operating activities | (2,533,000) | (1,348,000) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (410,000) | (532,000) |
| Net cash used in investing activities | (410,000) | (532,000) |
| Cash flows from financing activities: | | |
| Proceeds from stock option and warrant exercises | 116,000 | 75,000 |
| Principal payments on capital expansion loan | (375,000) | - |
| Proceeds from sale of common stock | 2,230,000 | - |
| Proceeds from borrowing on Term Loan B | - | 1,500,000 |
| Principal repayments on long term financial obligation | (160,000) | (134,000) |
| Principal repayments on capital lease obligation | (174,000) | (138,000) |
| Net borrowings (repayments) on existing line of credit | (59,000) | 1,434,000 |
| Net cash provided by financing activities | 1,578,000 | 2,737,000 |
| Net increase (decrease) in cash | (1,365,000) | 857,000 |
| Cash at beginning of period | 1,816,000 | 959,000 |
| Cash at end of period | \$451,000 | \$1,816,000 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$1,746,000 | \$1,187,000 |
| Non Cash Investing and Financing Activities | | |
| Property and equipment acquired through capital expansion loan | \$2,442,000 | \$915,000 |

Edgar Filing: REED'S, INC. - Form S-1

| | | |
|---|---------|---------|
| Property and equipment acquired through capital lease obligations | 152,000 | 179,000 |
| Other current assets acquired through capital expansion loan | - | 297,000 |
| Fair value of warrants granted as debt discount | 91,000 | 141,000 |
| Dividends payable in common stock | 5,000 | 5,000 |
| Warrant liability from private financing | 543,000 | - |

The accompanying notes are an integral part of these financial statements

F-22

REED'S, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(1) Operations and Liquidity

A) Nature of Operations

Reed's, Inc. (the "Company") was organized under the laws of the state of Florida in January 1991. In 2001, the Company changed its name from Original Beverage Corporation to Reed's, Inc. and changed its state of incorporation from Florida to Delaware. The Company is engaged primarily in the business of developing, manufacturing and marketing natural non-alcoholic beverages, as well as candies and ice creams. We currently manufacture, market and sell seven unique product lines:

Reed's Ginger Brews,

Virgil's Root Beer, Cream Sodas, Dr. Better and Real Cola, including ZERO diet sodas,

Culture Club Kombucha,

China Colas,

Reed's Ginger candy and ice creams,

Sonoma Sparkler and other juice based products.

The Company sells its products primarily in natural food stores, supermarket chains, and upscale gourmet stores in the United States and Canada.

B) Cash and Liquidity

The accompanying financial statements have been prepared under the assumption that the Company will continue as a going concern. Such assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the year ended December 31, 2016 the Company recorded a net loss of \$ 5,009,000 and utilized cash in operations of \$2,533,000. As of December 31, 2016, we had a working capital deficiency of

\$1,563,000 and a stockholders' deficit of \$1,657,000.

As of March 31, 2017, the Company had a cash balance of \$197,000 and had available borrowing on our existing line of credit of \$191,000. On April 21, 2017, the Company issued a convertible note resulting in net proceeds of \$3,240,000. Furthermore, during the year ended December 31, 2016, we were able to extend the maturity date of our operating line of credit and our other bank loans through October 21, 2018. We estimate the Company currently has sufficient cash and liquidity to meet its anticipated working capital for the next twelve months.

Historically, we have financed our operations primarily through private sales of common stock, preferred stock, a line of credit from a financial institution and cash generated from operations. We anticipate that our primary capital source will be positive cash flow from operations. If our sales goals do not materialize as planned, we believe that the Company can reduce its operating costs and achieve positive cash flow from operations. However, we may not generate sufficient revenues from product sales in the future to achieve profitable operations. If we are not able to achieve profitable operations at some point in the future, we may have insufficient working capital to maintain our operations as we presently intend to conduct them or to fund our expansion, marketing, and product development plans. There can be no assurance that we will be able to obtain such financing on acceptable terms, or at all.

(2) Significant Accounting Policies

A) 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 and 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 assets and intangibles, accruals for potential liabilities and assumptions made in valuing stock instruments issued for services.

B) Accounts Receivable

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

The allowance for doubtful accounts and returns and discounts is established through a provision reducing the carrying value of receivables. At December 31, 2016 and 2015, the allowance for doubtful accounts and returns and discounts was approximately \$256,000 and \$356,000, respectively.

C) Inventories

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

D) Property and Equipment and Related Depreciation

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

| Property and Equipment Type | Years of Depreciation |
|-----------------------------|-----------------------|
| Building | 39 years |
| Machinery and equipment | 5-12 years |
| Vehicles | 5 years |
| Office equipment | 5-7 years |

Management assesses the carrying value of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If there is indication of impairment, management prepares an estimate of future cash flows expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. For the years ended December 31, 2016 the Company recognized a charge of \$260,000 for impairments for its property and equipment in anticipation of early retirement of equipment with the Los Angeles plant. There were no charges for equipment impairment prior to that in the prior years.

E) Intangible Assets and Impairment Policy

Intangible assets are comprised of indefinite-lived brand names acquired and have been assigned an indefinite life as we currently anticipate that these brand names 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 is appropriate. As part of our impairment test, we first assess qualitative factors to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired. If further testing is necessary, we compare the estimated fair value of our indefinite-lived intangible asset with its book value. If the carrying amount of the indefinite-lived intangible asset exceeds its fair value, as determined by its discounted cash flows, an impairment loss is recognized in an amount equal to that excess. For the years ended December 31, 2016 the Company recognized an impairment charge of \$224,000 for the China Cola brand. For 2015, the Company did not recognize any impairment charges for its indefinite-lived intangible assets.

F) Concentrations

The Company's cash balances on deposit with banks are guaranteed by the Federal Deposit Insurance Corporation up to \$250,000 at December 31, 2016. The Company may be exposed to risk for the amounts of funds held in bank accounts more than the insurance limit. In assessing the risk, the Company's policy is to maintain cash balances with high quality financial institutions. The Company had cash balances more than the guarantee during the years ended December 31, 2016 and 2015.

During the year ended December 31, 2016, the Company had two customers who accounted for approximately 22% and 12% of its sales, respectively; and during the year ended December 31, 2015, the Company had two customers who accounted for approximately 28% and 14% of its sales, respectively. No other customer accounted for more than 10% of sales in either year. As of December 31, 2016, the Company had accounts receivable due from one customer who comprised \$719,000 (25%) of its total accounts receivable; and as of December 31, 2015, the Company had accounts receivable due from two customers who comprised \$782,000 (24%) and \$373,000 (12%), respectively, of its total accounts receivable. No other customer accounted for more than 10% of accounts receivable in either year.

During the year ended December 31, 2016, the Company had utilized three separate co-pack packers for most its production and bottling of beverage products in the Eastern United States. Although there are other packers and the Company has outfitted our own brewery and bottling plant, a change in packers may cause a delay in the production process, which could ultimately affect operating results.

During the years ended December 31, 2016 and 2015, the Company had one vendor which accounted for approximately 26% and 25%, respectively of purchases. At December 31, 2016 and 2015, the Company had accounts payable due to two vendors who comprised 13% and 10% for the year ended December 31, 2016, and 14% and 12%

of its total accounts payable, for the year ended December 31, 2015. No other account was more than 10% of the balance of accounts payable as of December 31, 2016, and December 31, 2015.

G) Fair Value of Financial Instruments

The Company uses various inputs in determining the fair value of its investments and measures these assets on a recurring basis. Financial assets recorded at fair value in the balance sheets are categorized by the level of objectivity associated with the inputs used to measure their fair value. Authoritative guidance provided by the FASB defines the following levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these financial assets:

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 since the interest rates on these obligations are based on prevailing market interest rates.

The fair value of the warrant liability of \$775,000 at December 31, 2016 was valued using Level 2 inputs.

H) Cost of sales

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

I) Delivery and Handling Expenses

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

J) Income Taxes

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

K) Revenue Recognition

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

The Company accounts for certain sales incentives for customers, including slotting fees, as a reduction of gross sales. These sales incentives for the years ended December 31, 2016 and 2015 were approximately \$3,726,000 and \$3,765,000, respectively.

L) Net Loss Per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) applicable to Common Stockholders by the weighted average number of shares of Common Stock outstanding during the year. Diluted earnings (loss) per share is computed by dividing the net income (loss) 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 if their effect is antidilutive.

For the years ended December 31, 2016 and 2015, the calculations of basic and diluted loss per share are the same because potential dilutive securities would have an anti-dilutive effect. The potentially dilutive securities consisted of the following as of:

| | December 31, | |
|--------------------------|--------------|-----------|
| | 2016 | 2015 |
| Warrants | 803,909 | 341,261 |
| Series A Preferred Stock | 37,644 | 37,644 |
| Options | 1,048,500 | 980,000 |
| Total | 1,890,053 | 1,358,905 |

M) Advertising Costs

Advertising costs are expensed as incurred and are included in selling expense in the amount of \$254,000 and \$105,000, for the years ended December 31, 2016 and 2015, respectively.

N) Stock Compensation Expense

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board (FASB) whereas 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 accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the FASB whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Options granted to non-employees are revalued each reporting period to determine the amount to be recorded as an expense in the respective period. As the options vest, they are valued on each vesting date and an adjustment is recorded for the difference between the value already recorded and the then current value on the date of vesting. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's stock option and warrant grants are 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 warrants, 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.

O) Reclassification

In presenting the Company's statement of operations for the year ended December 31, 2015, the Company previously included \$235,000 of banking fees as general and administrative expenses. In presenting the Company's statement of operations for the years ended December 31, 2016 and 2015, the Company has reclassified these expenses to interest expense.

P) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. Under ASU 2014-09, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has recently issued ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, and ASU 2016-20 all of which clarify certain implementation guidance within ASU 2014-09. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted only in annual reporting periods beginning after December 15, 2016, including interim periods therein. The standard can be adopted either retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company is currently in the process of analyzing the information necessary to determine the impact of adopting this new guidance on its financial position, results of operations, and cash flows. The Company will adopt the provisions of this statement in the first quarter of fiscal 2018.

In February 2016, the FASB issued ASU No. 2016-02, Leases. ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest period presented in the financial statements. The Company is currently evaluating the expected impact that the standard could have on its financial statements and related disclosures.

In March 2016, the FASB issued the ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU require, among other things, that all income tax effects of awards be recognized in the income statement when the awards vest or are settled. The ASU also allows for an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and allows for a policy election to account for forfeitures as they occur. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted for any entity in any interim or annual period. The Company is currently evaluating the expected impact that the standard could have on its financial statements and related disclosures.

Other recent accounting pronouncements issued by the FASB, including 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 consolidated financial statements.

(3) Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market, and is comprised of the following as of:

| | December 31, 2016 | December 31, 2015 |
|-----------------------------|----------------------|----------------------|
| Raw Materials and Packaging | \$3,874,000 | \$4,411,000 |
| Finished Goods | 3,011,000 | 3,563,000 |
| | \$6,885,000 | \$7,974,000 |

Consistent with prior years the Company prepaid for glass raw materials that was used in the following year. As of December 31, 2016, there was a balance of \$294,000 as compared to a balance of \$47,000 for prepaid inventory of as of December 31, 2015. The Company also decreased its reserve for obsolescence for the year ended December 31, 2016 by \$175,000 to \$115,000 from \$290,000, respectively as obsolete inventory was disposed.

(4) Property and Equipment

Property and equipment is comprised of the following as of:

| | December 31, 2016 | December 31, 2015 |
|--------------------------------|----------------------|----------------------|
| Land | \$1,107,000 | \$1,107,000 |
| Building | 1,875,000 | 1,875,000 |
| Vehicles | 600,000 | 500,000 |
| Machinery and equipment | 3,696,000 | 3,800,000 |
| Equipment under capital leases | 226,000 | 857,000 |
| Office equipment | 475,000 | 469,000 |
| Construction In Progress | 4,610,000 | 977,000 |
| | 12,589,000 | 9,585,000 |
| Accumulated depreciation | (4,863,000) | (4,216,000) |
| | \$7,726,000 | \$5,369,000 |

Depreciation expense for the years ended December 31, 2016 and 2015 was \$647,000 and \$828,000, respectively. In addition, during the year ended December 31, 2016, the Company established a reserve of \$260,000 for obsolete equipment in anticipation of the Los Angeles plant completion which is included as part of the cost of goods sold.

Accumulated depreciation on equipment held under capital leases was \$226,000 and \$461,000 as of December 31, 2016, and 2015, respectively. (See note 8).

(5) Intangible Assets***Brand Names***

Brand names consist of the following three trademarks for natural beverage as of December 31, 2016, and 2015. Virgil's, China Cola, and Sonoma Sparkler brand names are deemed to have indefinite lives and are not amortized, but are tested for impairment annually. For the year ended December 31, 2016 the Company recognized an impairment charge of \$224,000 for its China Cola Brand. The Company did not recognize any impairment for the year ended December 31, 2015.

| | December 31, 2016 | December 31, 2015 |
|-----------------------------|----------------------|----------------------|
| Virgil's | \$576,000 | \$576,000 |
| China Cola | 224,000 | 224,000 |
| Sonoma Sparkler | 229,000 | 229,000 |
| Purchased Brands | 1,029,000 | 1,029,000 |
| Less reserve for impairment | (224,000) | - |
| Brand names | \$805,000 | \$1,029,000 |

(6) Notes Payable

The Company has a Loan and Security Agreement with PMC Financial Services Group, LLC (PMC) that provides a \$6,000,000 revolving line of credit, a \$3,000,000 term loan, and a Capital Expansion loan up to \$4,700,000. The loans are secured by substantially all the assets of the Company and become due on January 1, 2019. The notes are as follows:

Revolving Line of Credit

The agreement provides a \$6,000,000 revolving line of credit. At December 31, 2016 and 2015, the aggregate amount outstanding under the line of credit was \$4,384,000 and \$4,443,000, respectively.

The interest rate on the Revolving Loan was the prime rate plus .35% but was modified on December 7, 2016, such that the rate charge will be calculated on a sliding scale based on the trailing 6 month Earnings Before Interest Taxes and Depreciation ("EBITDA"). If the EBITDA measuring point stays below \$1,000,000 where it is now, the rate will

rise to 12% from the current rate of 9%. If EBITDA rises to \$1,500,000 then the rate will be reduced to 9%. As of December 31, 2016, our effective rate under the revolving line was 9.5%. The monthly management fee is .45% of the average monthly loan balance.

The revolving line of credit is based on 85% of accounts receivable and 60% of eligible inventory and is secured by substantially all of the Company's assets. As of December 31, 2016, the Company had no borrowing availability under the line of credit agreement

On April 25, 2016, the Company agreed with PMC to amend the definition of eligible inventory to include certain glass containers in exchange for 10,000 warrants. The total value of the line did not increase and the inclusion of the glass as defined under the amendment expired December 31, 2016. In connection with the agreement, the Company granted PMC 10,000 warrants at an exercise price of \$3.90 per share with a term of five years and six months. The 10,000 warrants were valued at \$15,000 using the Black Scholes Merton option pricing model and were recorded as a valuation discount. The following assumptions were made in valuing the 10,000 warrants; term of 5.5 years, volatility of 56.35%, expected dividends of 0% and discount rate of 1.50%. The value of the warrants was recorded as a valuation discount at issuance and was fully amortized to interest expense during the year ended December 31, 2016.

The line of credit matures on January 1, 2019 and is subject to a 1% prepayment penalty for prepayment prior to the first anniversary of the effective date.

Bank Notes

Bank notes consist of the following as of December 31, 2016 and 2015:

| | December 31, 2016 | December 31, 2015 |
|------------------------|----------------------|----------------------|
| (A) Term Loans | \$3,000,000 | \$3,000,000 |
| (B) Capex loan | 3,950,000 | 1,883,000 |
| (C) Valuation discount | (78,000) | (132,000) |
| Net | 6,872,000 | 4,751,000 |
| Current portion | (953,000) | (341,000) |
| Long term portion | \$5,919,000 | \$4,410,000 |

(A) Term Loans

In connection with the Loan and Security Agreement with PMC, the Company entered into two Term Loans of \$1,500,000 each, for an aggregate borrowing of \$3,000,000. The term loans are secured by all of the unencumbered assets of the Company and are due on January 1, 2019. The annual interest rate on the first loan was prime plus 5.75% (currently 9.5%), and the rate on the second loan was prime plus 11.60% (currently 14.85%) but was modified on December 7, 2016 such that the new rate will be based on the trailing 6 month EBITDA. If the EBITDA measuring point stays below \$1,000,000 where it is now, the rate will rise to 12% from the current rate of 9%. If EBITDA rises to \$1,500,000 then the rate will be reduced to 9%. As of December 31, 2016, and 2015, the amount outstanding was \$3,000,000 and \$3,000,000 respectively.

(B) Capital Expansion ("CAPEX") Loan

In connection with the Loan and Security Agreement with PMC, the Company entered into a Capital expansion loan which, after amendment allows a total borrowing of \$4,700,000. The loans are secured by all of the property and equipment purchased under the loan. The interest rate on the CAPEX loan is the prime rate plus 5.75% (9.5% at December 31, 2016). Interest only is payable on CAPEX Loans through January 31, 2017, at which time principal and interest will be aggregated and repaid in equal monthly payments of principal and interest based on 48 month amortization. Currently, the estimated amount that will become due in a year is \$953,000. At December 31, 2016 and 2015, the balance on the CAPEX loan balance was \$3,950,000 and \$1,883,000 respectively, and as of December 31, 2016, the Company had future borrowing availability of \$750,000.

In addition, Reed's agreed to pre-pay the CAPEX Loan by at least \$300,000 from the proceeds of the sale of idle equipment, if such sale were to occur.

In conjunction with this loan the Company placed equipment with a cost of \$250,000 at a co-packing facility to enable the co-packer to manufacture our products. Should the Company be unable to secure access to the equipment in the event of failure of the co-packer, the amount will become due and payable by the Company immediately.

F-30

(C) Issuance of Warrants upon Amendments

On November 9, 2015, as part of restructuring of the Term Loans with PMC, the Company granted PMC 125,000 warrants at an exercise price of \$4.50 per share for five years and six months. The 125,000 warrants were valued at \$141,000 using the Black Scholes Merton option pricing model and were recorded as a valuation discount. The following assumptions were made in valuing the 125,000 warrants; term of 5.5 years, volatility of 56.04%, expected dividends 0% and discount rate of 0.68%. The value of the warrants of \$141,000 was recorded as a valuation discount and is being amortized over the remaining 16 months of the term loans.

On May 13, 2016, as part of a further restructuring of the loans with PMC, the Company granted PMC 50,000 warrants at an exercise price of \$4.50 per share with a term of five years and six months. The 50,000 warrants were valued at \$38,000 using the Black Scholes Merton option pricing model and were recorded as a valuation discount. The following assumptions were made in valuing the 50,000 warrants; term of 5.5 years, volatility of 54.17%, expected dividends of 0% and discount rate of 1.49%. The value of the warrants of \$38,000 was recorded as a valuation discount and is being amortized over the remaining term of the loans.

On December 7, 2016, the Company agreed to reprice the exercise price of 50,000 common stock purchase warrants granted under Amendment Twelve from \$4.50 to \$4.10 and to reprice the exercise price of 125,000 common stock purchase warrants granted under Amendment Ten from \$5.01 to \$4.10. The following assumptions were made in repricing the warrants; term of 3.5 years, volatility of 49.52%, expected dividends 0% and discount rate of 0.74%. The incremental value of the warrants before and after the modification of \$38,000 will be amortized over the remaining 24 months of the term loans. Reed's also agreed to pay a one-time fee of \$35,000.

During the years ended December 31, 2016 and 2015 amortization of the discount was \$130,000 and \$9,000 respectively, and the unamortized discount was \$78,000 and \$132,000 as of December 31, 2016 and 2015, respectively.

(D) Interest Rates

Notwithstanding the other borrowing terms above, if Excess Borrowing Availability under the \$6 million Revolving line of credit remains more than \$1,500,000 at all times during the preceding month (currently Reed's Borrowing Availability is zero) the additional interest rate for all loans will be eliminated. The following chart summarizes the loans as of December 31, 2016,

Description

Edgar Filing: REED'S, INC. - Form S-1

| | Base Interest Rate | | In- crease in Prime | | Original rate | | Additional Interest | | Current rate | |
|-----------------------------|--------------------------|---|------------------------------|---|------------------|---|------------------------|---|-----------------|---|
| Term A | 9.00 | % | 0.50 | % | 9.50 | % | 3.00 | % | 12.50 | % |
| Term B | 11.60 | % | 0.50 | % | 12.10 | % | 3.00 | % | 15.10 | % |
| Line of Credit (Prime Plus) | 0.35 | % | 3.75 | % | 4.10 | % | 3.00 | % | 7.10 | % |
| Capital Loans | 9.00 | % | 0.50 | % | 9.50 | % | 3.00 | % | 12.50 | % |

F-31

(7) Long Term Financing Obligation

Long term financing obligation is comprised of the following as of:

| | December 31, | |
|------------------------------------|--------------|-------------|
| | 2016 | 2015 |
| Financing obligation | \$2,378,000 | \$2,538,000 |
| Valuation discount | (825,000) | (935,000) |
| Net long term financing obligation | \$1,553,000 | \$1,603,000 |
| Less current portion | (190,000) | (160,000) |
| Long term financing obligation | \$1,363,000 | \$1,443,000 |

On June 15, 2009, the Company closed escrow on the sale of its two buildings and its brewery equipment and concurrently entered a long-term lease agreement for the same property and equipment. In connection with the lease the Company has the option to repurchase the buildings and brewery equipment from 12 months after the commencement date to the end of the lease term at the greater of the fair market value or an agreed upon amount. Since the lease contains a buyback provision and other related terms, the Company determined it had continuing involvement that did not warrant the recognition of a sale; therefore, the transaction has been accounted for as a long-term financing. The proceeds from the sale, net of transaction costs, have been recorded as a financing obligation in the amount of \$3,056,000. Monthly payments under the financing agreement are recorded as interest expense and a reduction in the financing obligation at an implicit rate of 9.9%. The financing obligation was personally guaranteed up to a limit of \$150,000 by the principal shareholder, former Chief Executive Officer and current Chief Innovation Officer, Christopher J. Reed.

In connection with the financing obligation, the Company issued an aggregate of 400,000 warrants to purchase its common stock at \$1.20 per share for five years. The 400,000 warrants were valued at \$752,000 and reflected as a debt discount, using the Black Scholes Merton option pricing model. The following assumptions were utilized in valuing the 400,000 warrants: strike price of \$2.10 to \$2.25; term of 5 years; volatility of 91.36% to 110.9%; expected dividends 0%; and discount rate of 2.15% to 2.20%. The 400,000 warrants were recorded as valuation discount and are being amortized over 15 years, the term of the purchase option. Amortization of valuation discount was \$50,000 during both of the years ended December 31, 2016 and 2015.

Effective October 1, 2014, the Company executed Amendment #1 to the Long-term Financing Obligation. In exchange for a release from the \$150,000 personal guarantee by the principal shareholder and Chief Executive Office, and a release of the brewery equipment which was collateral for the lease agreement, the Company issued 200,000 warrants to purchase its common stock for \$5.60 per share for five years. The 200,000 warrants were valued at \$584,000 using the Black Scholes Merton option pricing model and were recorded as a valuation discount. The following assumptions were made in valuing the 200,000 warrants; term of 5 years, volatility of 59.53%, expected dividends 0% and discount rate of 1.25%. The warrants value of \$584,000 is being amortized over the remaining term

of the purchase option.

F-32

The aggregate amount due under the financing obligation at December 31, 2016 and 2015 was \$2,377,000 and \$2,538,000, respectively. Aggregate future obligations under the financing obligation are as follows:

| Year | Amount |
|------------|-------------|
| 2017 | \$ 190,000 |
| 2018 | 222,000 |
| 2019 | 259,000 |
| 2020 | 299,000 |
| 2021 | 344,000 |
| Thereafter | 1,064,000 |
| Total | \$2,378,000 |

(8) Obligations Under Capital Leases

The Company leases equipment for its brewery operations with an aggregate value of \$903,000 under 10 non-cancelable capital leases. In addition, the company leases vehicles and office equipment with rates and monthly payments range from \$189 to \$10,441 per month, including interest, at interest rates ranging from 3.50% to 17.31% per annum. The principal balance due under these leases was \$621,000 and \$643,000 at December 31, 2016 and 2015, respectively. At December 31, 2016, monthly payments under these leases aggregated \$19,000. The leases expire at various dates through 2021.

Future minimum lease payments under capital leases are as follows:

| | |
|---|------------|
| Years Ending December 31, | |
| 2017 | \$ 223,000 |
| 2018 | 227,000 |
| 2019 | 190,000 |
| 2020 | 62,000 |
| 2021 | 6,000 |
| Total payments | \$708,000 |
| Less: Amount representing interest | (87,000) |
| Present value of net minimum lease payments | \$621,000 |
| Less: Current portion | (183,000) |
| Non-current portion | \$438,000 |

(9) Warrant Liability

The Company issued warrants to investors and a placement agent as part of our June 2, 2016 financing transaction. In accordance with ASC 480, Distinguishing Liabilities from Equity ("ASC 480"), the fair value of these warrants are classified as a liability on the Company's balance sheet as according to the warrant terms, a fundamental transaction could give rise to an obligation of the Company to pay cash to such warrant holders. Corresponding changes to the fair value of the warrants are recognized in earnings on the Company's statements of operations in each subsequent period.

The warrant liability was valued at the following dates using Black-Scholes-Merton option pricing model with the following average assumptions:

| | Issuance | | December | |
|-------------------------|-----------------|---|-----------------|---|
| | Date | | 31, 2016 | |
| Stock Price | \$3.34 | | \$4.10 | |
| Risk free interest rate | 1.50 | % | 1.58 | % |
| Expected Volatility | 55.82 | % | 55.81 | % |
| Expected life in years | 5 | | 4.42 | |
| Expected dividend yield | 0 | % | 0 | % |
| Fair Value – Warrants | \$543,000 | | \$775,000 | |

The risk-free interest rate was based on rates established by the Federal Reserve Bank. The Company uses the historical volatility of its common stock to estimate the future volatility for its common stock. The expected life of the warrant was determined by the remaining contractual life of the warrant instrument. The expected dividend yield was based on the fact that the Company has not paid dividends to its common stockholders in the past and does not expect to pay dividends to its common stockholders in the future.

(10) Stockholders' Equity

Preferred Stock

Series A

Series A Preferred stock consists of 500,000 shares \$10.00 par value, 5% non-cumulative, participating, preferred stock. As of December 31, 2016, and 2015, there were 9,411 shares outstanding, with a liquidation preference of \$10.00 per share. Each share of Series A Preferred stock can be converted into four shares of Reed's common stock.

The Series A Preferred shares have a 5% pro-rata annual non-cumulative dividend. The dividend can be paid in cash or, in the sole and absolute discretion of our board of directors, in shares of common stock based on its then fair market value. We cannot declare or pay any dividend on shares of our securities ranking junior to the preferred stock until the holders of our preferred stock have received the full non-cumulative dividend to which they are entitled. In addition, the holders of our preferred stock are entitled to receive pro rata distributions of dividends on an “as converted” basis with the holders of our common stock. During the year ended December 31, 2016 the Company accrued and paid a \$5,000 dividend payable to the preferred shareholders, which the board of directors elected to pay through the issuance of 1,504 shares of its common stock. During the year ended December 31, 2015 the Company paid a \$5,000 dividend payable to the preferred shareholders through the issuance of 751 shares of its common stock.

In the event of any liquidation, dissolution or winding up of the Company, or if there is a change of control event, then, subject to the rights of the holders of our more senior securities, if any, the holders of our Series A preferred stock are entitled to receive, prior to the holders of any of our junior securities, \$10.00 per share plus all accrued and unpaid dividends. Thereafter, all remaining assets shall be distributed pro rata among all of our security holders. Since June 30, 2008, we have the right, but not the obligation, to redeem all or any portion of the Series A preferred stock by paying the holders thereof the sum of the original purchase price per share, which was \$10.00, plus all accrued and unpaid dividends.

The Series A preferred stock may be converted, at the option of the holder, at any time after issuance and prior to the date such stock is redeemed, into four shares of common stock, subject to adjustment in the event of stock splits, reverse stock splits, stock dividends, recapitalization, reclassification and similar transactions. We are obligated to reserve out of our authorized but unissued shares of common stock enough such shares to affect the conversion of all outstanding shares of Series A preferred stock. During 2016, no shares of Series A preferred stock were converted into common stock.

Except as provided by law, the holders of our Series A preferred stock do not have the right to vote on any matters, including, without limitation, the election of directors. However, so long as any shares of Series A preferred stock are outstanding, we shall not, without first obtaining the approval of at least a majority of the holders of the Series A preferred stock, authorize or issue any equity security having a preference over the Series A preferred stock with respect to dividends, liquidation, redemption or voting, including any other security convertible into or exercisable for any equity security other than any senior preferred stock.

Common Stock

Common stock consists of \$.0001 par value, 19,500,000 shares authorized, 13,982,230 shares outstanding as of December 31, 2016, and 13,160,860 shares outstanding as of December 31, 2015.

During the year ended December 31, 2016, the Company entered into a securities purchase agreement with institutional investors in a private financing transaction for the issuance and sale of 692,412 shares of the Company's common stock and warrants to purchase 346,206 shares of common stock. The net proceeds to the Company from the offering were \$2,113,000 after deducting underwriting discounts, commissions and offering expenses. The investor warrants have an exercise price of \$4.25 per share and a term of 5 years. As per the terms of the offering, the placement agent received 72,703 warrants and a term of 5 years at an exercise price of \$3.74.

In connection with the issuance of the warrants, the Company recorded a warrant liability on its balance sheet as a fundamental transaction could give rise to an obligation of the Company to pay cash to such warrant holders. Corresponding changes to the fair value of the warrants are recognized in earnings on the Company's statements of operations in each subsequent period. The Company determined the aggregate initial fair value of the warrants in the financing transaction to be \$543,000 valued using Black-Scholes-Merton option pricing model. For financial statement purposes, the amount of the warrant liability created from the issuance of the warrants of \$543,000 has been offset to the net cash proceeds received of \$2,113,000, resulting in a reduction of additional paid-in capital of \$543,000 from the sale of the shares of common stock and warrants.

During the year ended December 31, 2016, the Company sold 30,000 shares of its common stock to certain officers of the Company at \$3.90 per share with total proceeds of \$117,000.

During the year ended December 31, 2016, the Company issued 4,228 shares of common stock for consulting services valued at an aggregate value of \$15,000 for services rendered.

(11) Stock Options and Warrants

A) Stock Options

In 2007, the Company adopted the Reed's Inc. 2007 Stock Option Plan and in 2015 the Company adopted the Reed's Inc. 2015 Incentive and Non-statutory Stock Option Plan (the "Plans"). The options under both plans shall be granted from time to time by the Board of Directors. Individuals eligible to receive options include employees of the Company, consultants to the Company and directors of the Company. The options shall have a fixed price, which will not be less than 100% of the fair market value per share on the grant date or 110% of the fair market value per share on the grant date for Chief Executive Officer of the Company. The total number of options authorized is 1,500,000 and 500,000, respectively for the Plans.

During the years ended December 31, 2016 and 2015, the Company granted 172,500 and 548,000 options, respectively, to purchase the Company's common stock at a weighted exercise price of \$4.01 and \$5.63, respectively, to employees under the Plans. The fair value of the options granted during the years ended December 31, 2016 and 2015 was \$714,000 and \$1,398,000, respectively.

The weighted-average grant date fair value of options granted during 2016 and 2015 was \$4.01 and \$2.54, respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model that uses the assumptions noted in the following table. For purposes of determining the expected life of the option, an average of the estimated holding period is used. The risk-free rate for periods within the contractual life of the options is based on the U. S. Treasury yield in effect at the time of the grant.

| | Year ended December 31, | | | |
|----------------------------------|-------------------------|---|----------------|---|
| | 2016 | | 2015 | |
| Expected volatility | 57 | % | 56 - 62 | % |
| Expected dividends | — | | — | |
| Expected average term (in years) | 1.77 | | 3.5 - 4.5 | |
| Risk free rate - average | 0.77%-1.81 % | | 0.69% - 1.64 % | |
| Forfeiture rate | 0 | | 0 | |

The aggregate fair value of the options vesting, net of forfeitures, during the years ended December 31, 2016 and 2015 was \$658,000 and \$877,000, respectively, and has been reflected as compensation cost. As of December 31, 2016, the aggregate value of unvested options was \$700,000 which will be amortized as compensation cost as the options vest, over 2 to 4 years.

During the year ended December 31, 2016 there were 84,000 options exercised into 76,966 shares of common stock at an average price of \$1.37. Most of such exercises were cash-less, however, the Company did receive proceeds from certain exercises aggregating \$71,000.

During the year ended December 31, 2015 there were 135,833 stock options exercised on a cashless basis at exercise prices between \$1.14 and \$4.60 per share, issuing 57,112 shares of common stock.

A summary of option activity as of December 31, 2016, and changes during the two years then ended is presented below:

| | Shares | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Terms (Years) | Aggregate Intrinsic Value |
|----------------------------------|------------|---|--|---------------------------------|
| Outstanding at January 1, 2015 | 705,333 | \$ 3.96 | | |
| Granted | 548,000 | 5.01 | | |
| Exercised | (135,833) | 3.36 | | |
| Forfeited or expired | (137,500) | 4.85 | | |
| Outstanding at December 31, 2015 | 980,000 | 3.96 | 3.41 | \$ 843,000 |
| Granted | 172,500 | 4.01 | | |
| Exercised | (84,000) | 1.36 | | |
| Forfeited or expired | (20,000) | 4.92 | | |
| Outstanding at December 31, 2016 | 1,048,500 | \$ 4.68 | 3.80 | \$ 61,000 |
| Exercisable at December 31, 2016 | 543,534 | \$ 4.61 | 3.04 | \$ 39,000 |

As of December 31, 2016, the aggregate intrinsic values of \$61,000 was calculated as the difference between the market price and the exercise price of the Company's stock, which was \$4.10 as of December 31, 2016.

A summary of the status of the Company's non-vested shares granted under the Company's stock option plan as of December 31, 2016 and changes during the year then ended is presented below:

Additional information regarding options outstanding as of December 31, 2016, is as follows:

| | Shares | Weighted- Average Grant Date Fair Value |
|--------------------------------|-----------|---|
| Nonvested at December 31, 2015 | 661,083 | \$ 2.41 |
| Granted | 172,500 | 4.01 |
| Vested | (316,117) | 4.61 |
| Forfeited | (12,500) | 4.92 |

Nonvested at December 31, 2016 504,966 \$ 4.68

B) Warrants

| Range of Exercise Price | Options Outstanding at December 31, 2016 | | | Options Exercisable at December 31, 2016 | |
|-------------------------------|---|---|--|--|--|
| | Number of Shares Outstanding | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number of Shares Exercisable | Weighted Average Exercise Price |
| \$2.00 - \$3.99 | 237,500 | 6.27 | \$ 3.83 | 143,700 | \$ 3.89 |
| \$4.00 - \$5.99 | 811,000 | 3.08 | \$ 4.93 | 399,834 | \$ 4.87 |
| | 1,048,500 | 3.80 | \$ 4.68 | 543,534 | \$ 4.61 |

On June 2, 2016, the Company granted warrants to purchase 346,206 shares of common stock in connection with the common stock offering. The warrants have an exercise price of \$4.25 per share and a term of 5 years. In addition, the Company granted Maxim Group LLC who acted as the placement agent for the offering warrants to purchase up to 72,703 shares of common stock at an exercise price of \$3.74 and are exercisable for a term of 5 years. The exercise prices of the warrants are subject to customary adjustments in the event of stock dividends and splits, and the warrants contain protective provisions in the event of fundamental transactions.

During the year ended December 31, 2016, 16,260 warrants were exercised into 16,260 shares of common stock for \$45,000.

The following table summarizes warrant activity for the two years ended December 31, 2016:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Terms (Years) | Aggregate Intrinsic Value |
|----------------------------------|-----------|---------------------------------|--|---------------------------|
| Outstanding at December 31, 2014 | 301,963 | \$ 4.49 | | |
| Granted | 125,000 | \$ 4.50 | | |
| Exercised | (34,692) | | | |
| Forfeited or expired | (51,010) | - | | |
| Outstanding at December 31, 2015 | 341,261 | \$ 5.17 | 3.30 | \$ 152,000 |
| Granted | 478,909 | \$ 4.50 | | |
| Exercised | (16,260) | \$ 2.77 | | |
| Forfeited or expired | (1) | | | |
| Outstanding at December 31, 2016 | 803,909 | \$ 4.50 | 4.00 | \$ 26,000 |
| Exercisable at December 31, 2016 | 803,909 | \$ 4.54 | 4.20 | \$ 26,000 |

As of December 31, 2016, the aggregate intrinsic value of \$26,000 for both outstanding and exercisable was calculated as the difference between the market price of the company which was \$4.10 and the exercise price.

The following table summarizes the outstanding warrants to purchase Common Stock at December 31, 2016:

| Number | Price | Expiration Dates |
|---------|--------|------------------|
| 200,000 | \$5.60 | Sep-19 |
| 125,000 | \$4.10 | May-21 |
| 10,000 | \$3.90 | Oct-21 |
| 50,000 | \$4.10 | Nov-21 |
| 346,206 | \$4.25 | Jun-21 |
| 72,703 | \$3.74 | Jun-21 |
| 803,909 | | |

(12) Income Taxes

At December 31, 2016 and 2015, the Company had available Federal and state net operating loss carryforwards to reduce future taxable income. The amounts available were approximately \$21.3 million and \$18.6 million for Federal purposes, respectively, and \$14.5 million and \$13.3 million for state purposes respectively. The Federal carryforward

expires in 2034 and the state carryforward expires in 2019. Given the Company's history of net operating losses, management has determined that it is more likely than not that the Company will not be able to realize the tax benefit of the carryforwards. Accordingly, the Company has not recognized a deferred tax asset for this benefit.

Effective January 1, 2007, the Company adopted FASB guidelines that address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. This guidance also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. At the date of adoption, and as of December 31, 2016 and 2015, the Company did not have a liability for unrecognized tax benefits, and no adjustment was required at adoption.

The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of December 31, 2016, and 2015, the Company has not accrued interest or penalties related to uncertain tax positions. Additionally, tax years 2009 through 2016 remain open to examination by the major taxing jurisdictions to which the Company is subject.

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

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

| | December 31, 2016 | December 31 2015 |
|---------------------------------|------------------------------|---------------------|
| Deferred income tax asset: | | |
| Net operating loss carryforward | \$ 10,325,000 | \$ 9,034,000 |
| Valuation allowance | (10,325,000) | (9,034,000) |
| Net deferred income tax asset | \$ 0 | \$ 0 |

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

| | December 31, 2016 | December 31 2015 |
|-----------------------------------|------------------------------|---------------------|
| Federal Statutory tax rate | (34 %) | (34 %) |
| State tax, net of federal benefit | (5 %) | (5 %) |
| | (39 %) | (39 %) |
| Valuation allowance | 39 % | 39 % |
| Effective tax rate | - % | - % |

(13) Commitments and Contingencies

Lease Commitments

The Company leases warehouse space under non-cancelable operating leases. Rental expense under these and other operating leases for the years ended December 31, 2016 and 2015 was \$137,000 and \$209,000, respectively. These leases expire in November 2017.

Future payments under these leases as of December 31, 2016, are as follows:

| Year ending December 31, | Amount |
|--------------------------|-----------|
| 2017 | \$137,000 |
| 2018 | - |
| Total | \$137,000 |

Other Commitments

The Company has entered into contracts with customers with clauses that commit the Company to pay fees if the Company terminates the agreement early or without cause. The contracts call for the customer to have the right to distribute the Company's products to a defined type of retailer within a defined geographic region. If the Company should terminate the contract or not automatically renew the agreements without cause, amounts would be due to the customer. As of December 31, 2016 and 2015, the Company has no plans to terminate or not renew any agreement with any of their customers; therefore, no such fees have been accrued in the accompanying financial statements.

(14) Legal Proceedings

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

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

(15) Related Party Activity

During the year, Judy Reed, wife of Christopher J. Reed, served as Corporate Secretary along with being a member of the Board of Directors. Her replacement to the board was elected November 29, 2017 and she has agreed to remain as Corporate Secretary until a replacement can be found. Complete compensation information follows below in Part III.

(16) Subsequent Events

On April 19, 2017, three accredited investors that are party to that certain Securities Purchase Agreement dated May 26, 2016 and hold participation rights in the Company's financing transactions agreed to waive their participation rights with regard to the April 21, 2017 financing. In consideration, these investors' participation rights, expiring in May 2017, were extended for a period of two years. In addition, the Company increased the terms of their outstanding warrants by one year and reduced the exercise price from \$4.25 to \$3.00 and also issued five-year warrants to purchase an aggregate of 210,111 shares of common stock at the exercise price of \$3.00 to these investors. The newly issued warrants contain customary anti-dilution provisions.

After December 31, 2016 Chris Reed (CEO) and Daniel Miles (CFO) advanced working capital funds of \$381,000 and \$120,000 respectively to the Company for working capital uses. Chris Reed will be repaid \$240,000 in April 2017 and the remainder for both Chris Reed and Daniel Miles will be repaid by the end of this year.

On April 19, 2017, Chris Reed resigned from his position as Chief Executive Officer of Reed's, effective immediately. Concurrently, Mr. Reed was appointed as Chief Innovation Officer. Mr. Reed will continue to serve as non-independent director of Reed's Board of Directors.

On April 19, 2017, Stefan Freeman, one of the Company's independent directors, was appointed as interim Chief Executive Officer of Reed's.

On April 21, 2017 ("Closing Date"), pursuant to a Securities Purchase Agreement ("Purchase Agreement"), Reed's Inc., a Delaware corporation ("Reed's" or the "Company") sold and issued a convertible subordinated note in the principal amount of \$3,400,000 ("Note") and warrants to purchase 1,416,667 shares of common stock ("Warrant Shares") to Raptor/ Harbor Reeds SPV, LLC. The Note bears interest at a rate of 12% per annum, compounded monthly on a 365-day year/ 30-day month basis. The Note is secured by a second priority security interest in the Company's assets, which is subordinate to the first priority security interest of PMC Financial Services Group, LLC. The Note matures on the two-year anniversary of the Closing date and may not be prepaid. After 180 days, the Note may be converted, at any time and from time to time, into 1,133,333 shares of common stock of the Company ("Conversion Shares"). The Warrants will expire on the fifth (5th) anniversary of the Closing Date and have an exercise price equal to \$4.00. Warrants will not be exercisable until 180 days after the Closing date. The Note and Warrant contain customary anti-dilution provisions and the Conversion Shares and Warrant Shares are subject to a registration rights agreement. The investor was granted a right to participate in future financing transactions of the Company for a term of two years.

To facilitate the close of the agreement between Reed's Inc. and Raptor/ Harbor Reeds SPV LLC, Reed's Inc. granted an acceleration of the maturity of existing indebtedness with PMC from January 1, 2019 to October 21, 2018.

The fair value of the warrants and conversion feature was determined to be \$3,400,000 and will be recorded as a valuation discount and amortized as interest expense over the term of the note.

The Company intends to use the net proceeds from the offering of approximately \$3,240,000 for working capital and general corporate purposes. Wunderlich Securities, the Company's placement agent, will receive a fee of approximately \$160,000 of the gross proceeds.

F-39

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 24. Indemnification of Directors and Officers.

We are subject to the laws of Delaware on corporate matters, including their indemnification provisions. Section 102 of the General Corporation Law of Delaware (the “DGCL”) permits a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit.

Section 145 of the Delaware General Corporation Law (the “DGCL”), as the same exists or may hereafter be amended, provides that a Delaware corporation may indemnify any persons who were, or are threatened to be made, parties to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person is or was an officer, director, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation’s best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was illegal. A Delaware corporation may indemnify any persons who are, were or are threatened to be made, a party to any threatened, pending or completed action or suit by or in the right of the corporation by reason of the fact that such person was a director, officer, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys’ fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit, provided such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation’s best interests, provided that no indemnification is permitted without judicial approval if the officer, director, employee or agent is adjudged to be liable to the corporation. Where an officer, director, employee, or agent is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him or her against the expenses which such officer or director has actually and reasonably incurred.

Section 145 of the DGCL further authorizes a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against any liability asserted

against him or her and incurred by him or her in any such capacity, arising out of his or her status as such, whether or not the corporation would otherwise have the power to indemnify him or her under Section 145 of the DGCL.

Our amended certificate of incorporation provides that, to the fullest extent permitted by Delaware law, as it may be amended from time to time, none of our directors will be personally liable to us or our stockholders for monetary damages resulting from a breach of fiduciary duty as a director. Our amended certificate of incorporation also provides discretionary indemnification for the benefit of our directors, officers and employees, to the fullest extent permitted by Delaware law, as it may be amended from time to time. Pursuant to our bylaws, we are required to indemnify our directors, officers, employees and agents, and we have the discretion to advance his or her related expenses, to the fullest extent permitted by law.

We do currently provide liability insurance coverage for our directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Item 25. Other Expenses of Issuance and Distribution

The following table sets forth the expenses payable by us in connection with this offering of securities described in this registration statement. All amounts shown are estimates, except for the SEC registration fee. The Registrant will bear all expenses shown below.

| | |
|-------------------------------|--------|
| SEC filing fee | \$634 |
| Accounting fees and expenses* | 5,000 |
| Legal fees and expenses* | 7,000 |
| Total | 12,634 |

*Estimated

Item 26. Recent Sales of Unregistered Securities

The following sets forth all sales of unregistered securities we have completed during the last three years. Except as otherwise indicated below, the following transactions were effected in reliance upon the exemption from registration set forth in Section 4(2) of the Securities Act. We based such reliance upon the following facts and circumstances: (i) the investors were accredited investors, as defined in Rule 501 of the Securities Act and were sophisticated, having sufficient knowledge and experience in financial and business matters to make them capable of evaluating the merits and risks of the investment, (ii) the investors represented that they were purchasing the securities for investment purposes without a view to distribution, (iii) the investors had access to our management and information concerning the Company, its business and financial information and (iv) we conducted the sale of the securities without general solicitation or advertising. Except as otherwise indicated below, no underwriting discounts or commissions were paid in the transactions.

December 6, 2017, we entered into a definitive Backstop Agreement with Raptor/ Harbor Reeds SPV, LLC, a significant shareholder of the Company, (“Raptor”), whereby Raptor, as a backstop to our 2017 rights offering, agreed to purchase from us a minimum of \$6 million of units pursuant to its subscription rights and in a private placement, subject to customary terms and conditions. As compensation for the backstop commitment and subject to the closing of the rights offering, issued issue to Raptor, five- year warrants to purchase 750,000 shares of our common stock. These backstop warrants have an exercise price equal to \$1.50, are not be exercisable for a term of 180 days and have a cashless exercise feature.

Further, on December 6, 2017, we entered into an amendment agreement with Raptor, extending its subordinated convertible non-redeemable secured note in the principal amount of \$3.4 million by twenty-four months in exchange for amending the conversion price of the note from \$3.00 to \$1.75. Concurrently with the reduction of the subscription price in the rights offering, we also agreed to further reduce the conversion price to \$1.50.

On July 13, 2017, we entered into Warrant Exercise Agreements with Raptor/Harbor Reeds SPV LLC, a Delaware limited liability company (the “Lead Investor”) and three other investors holding participation rights in the transaction signatory thereto to reprice warrants to purchase 1,906,925 shares of our common stock (the “Repriced Warrants”). The Repriced Warrants have an exercise price per share of \$1.50 and were revised to modify language pertaining to “Fundamental Transactions”. Restrictions upon exercise were waived as to 1,093,750 warrant shares for aggregate gross proceeds to Reed’s of \$1,640,625. We also issued to the holders, pro rata based on the number of shares each Holder exercised, additional second tranche warrants to purchase up to 512,560 shares of our common stock and additional third tranche warrants to purchase up to 87,746 shares of our common stock. Second tranche warrants have a term of five years, may be exercised commencing 6 months from the date of issuance and have an exercise price equal to \$2.00. The third tranche warrants were exercisable immediately upon issuance for a term of five-years, with an exercise price equal to \$1.55.

On April 21, 2017, pursuant to a Securities Purchase Agreement, we sold and issued a secured convertible subordinated non-redeemable note in the principal amount of \$3,400,000 and a warrant to purchase 1,416,667 shares of common stock to Raptor/Harbor Reeds SPV LLC.

On April 19, 2017, three accredited investors that are party to that certain Securities Purchase Agreement dated May 26, 2016 and hold participation rights in the Company's financing transactions agreed to waive their participation rights with regard to the April 21, 2017 financing. In consideration, these investors' participation rights, expiring in May 2017, were extended for a period of two years. In addition, the Company increased the terms of their outstanding warrants by one year and reduced the exercise price from \$4.25 to \$3.00 and also issued five-year warrants to purchase an aggregate of 210,111 shares of common stock at the exercise price of \$3.00 to these investors.

On June 2, 2016, pursuant to a Securities Purchase Agreement dated May 26, 2016 with institutional and accredited investors, Reed's closed a private financing transaction for the issuance and sale by Reed's of 692,412 shares of common stock and warrants to purchase 346,206 shares of common stock, for gross proceeds to Reed's of \$2,354,200.

During the fiscal year ended December 31, 2016, we issued the following equity securities that were unregistered under the Securities Act: 214 shares of common stock to directors for services rendered.

During the fiscal year ended December 31, 2015, we issued the following equity securities that were unregistered under the Securities Act: 247 shares of common stock to directors for services rendered.

During the fiscal year ended December 31, 2014, we issued the following equity securities that were unregistered under the Securities Act: 2,808 shares of common stock in exchange for consulting services.

On November 9, 2015, as part of restructuring of term loans with PMC Financial Services Group, LLC ("PMC"), the Company granted PMC 125,000 warrants at an exercise price of \$4.50 per share for five years and six months. On May 13, 2016, as part of a further restructuring of the loans with PMC, the Company granted PMC 50,000 warrants at an exercise price of \$4.50 per share with a term of five years and six months. On December 7, 2016, the Company agreed to reprice the exercise price of 50,000 common stock purchase warrants previously granted from \$4.50 to \$4.10 and to reprice the exercise price of 125,000 common stock purchase warrants previously granted from \$5.01 to \$4.10.

Effective October 1, 2014, in exchange for a release from the \$150,000 personal guarantee of the principal shareholder and then current Chief Executive Office and a release of the brewery equipment which was collateral for its lease agreement, the Company issued 200,000 warrants to purchase its common stock for \$5.60 per share for five years to its lender.

Item 27. Exhibits

See Exhibit Index attached hereto and incorporated herein by reference.

Item . Undertakings

(a) The undersigned registrant hereby undertakes:

1. To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

- a. To include any prospectus required by Section 10(a)(3) of the Securities Act;
 - b. To reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in the volume and rise represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and
 - c. To include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material changes to such information in the Registration Statement.
2. For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.
3. To file a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

4. For determining liability of the undersigned issuer under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned issuer undertakes that in a primary offering of securities of the undersigned issuer pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned issuer will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- i. Any preliminary prospectus or prospectus of the undersigned issuer relating to the offering required to be filed pursuant to Rule 424;
- ii. Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned issuer or used or referred to by the undersigned issuer;
- iii. The portion of any other free writing prospectus relating to the offering containing material information about the undersigned issuer or its securities provided by or on behalf of the undersigned issuer; and
- iv. Any other communication that is an offer in the offering made by the undersigned issuer to the purchaser.

5. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

6. For determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant under Rule 424(b)(1) or (4) or 497(h) under the Securities Act as part of this registration statement as of the time the Commission declared it effective.

7. For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

8. That, for the purpose of determining liability under the Securities Act to any purchaser:

a. If the issuer is relying on Rule 430B:

1. Each prospectus filed by the undersigned issuer pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

2. Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date; or

b. If the issuer is subject to Rule 430C: Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and authorized this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Angeles, State of California, on February 14, 2018.

REED'S, INC.

By: */s/ Valentin Stalowir*
 Valentin Stalowir
 Chief Executive Officer

KNOW ALL PERSONS BY THESE PRESENTS, that each of the individuals whose signature appears below constitutes and appoints Valentin Stalowir, as his true and lawful attorney-in-fact and agent, with full and several power of substitution, for him or her and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitutes, may lawfully do or cause to be done.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated and on the dates indicated.

| Signature | Title | Date |
|---|--|-------------------|
| <i>/s/ Valentin Stalowir</i> Valentin Stalowir | Chief Executive Officer, Director (Principal Executive Officer) | February 14, 2018 |
| <i>/s/ Daniel V. Miles</i> Daniel Miles | Chief Financial Officer (Principal Accounting Officer, Principal Financial Officer) | February 14, 2018 |
| <i>/s/ James Bass</i> James Bass | Director | February 14, 2018 |

| | | |
|---|----------|-------------------|
| <i>/s/ Scott R. Grossman</i> Scott R. Grossman | Director | February 14, 2018 |
|---|----------|-------------------|

| | | |
|---------------------------------------|----------|-------------------|
| <i>/s/ Lewis Jaffe</i> Lewis Jaffe | Director | February 14, 2018 |
|---------------------------------------|----------|-------------------|

| | | |
|-------------------------------------|----------|-------------------|
| <i>/s/ John Bello</i> John Bello | Chairman | February 14, 2018 |
|-------------------------------------|----------|-------------------|

EXHIBIT INDEX

Exhibit Description

- | | |
|-----|--|
| 3.1 | Certificate of Incorporation of Reed's, Inc. as filed September 7, 2001 (Incorporated by reference to Exhibit 3.1 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-120451)) |
| 3.2 | Certificate of Amendment of Certificate of Incorporation of Reed's, Inc. as filed September 27, 2004 (Incorporated by reference to Exhibit 3.2 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-120451)) |
| 3.3 | Certificate of Amendment of Certificate of Incorporation of Reed's, Inc. as filed December 18, 2007 (Incorporated by reference to Exhibit 3.3 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-156908)) |
| 3.4 | Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Reed's, Inc. as filed October 12, 2004 (Incorporated by reference to Exhibit 3.3 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-120451)) |
| 3.5 | Certificate of Correction to Certificate of Designations as filed November 10, 2004 (Incorporated by reference to Exhibit 3.4 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-120451)) |
| 3.6 | Certificate of Amendment of Certificate of Incorporation of Reed's, Inc., as filed October 10, 2017 (Incorporated by reference to Exhibit 3.6 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-221059)) |
| 3.7 | Bylaws of Reed's Inc., as amended (Incorporated by reference to Exhibit 3.6 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-220184)) |
| 4.1 | Form of common stock certificate (Incorporated by reference to Exhibit 4.1 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-120451)) |
| 4.2 | Form of Series A preferred stock certificate (Incorporated by reference to Exhibit 4.2 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-120451)) |
| 4.3 | Form of Warrant issued to investors dated June 2, 2016 (Incorporated by reference to exhibit 4.1 to Reed's Inc.'s Current Report on Form 8-K as filed June 3, 2016) |
| 4.4 | Placement Agent Warrant issued to Maxim Group LLC dated June 2, 2016 (Incorporated by reference to exhibit 4.2 to Reed's Inc.'s Current Report on Form 8-K as filed June 3, 2016) |
| 4.5 | Form of Common Stock Purchase Warrant issued November 9, 2015 (Incorporated by reference to exhibit 10.1 to Reed's Inc.'s Quarterly Report on Form 10Q for the period ended March 31, 2016, as filed May 11, 2016) |

Edgar Filing: REED'S, INC. - Form S-1

- 4.6 Form of Common Stock Purchase Warrant issued October 1, 2014 (Incorporated by reference to exhibit 10.4 to Reed's Inc.'s Quarterly Report on Form 10Q for the period ended March 31, 2016, as filed May 11, 2016)
- 4.7 Form of 2017-1 Warrant (Incorporated by reference to exhibit 4.1 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)
- 4.8 Form of 2017-2 Warrant (Incorporated by reference to exhibit 4.2 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)
- 4.9 Form of Subordinated Convertible Non-Redeemable Secured Promissory Note dated April 21, 2017 (Incorporated by reference to exhibit 4.3 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)
- 4.10 Form of 2017-3 Warrant (Incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K, filed July 14, 2017)
- 4.11 Form of 2017-4 Warrant (Incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K, filed July 14, 2017)
- 4.12 Form of Warrant Certificate issued in 2018 rights offering (Incorporated by reference to Exhibit 4.12 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-221059))
- 4.13 Form of Warrant Agreement (Incorporated by reference to Exhibit 3.6 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-221059))
- 4.14 Form of Form of Warrant issuable to Raptor/ Harbor Reeds SPV, LLC pursuant to Backstop Agreement (Incorporated by reference to Exhibit 4.14 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-221059))

- 5.1 Opinion of Libertas Law Group Inc., to be filed by amendment.

- 10.1 Placement Agent Agreement by and between Maxim Group LLC and Reed's Inc. dated May 26, 2016 (Incorporated by reference to exhibit 10.1 to Reed's Inc.'s Current Report on Form 8-K as filed June 3, 2016)

- 10.2 Securities Purchase Agreement by and between Reed's Inc. and purchasers signatory thereto dated May 26, 2016 (Incorporated by reference to exhibit 10.2 to Reed's Inc.'s Current Report on Form 8-K as filed June 3, 2016)

- 10.3 Registration Rights Agreement by and between Reed's Inc. and purchasers signatory thereto dated May 26, 2016 (Incorporated by reference to exhibit 10.3 to Reed's Inc.'s Current Report on Form 8-K as filed June 3, 2016)

- 10.4* 2007 Stock Option Plan (Incorporated by reference to Exhibit 10.22 to Reed's, Inc.'s Form 10-K filed March 27, 2009)

- 10.5* 2015 Incentive and Nonstatutory Stock Option Plan (Incorporated by reference to Exhibit 4.2 to Reed's Inc.'s Registration Statement on Form S-8 (File No. 333-203469), as filed April 17, 2015)

- 10.6 Amended and Restated Loan and Security Agreement by and between Reed's Inc. and PMC Financial Services, LLC dated December 5, 2014 (Incorporated by reference to exhibit 10.3 to Reed's Inc.'s Quarterly Report on Form 10Q for the period ended March 31, 2016, as filed May 11, 2016)

- 10.7 Amendment Number One Standard Industrial Commercial Single Tenant Lease-Net by and between Reed's Inc. and 525 South Douglas Street, LLC dated May 7, 2009 (Incorporated by reference to exhibit 10.4 to Reed's Inc.'s Quarterly Report on Form 10Q for the period ended March 31, 2016, as filed May 11, 2016)

- 10.8 Securities Purchase Agreement by and between Reed's Inc. and Raptor/Harbor Reeds SPV LLC dated April 21, 2017 (Incorporated by reference to exhibit 10.1 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)

- 10.9 Second Lien Security Agreement by and between Reed's Inc. and Raptor/Harbor Reeds SPV LLC dated April 21, 2017 (Incorporated by reference to exhibit 10.2 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)

- 10.10 Form of Registration Rights Agreement by and between Reed's Inc. and Raptor/Harbor Reeds SPV LLC dated April 21, 2017 (Incorporated by reference to exhibit 10.3 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)

- 10.11 Amendment Number Fifteen to Amended and Restated Loan and Security Agreement between Reed's Inc. and PMC Financial Services Group, LLC dated April 21, 2017 (Incorporated by reference to exhibit 10.4 to Reed's Inc.'s Current Report on Form 8-K as filed April 24, 2017)

- 10.12 Warrant Exercise Agreement by and between Reed's Inc. and Raptor/Harbor Reeds SPV LLC dated July 13, 2017 (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed July 14, 2017)

- 10.13

Form of Warrant Exercise Agreement by and between Reed's Inc. and three investors dated July 13, 2017 (Incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed July 14, 2017)

10.14* Executive Employment Agreement effective as of June 28, 2017 by and between Reed's Inc. and Valentin Stalowir (Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed July 13, 2017)

10.15* 2017 Incentive Compensation Plan (Incorporated by reference to Exhibit 4.2 to Reed's, Inc.'s Registration Statement on Form S-8 (File No. 333-222741))

10.16 Form of Backstop Agreement by and between Reed's Inc. and Raptor/ Harbor Reeds SPV, LLC, filed herewith (Incorporated by reference to Exhibit 10.16 to Reed's, Inc.'s Registration Statement on Form S-1 (File No. 333-220184))

14.1 Code of Ethics (Incorporated by reference to Exhibit 14.1 to Reed's, Inc.'s Registration Statement on Form SB-2 (File No. 333-157359))

23.1 Consent of Weinberg & Company, PA, Independent Registered Public Accounting Firm, filed herewith.

23.2 Consent of Libertas Law Group Inc. (included in Exhibit 5.1)

* Compensatory plan or arrangement.

