

2017  
ANNUAL  
REPORT

EASTSIDE  
DISTILLING

NASDAQ  
LISTED  
EAST



"It has always been my goal to have a spirits line. To be able to roll out this custom blend whiskey made in America by some of the top distillers in the country is such a thrill and an honor....This team is hard working and they play hard, just like we do."

—John Rich, Singer-songwriter from the duo Big & Rich



Photo by Nick Hubbard/Hubbard Visuals



Photo by Nick Hubbard/Hubbard Visuals

# REDNECK RIVIERA ROLLOUT

“Our whiskey is not only a great whiskey, it supports an important American cause. A portion of sales of Redneck Riviera Whiskey support our give back partner, Folds of Honor. Folds of Honor is a group dedicated to providing educational scholarships to spouses and children of fallen and disabled service-members.”

—Grover Wickersham, Chairman & CEO, Eastside Distilling

# 15 STATES SELL REDNECK RIVIERA



## TO OUR SHAREHOLDERS

As I write this letter to you in May of 2018, our hard work and investment during 2017 is beginning to bear fruit and these are very exciting times for Eastside Distilling. Our business strategy since the end of 2016 has been, and remains:

- Create and monetize new and exciting brands through our great strength in developing innovative spirits and our close collaboration with the branding firm, Sandstrom Partners;
- Leverage our status as the only NASDAQ listed craft distiller to make strategic acquisitions;
- Create a cash sustaining business through our broad range of product sales in our Oregon home market and by co-packing for Pacific Northwest companies.

Starting in January of 2017 as one of the three prongs of our new business strategy, we set out to create a “Brand Factory,” by closely associating with Sandstrom Partners, a leading branding firm, and by playing to our strengths as craft spirit innovators. The fruits of this 2017 collaboration began to emerge in the fourth quarter of 2017 in the form of a totally rebranded and reinvented Burnside line of bourbon and whisky. Not only is this packaging winning national awards, our new spirit offerings are outstanding. For example, our new Burnside Oregon Oaked Rye received a rare Double Gold on May 1, 2018 in the SF World Spirits Competition, one of the 14 total medals we won in this preeminent and prestigious competition.

I credit this same teamwork with landing us John Rich as a partner -- by coupling Sandstrom’s impressive Redneck Riviera branding concepts, with Travis Schoney’s and Mel Heim’s delicious Redneck Riviera Whiskey blend that gets rave reviews for its smooth taste and honey finish. In short, 2017 laid in place a solid foundation and 2018 will be our first year of many in building on that foundation.

### SANDSTROM REBRANDING

In December of 2016, when I was elected CEO, the first initiative I set out to accomplish was a repackaging and rebranding of our product lineup. We had tremendous products that had won numerous awards, but to be honest about it, we had really poor packaging. Fortunately for us, one of the spirit industry’s most successful branding firms was right in our own backyard, Sandstrom Partners. Sandstrom is the branding firm behind Bulleit Bourbon, Aviation Gin, Stillhouse, and St. Germain. These brands had all grown into multi-million-dollar success stories.

We approached Sandstrom with a winning proposition. Instead of doing design work that could become a hundred million dollar hit in exchange for a one time fee and a pat on the back, we offered them a real partnership with us on the success of our brands -- coming in the form of share ownership and an annual retainer. They loved the idea. Sandstrom takes a major portion of their retainer in stock, Sandstrom’s president Jack Peterson has joined our board of directors as a major contributor, and the rest of the Sandstrom team works closely with Eastside’s on a daily basis. We believe this partnership is a win-win for Eastside and Sandstrom.



# BETTER BRANDING MATTERS

“We produce and sell amazing, small batch craft bourbon and whiskeys that have a different character to them than the mainstream brands. Sandstrom Partners’ bottle designs are true to our philosophy of being different, and capture our unique quality and Oregon roots.”

—Grover Wickersham, Chairman & CEO, Eastside Distilling

# 23,471 CASE SHIPMENTS IN 2017

The early results are more than encouraging. Our rebranded Burnside lineup is once again seeing its growth accelerate after we stopped production throughout much of 2017 in order to sell through the previous in-store inventory. The rebranding of our coffee rum product to 'Hue-Hue Coffee Rum' is being met with tremendous reviews. Our coffee rum is a product unlike anything else on the market today. In reimagining it as Hue-Hue (pronounced "way way"), Sandstrom Partners packaging highlights the uniqueness of its cold brewed full flavor and richness of Portland roasted Guatemalan coffee, as a new alternative to the syrupy sweetness of coffee liqueurs. Its launch in Oregon in January 2018 was well received.

Eastside and Sandstrom are systematically working through our existing product lineup, as well as floating new ideas that could become successful products, including in the area of canned ready-to-drink (RTD) beverages. We believe the recipe is in place to create significant value into the future.

## REDNECK RIVIERA WHISKEY

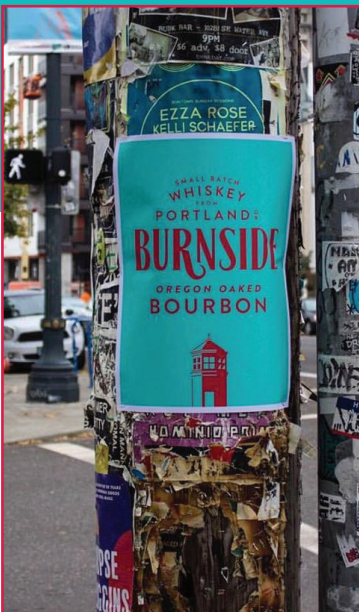
In early 2017, we were introduced to John Rich, country-music superstar for Big & Rich and highly successful business person. John was looking for a team that was as highly motivated as he was to develop a whiskey product that would meet the high standards he had set for his Redneck Riviera product brands. John had already been successful in launching hats, boots, restaurants, beef jerky and other products that appealed to the "Work Hard. Play Hard" heartland of middle America. Over seven months, led by Travis Schoney, our team worked closely with John to create a unique product that met John's specific taste profile for an American Whiskey that could compete against the top selling light Canadian whiskeys for mass appeal. The result is a high quality, very smooth, easy to drink, all American whiskey blend, that is marketed at an attractive price point.

Many of you have heard John talk about this product, whether it be in person, at conferences, on marketing panels, or on national and local media outlets. John's passion for this product is truly amazing and we couldn't be happier to be partnered with him to bring this product to life.

While John and Eastside were optimistic about what this product could do out of the gates, even we were taken by surprise by the early success. In less than a 4-month time frame since the launch of the product:

- We signed distribution agreements with the two largest distributors in the country, RNDC and Southern Glazer, as well as other key regional distributors;
- Have expanded distribution into 15 states; and
- Received authorizations from Walmart, as well as other significant accounts, such as Spec's in Texas, Safeway in Washington, ABC in Florida and both Albertsons and Rouses in Louisiana.

As we reported on our year end conference call, in Q1 2018, we shipped over 2,800 9L cases of Redneck Riviera Whiskey, and we believe we are going to be building momentum.





# READY-TO-DRINK CANNING

“Our custom built Ready-to-Drink (RTD) canning line includes Ball Corporation’s popular slim can in 187ml, 200ml and 250ml sizes. The RTD spirit and wine segment has seen significant growth over the last few years with new entrants and innovation, primarily due to a new wave of consumers seeking convenient alternatives to fit their active lifestyles.”

—Tom Wood, Vice President of Production, Eastside Distilling

# 2017 INVESTMENT IN CANNING COMES ONLINE IN 2018



## CANNING

We are seeking to use our production assets to create cash flow to invest in our “Brand Factory” strategy and in other aspects of our business. In early 2017, we acquired a craft bottling operation. This acquisition enabled production efficiencies within our existing operations, and helped us to expand into two fast growing market segments – wine canning and RTD cocktails. While it has taken us longer to ramp up production than we initially expected, we are now operational. We have begun canning wine for customers and see an expanding potential group of customers in wine and RTD products that are looking to work with us.

## TAX BREAK

In addition to realization of these core strategic initiatives, we also are seeing the benefit of the recently enacted Craft Modernization and Tax Reform Act of 2017 enacted by Congress as part of the 2017 tax legislation package which reduced the Federal Excise Tax from \$13.50 to \$2.70 per gallon for the first 100,000 proof gallons per year, an 80% tax reduction.

To put this in perspective, if Eastside’s production reaches the 100,000 proof gallons per annum needed to fully utilize the tax benefits of the Tax Act, the savings in 2018 will exceed \$1 million. These savings should improve our gross margin by more than 10 percentage points in 2018 as compared to 2017.

## 2017 FINANCIAL RESULTS

While most of the focus has been on the steps we took to set the stage for growth going forward in 2017, I am extremely proud of the success of our team in driving sales growth in 2017. Despite the total phase out of the 40% of our business represented by the old Burnside brand, we managed to increase overall sales by 25% in 2017. Our team ramped up the growth in other products, particularly our Portland Potato Vodka. I want to thank our team for all their hard work during this past year.

## 2018 AND BEYOND

Eastside is off to a great start in 2018 because of the foundation that we built in 2017. The hard work that was done during 2017 to prepare for future growth is beginning to pay off, including our rebranded products by Sandstrom Partners, our Redneck Riviera Whiskey new product launch, the investment in our new production facility and in canning capabilities, our uplisting to the Nasdaq in August of 2017, and the recruitment of key new contributors in sales, marketing and operations. These investments are targeted to begin paying off in the form of accelerated growth in 2018.

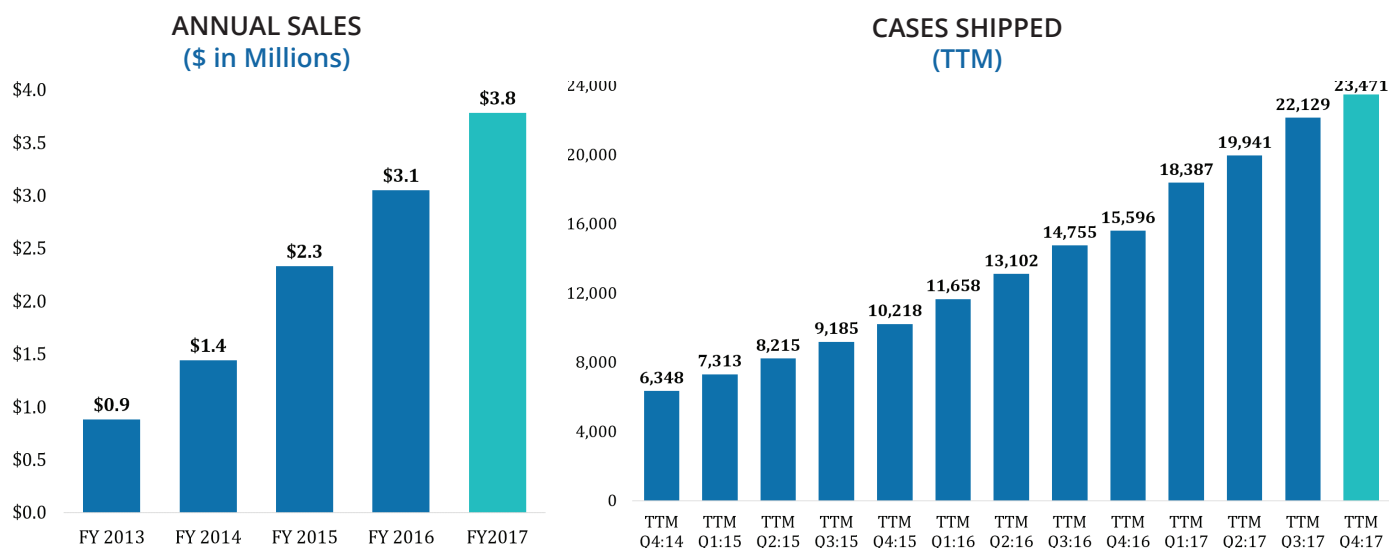
I want to thank my fellow shareholders for their support over the past year. We are highly mindful of the trust you place in us, and we are dedicated to maximizing the value of your investment.

Grover Wickersham,  
Chairman of the Board and CEO

# COMPANY FINANCIALS

Eastside Distilling, Inc. and Subsidiaries: Consolidated Statement of Operations

	December 2017	December 2016
Sales	\$ 3,791,382	\$ 3,042,527
Less excise taxes, customer programs and incentives	1,180,386	934,221
Net Sales	2,610,996	2,108,306
Cost of sales	1,634,069	1,280,344
Gross profit	976,927	827,962
Operating expenses		
Advertising, promotional and selling expenses	2,219,168	1,244,152
General and administrative expenses	3,546,659	3,881,771
Loss on disposal of property and equipment	40,975	-
Total operating expenses	5,806,802	5,125,923
<b>Loss from operations</b>	<b>(4,829,875)</b>	<b>(4,297,961)</b>
Other income (expense), net		
Interest expense	(235,053)	(862,468)
Other income (expense)	(212,989)	(39,190)
Total other expense, net	(448,042)	(901,658)
<b>Loss before income taxes</b>	<b>(5,277,917)</b>	<b>(5,199,619)</b>
Provision for income taxes	-	-
Net loss	(5,277,917)	(5,199,619)
Dividends on convertible preferred stock	-	(51,674)
Income (loss) attributable to noncontrolling interests	601	-
<b>Net loss attributable to Eastside Distilling, Inc. common shareholders</b>	<b>\$ (5,277,316)</b>	<b>\$ (5,251,293)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ (1.42)</b>	<b>\$ (4.21)</b>
<b>Basic and diluted weighted average common shares outstanding</b>	<b>3,717,956</b>	<b>1,247,281</b>





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**U. S. SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-K**

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

For the fiscal year ended December 31, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-54959

**EASTSIDE DISTILLING, INC.**

(Name of small business issuer as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**20-3937596**  
(I.R.S. Employer  
Identification No.)

**1001 SE Water Avenue, Suite 390**  
**Portland, Oregon 97214**  
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(971) 888-4264**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, \$0.0001 par value**

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 12b-2 if the Exchange Act.

Large accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Emerging growth company

Accelerated filer

Smaller reporting company

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2017 was approximately \$17,001,894.

As of April 2, 2018, 5,044,770 shares of our common stock were outstanding.

**Documents Incorporated by Reference:** None.

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## PART I

Eastside Distilling, Inc., is referred to herein as “Eastside,” “EAST,” “the Company,” “us,” or “we.”

### Item 1. DESCRIPTION OF BUSINESS

#### Overview

We are an Oregon-based producer and marketer of craft spirits, founded in 2008. Our products span several alcoholic beverage categories, including bourbon, American whiskey, vodka, gin and rum. Unlike other distillers, we operate several retail tasting rooms in Oregon to market our brands directly to consumers. Our strategy for growth is to build on our local base in the Pacific Northwest and expand selectively to other markets, using major spirits distributors. In December 2016, we retained Sandstrom Partners, an internationally-known spirit branding firm that branded St-Germain and Bulleit Bourbon, to guide our marketing strategy and branding. Sandstrom Partners subsequently became an investor in our company. With the assistance of Sandstrom Partners and using our in-house spirits expertise, during 2017, we created Redneck Riviera Whiskey (“RRW”), in collaboration with Country Music superstar John Rich, of the duo “Big & Rich.” Supported by John Rich’s marketing efforts, we launched RRW in the Southeastern and Gulf States primarily through Republic National Distributing Company (“RNDC”). We believe that RRW will achieve commercial success on a broad scale, and we have therefore focused our sales efforts outside Oregon on RRW. We believe RRW will be a key growth engine in 2018 and will also provide a “coattail” effect for our other brands, helping them to achieve improved national recognition and success.

Operating as a small business in a large, international spirits marketplace occupied by massive conglomerates, we seek to turn our small size from a disadvantage into an advantage. As the success of our RRW launch and Sandstrom Partners collaboration demonstrate, our team can leverage its smaller size to launch new brands more quickly than larger conglomerates because we are able to dedicate more of our attention and resources to developing innovative products. We believe that the dominance of Canadian whiskeys in the light-whiskey segment is vulnerable to a light whiskey that is 100% American, and we are exploiting that vulnerability with RRW, a product that went from idea, to celebrity collaboration, to design and formulation, to market roll-out in less than nine months. We are innovative in targeting emerging trends with our products; for example, we recently developed our Coffee Rum with cold brew coffee and low sugar, as well as our gluten-free potato vodka. We seek to be both a leader in creating spirits that offer better value than comparable spirits (for example, our value-priced Portland Potato Vodka), and an innovator in creating imaginative spirits that offer a unique taste experience, like our Coffee Rum, Oregon oak-aged whiskeys and Marionberry Whiskey.

As a Nasdaq-traded company, we have access to public capital markets to support our growth initiatives, including strategic acquisitions. In May 2017, we used our shares to acquire 90% of Big Bottom Distillery (“BBD”), known for its award-winning, super-premium gins and whiskeys, including The Ninety One Gin, Navy Strength Gin, Oregon Gin, Delta Rye and American Single Malt Whiskey. BBD’s super-premium spirits give us a presence at the “high end” of the market. In addition, through MotherLode Craft Distillery (“MotherLode”), our wholly-owned subsidiary acquired in March 2017, we also provide contract bottling and packaging services for existing and emerging spirits producers, some of whom contract with us to blend or distill spirits. During 2018, we intend to use our “slim line” canning equipment, newly installed at MotherLode, to profit from an emerging consumer interest in canned wine. We believe our location close to vineyards in Oregon and Washington is a competitive advantage.

#### Corporate History

We were incorporated in Nevada in February 2004 under the name Eurocan Holdings, Ltd. In December 2014, we changed our corporate name to Eastside Distilling, Inc. to reflect our then recent acquisition of Eastside Distilling, LLC.

##### *The Acquisition of Eastside Distilling, LLC*

In October 2014, Eurocan Holdings Ltd. consummated the acquisition (the “Acquisition”) of Eastside Distilling, LLC (“Eastside”) pursuant to an Agreement and Plan of Merger (the “Merger Agreement”) by and among the Eurocan, Eastside and Eastside Distilling, Inc., our wholly-owned subsidiary. Pursuant to the Merger Agreement, Eastside merged with and into Eastside Distilling, Inc. The merger consideration for the Acquisition consisted of 1,600,000 shares (the “Shares”) of our common stock. In addition, certain of our stockholders cancelled an aggregate of 1,245,500 shares of our common stock held by them. As a result, upon consummation of the Merger Agreement on October 31, 2014, we had 2,000,000 shares of our common stock issued and outstanding, of which 1,600,000 shares were held by the former members of Eastside.

Following the Acquisition, we conduct the business of Eastside as our primary business.

## Market Opportunity

### *Large and Growing Global and Domestic Markets*

The global spirits market generated total revenues of \$316 billion in 2013, representing a compound annual growth rate (CAGR) of 3.4% between 2009 and 2013, according to MarketLine. The performance of the market is forecasted to accelerate with an anticipated CAGR of 4.2% for the five-year period 2013-2018, which is expected to increase revenues generated by this market to a value of approximately \$388 billion by the end of 2018.

The U.S. spirits market had total revenues of \$26.2 billion in 2017, representing more than a 32% increase since 2010, according to the Distilled Spirits Council of the United States (DISCUS). The domestic market share of spirits compared to beer and wine was at a record 36.6% in 2017 according to DISCUS, representing more than a 3% gain over beer and wine in terms of market share since 2010.

### *Key Growth Trends that We Target*

Craft – The market share of “craft” distillers (defined as any producer that bottles less than 100,000 cases annually) has doubled over the last two years, and is projected to reach 8% by 2020, according to the American Distilling Institute.

Women – The United States Alcohol and Tobacco Tax and Trade Bureau (the “TTB”), Park Street Imports, LLC (“Park Street”) and the US Census Bureau estimate that 37% of all U.S. whiskey drinkers are women.

Millennials – Generally, “Millennials” (individuals born between the early 1980s and the mid-1990s) value “authenticity” and are inspired by travel, like to try new products and seek new experiences, according to a survey by BeverageDaily.com. Millennials tend to drink a broader range of spirit types (vodka, rum, tequila, whiskey, gin) than prior generations and Millennials consume more expensive spirits than their predecessors. These individuals are often attracted to vintage spirits and cocktails with nostalgic followings, such as throwbacks to the 1950s like rye whiskey, bourbon, and the Manhattan cocktail. According to Barclays Research, millennials increasingly prefer spirits over beer and wine, and flavored spirits in particular. In addition, according to DISCUS, millennials are more willing than prior generations to purchase premium spirits.

Flavored – According to DISCUS, flavored spirits sales continue to grow faster than the overall spirits market, and flavored whiskey, which is especially appealing to younger drinkers and women, is the fastest growing flavored spirit category.

International – The demand for U.S.-produced spirits abroad is increasing significantly. U.S. spirit exports nearly doubled over the past decade to \$1.56 billion in 2015, and whiskey exports were up approximately 5.4% in 2015 compared to 2014. The largest export markets for U.S. spirits include the United Kingdom, Canada, Germany, Australia, and Japan.

## Our Strategy and Its Implementation

Our objective is to build Eastside Distilling into a strong, nationally competitive and profitable spirits company, with a distinctive portfolio of premium and high-end spirits brands that have national, and even international, consumer appeal and following. Our strategy to accomplish that goal includes:

- create a “brand factory” to develop and grow emerging spirits and Ready-to-Drink (RTD) brands;
- be an acquisition platform for the fragmented craft spirits industry; and
- build cash flow in the Pacific Northwest home market through sales of our locally-created spirits and with our bottling subsidiary to help support our overall growth activities.

To help achieve this, we are focused on:

- achieving world-class spirit rebranding with the collaboration of Sandstrom Partners;
- growing organically and by acquisition;
- monetizing our diverse and growing product portfolio;
- improving margins; and
- accelerating our strong double-digit growth in core markets, as well as expanding opportunistically in international markets.

## Our Strengths

We believe the following competitive strengths will help enable the implementation of our growth strategies:

- *Award-Winning, Diverse Product Line:* We have a diverse product line, currently offering over a dozen premium craft spirits, many of which have won awards for taste and/or product design. According to a study by the American Craft Spirits Association, the U.S. craft spirits volume of cases sold experienced a compound annual growth rate of 27.4% between 2010 and 2015, and saw an increase in market share from 0.8% to 2.2% during that period. Our sales of premium brands have increased over 1,000% since 2010. We believe our diverse, recognized product line in this growing market will enable us to establish a presence in new geographic markets and enable us to procure additional distributors for our products.
- *Key Relationships:* We have distribution arrangements with several of the largest wine and spirits distributors in the United States, such as RNDC and Southern Glazer's. We have also engaged Park Street, a provider of back-office administrative and logistical services for alcohol and beverage distributors. We believe these relationships will help accomplish our goal of having our premium spirits sold and distributed nationwide.
- *Experienced Distilling and Blending Experts:* We believe that our team of expert blenders and distillers, with highly regarded "palates" is important to us maintaining a high-quality, artisanal character to our products as well as adding to our consumer appeal.

## Our Product Approach

Our approach to our craft spirits involves five important aspects:

- *Commitment to Quality:* We create and deliver high-quality, innovative products targeted at growing markets.
- *Authentic Yet Scalable:* We believe our approach to production allows us to produce our products at scale, while keeping flavor profiles consistent.
- *Unique Talent and Experience:* Every spirit reflects the creativity of our entire team
- *Extensive Spirit Portfolio:* Many craft distillers have only one to three products; we have over a dozen, which we believe affords us the opportunity to target a broader range of consumers with our brands.
- *Generate Customer Loyalty:* These factors attract loyal and enthusiastic customers and major distributors for our products.

## Our Brands

We develop, produce and market the premium brands listed below:

*Burnside.* We develop, market and produce several premium, barrel-aged whiskeys and bourbons under our brand name "Burnside." During 2017, we undertook a major re-branding and market re-positioning strategy with our Burnside-branded products. This effort was led by our marketing partner, Sandstrom Partners. The new branding, packaging and product line expansion was launched late in the fourth quarter of 2017. The current products sold under this brand include: Burnside West End Blend (a blended whiskey), Burnside Oregon Oaked Bourbon (a blended bourbon), Burnside Goose Hollow RSV Bourbon (a special reserve straight bourbon) and Burnside Oregon Oaked Rye (a blended rye whiskey). All of the Burnside products are age-finished in our own in-house, heavily-charred, Oregon-oak barrels, which we believe adds an enhanced and improved flavor profile and provides the products with differentiation in the marketplace. We consider the Burnside products to be "premium" to "ultra-premium" brands. Our Burnside brands accounted for approximately 25% and 40% of our sales for the years ended December 31, 2017, and 2016, respectively. The decrease as a percentage of sales is due to the re-branding of this product line during 2017.

*Redneck Riviera Whiskey.* In October 2017, we were granted an exclusive license for the use of the Redneck Riviera brand for spirits-based products. The Redneck Riviera trademark is owned by Rich Marks, which is controlled by John Rich, a "multiple platinum" country music singer and songwriter who performs with the "Big & Rich" band. In January 2018, we officially launched our first product, Redneck Riviera Whiskey, under this royalty-free, 10-year license. Beginning in 2020, we will be required to meet certain levels of case sales to avoid termination of the license, and if those levels are met, we will be entitled to renew the license in perpetuity or until such time as a sale of the Redneck Riviera spirits brands occurs.

Income from sales of RRW and any subsequent products go entirely to us, less any customary brand development allowances to distributors or other such payment that are within our discretion. We will be reimbursing Mr. Rich for his expenses incurred while performing personal services in marketing the brand. Should Rich Marks choose to sell the Redneck Riviera spirits brand, we and Rich Marks will share equally in the sale proceeds of any brand and other IP developed under the license, based on a sliding scale that gives Rich Marks an increasing percentage of sale proceeds, if any, over \$20 million. We have certain rights of first refusal to acquire Rich Mark's interest should a third party sale be proposed.

*Barrel Hitch American Whiskey.* We market a standard whiskey: Barrel Hitch American Whiskey. Our Barrel Hitch American Whiskey is 80 proof and won a triple-Gold Medal and "best of show" in the MicroLiquor Spirit Awards in 2015. Barrel Hitch was introduced in July 2015 and accounted for approximately 11% and 17% of our sales for the years 2017 and 2016, respectively.

*Premium Vodka.* We develop, market and produce a premium potato vodka under the brand name "Portland Potato Vodka", which is distilled from potatoes rather than grain and, as such, is gluten-free. Our Portland Potato Vodka was awarded a silver medal from the American Wine Society and a gold medal from the Beverage Tasting Institute, which also gave it a "Best Buy" rating. A new product, Hot Potato Vodka, was added to this category in the second quarter of 2017. The vodka is 80 proof and is a combination of habanero pepper and Portland Potato Vodka producing a full-palate explosion of flavor. Our Potato Vodka brands accounted for approximately 22% and 13% of our sales for the years ended December 31, 2017 and 2016, respectively.

*Distinctive Specialty Whiskeys.* We develop, market and produce two distinctive specialty whiskeys: Cherry Bomb Whiskey and Marionberry Whiskey. Our Cherry Bomb Whiskey combines handcrafted small batch whiskey with a blast of real Oregon cherries. Our Cherry Bomb Whiskey won a gold medal from the American Wine Society and was also awarded a gold medal for taste and a silver medal for package design in the MicroLiquor Spirit Awards. Our Marionberry whiskey combines Oregon marionberries (a hybrid blackberry) with premium aged whiskey and was awarded two silver medals in the MicroLiquor Spirit Awards for taste and package design. Our specialty whiskeys accounted for approximately 13% of our sales for each of the years ended December 31, 2017 and 2016.

*Below Deck Rums.* We develop, market and produce four rums under the Below Deck brand name: Below Deck Silver Rum, Below Deck Spiced Rum, Below Deck Coffee Rum and Below Deck Ginger Rum. Below Deck's Silver Rum is our original rum. Below Deck Spiced Rum is double-distilled from molasses and infused with exotic spices and won a triple gold medal for taste and a bronze medal for package design in the MicroLiquor Spirit Awards. Our Below Deck Coffee Rum is double-distilled and infused with coffee flavors from Arabica bean and won a silver medal at the San Francisco World Spirits Competition. Below Deck Ginger Rum is infused with natural ginger. Our Below Deck Rums accounted for approximately 11% and 10% of our sales for the years ended December 31, 2017 and 2016, respectively.

*Seasonal/Limited Edition Spirits.* In addition to our premium bourbons, whiskeys, rum and vodka, we create seasonal and limited-edition handmade products, such as Advocaat (eggnog) Liqueur, Peppermint Bark Liqueur, Bier Schnapps and Holiday Spiced Liqueur. Our Seasonal/Limited Edition Spirits accounted for approximately 6% of our sales for each of the years ended December 31, 2017 and 2016.

*BBD Spirits.* We also acquired several other brands as a result of our acquisition of BBD in May 2017. The extensive BBD product portfolio includes several craft spirits that we believe are highly complementary to our product line, including The Ninety One Gin, Navy Strength Gin (114 proof) and Delta Rye (111 proof) rye whiskey, among others. Inspired by the craft spirits movement in Oregon, Big Bottom Distillery's small-batch, hand-crafted spirits provide consumers with unique takes on traditional spirits. BBD products accounted for approximately 3% of our sales in 2017.

*MotherLode LLC.* Our wholly-owned subsidiary, MotherLode, historically has provided bottling services, as well as production support to customers such as other craft spirit and wine producers. MotherLode recently added the ability to provide canning services to customers for wine and Ready to Drink ("RTD") alcoholic drinks. The custom built canning line is designed to produce Ball Corporation's popular "slim can" in 187 ml, 200 ml and 250 ml sizes, with 250 ml being equal to approximately 8.45 ounces. The new line was recently completed, and MotherLode expects to begin providing canning to initial customers in the near-future. MotherLode accounted for approximately 9% of our sales in 2017.

## **Production and Supply**

There are several steps in the production and supply process for beverage alcohol products. First, all of our spirits products are distilled. This is a multi-stage process that converts basic ingredients, such as grain, sugar cane or agave, into alcohol. Next, the alcohol is processed and/or aged in various ways depending on the requirements of the specific brand. For our vodka, this processing is designed to remove all other chemicals, so that the resulting liquid will be odorless and colorless, and have a smooth quality with minimal harshness. Achieving a high level of purity involves a series of distillations and filtration processes. For our large production products, we currently source full strength and barrel strength (reduced ABV due to evaporation) that we further process (such as aging in Oregon Oak, or adding ingredients) and bottle at our premises.

For our spirits brands, rather than removing flavor, various complex flavor profiles are achieved through one or more of the following techniques: infusion of fruit, addition of various flavoring substances, and, in the case of rums and whiskeys, aging of the brands in various types of casks for extended periods of time, as well as the blending of several rums or whiskeys to achieve a unique flavor profile for each brand. After the distillation, purification and flavoring processes are completed, the various liquids are bottled. This involves several important stages, including bottle and label design and procurement, filling of the bottles and packaging the bottles in various configurations for shipment.

We rely on a limited number of suppliers for the sourcing of our spirit products and raw materials, including our distillate products and other ingredients. These suppliers consist of third-party producers in the U.S. We do not have long-term, written agreements with any of our suppliers. However, we believe that we have consistent and reliable third-party sources for spirit product. However, we produce and bottle our spirits for distribution, whether the distilling stage of the process was at our facility or not.

## **Distribution Network**

We believe that the distribution network that we have developed with our sales team and our independent distributors and brokers is one of our key strengths. We currently have distribution and brokerage relationships with third-party distributors in 26 U.S. states.

### *U.S. Distribution*

Importers of beverage alcohol in the U.S. must sell their products through a three-tier distribution system. Typically, an imported brand is first sold to a U.S. importer, who then sells it to a network of distributors, or wholesalers, covering the U.S., in either “open” states or “control” states. In the 33 open states, the distributors are generally large, privately-held companies. In the 18 control states, the states themselves function as the distributor, and regulate suppliers, including our company. The distributors and wholesalers in turn sell to individual retailers, such as liquor stores, restaurants, bars, supermarkets and other outlets licensed to sell alcoholic beverages. In larger states, such as New York, more than one distributor may handle a brand in separate geographical areas. In control states, importers sell their products directly to state liquor authorities, which distribute the products and either operate retail outlets or license the retail sales function to private companies, while maintaining strict control over pricing and profit.

The U.S. spirits industry has consolidated dramatically over the last ten years due to merger and acquisition activity. There are currently eight major spirits companies, each of which own and operate their own importing businesses. All companies, including these large companies, are required by law to sell their products through wholesale distributors in the U.S. The major companies are exerting increasing influence over the regional distributors and as a result, it has become more difficult for smaller companies to get their products recognized by the distributors.

### *Importation*

We hold the federal importer and wholesaler license required by the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department, and the requisite state licenses within the states we conduct business.

Our inventory is maintained in our warehouse and shipped nationally by our network of licensed and bonded carriers.

### *Wholesalers and Distributors*

In the U.S., we are required by law to use state-licensed distributors or, in the control states, state-owned agencies performing this function, to sell our brands to retail outlets. As a result, we depend on distributors for sales, for product placement and for retail store penetration. All of the distributors we currently work with also distribute our competitors' products and brands. As a result, we must foster and maintain our relationships with our distributors. Through our internal sales team, we have established relationships for our brands with wholesale distributors in the twenty-six states we sell our products, and our products are sold in the U.S. by these wholesale distributors, as well as by various state beverage alcohol control agencies.

### **Other Sources of Revenue**

#### *Special Events*

We also generate sales from participating in special events (such as farmers' markets, trade shows, hosting private tastings, etc.). We offer tastings as well as sell merchandise and bottle sales and have generated as much as \$75,000 in sales from these special events in a single month, particularly during the winter holiday season (November/December). In addition to the sales these events generate, we value the immediate customer feedback during these activities, which is instrumental in creating better products and testing new flavors.

#### *Retail Stores and Kiosks*

We currently have three retail stores in shopping centers in the Portland, Oregon area that provide us with additional opportunities for sales of our products. During the holiday season (November and December) we also expand our retail operations by opening additional temporary locations, usually within high-traffic shopping malls in the Portland metro region. We intend to maintain these retail stores and kiosks to build local brand awareness and direct-to-consumer retail sales. These stores provide in-store tastings, which we believe leads to additional product purchases.

### **Significant Customers**

Sales to one distributor, the Oregon Liquor Control Commission, accounted for approximately 32% of our consolidated sales for each of the years 2017 and 2016.

### **Sales Team**

We have a total sales force of 11 people, with an average of over ten years of industry experience with premium beverage alcohol brands.

Our sales personnel are engaged in the day-to-day management of our distributors, which includes setting quotas, coordinating promotional plans for our brands, maintaining adequate levels of stock, brand education and training and sales calls with distributor personnel. Our sales team also maintains relationships with key retail customers through independent sales calls. They also schedule promotional events, create local brand promotion plans, host in-store tastings, where permitted, and provide wait staff and bartender training and education for our brands.

In addition, we have also engaged Park Street Imports, a provider of back-office administrative and logistical services for alcohol and beverage distributors, which services include state compliance, logistics planning, order processing, distributor chargeback and bill-support management and certain accounting and reporting services.

### **Advertising, Marketing and Promotion**

To build our brands, we must effectively communicate with three distinct audiences: our distributors, the retail trade and the end consumer. Advertising, marketing and promotional activities help to establish and reinforce the image of our brands in our efforts to build substantial brand value.

In late 2016, to aid us in this strategy, we retained Sandstrom Partners, a Portland-based firm specializing in spirits branding, and tasked them with reviewing our current product portfolio, as well as our new ideas, and advising us on marketing, creation of brand awareness and product positioning, locally and nationally. We are using Sandstrom's full range of brand development services, including research, strategy, brand identity, package design, environments, advertising as well as digital design and development. During 2017, Sandstrom helped us successfully re-brand our key Burnside product as well as developed the branding for our new "Redneck Riviera" brand.

We also employ two in-house marketing and customer service personnel who work together with third party design and advertising firms to maintain a high degree of focus on each of our product categories and build brand awareness through innovative marketing activities. We use a range of marketing strategies and tactics to build brand equity and increase sales, including consumer and trade advertising, price promotions, point-of-sale materials, event sponsorship, in-store and on-premise promotions and public relations, as well as a variety of other traditional and non-traditional marketing techniques, including social media marketing, to support our brands.

Besides traditional advertising, we also employ three other marketing methods to support our brands: public relations, event sponsorships and tastings. Our significant U.S. public relations efforts have helped gain editorial coverage for our brands, which increases brand awareness. Event sponsorship is an economical way for us to have influential consumers taste our brands. We actively contribute product to trend-setting events where our brand has exclusivity in the brand category. We also conduct hundreds of in-store and on-premise promotions each year.

We support our brand marketing efforts with an assortment of point-of-sale materials. The combination of trade and consumer programs, supported by attractive point-of-sale materials, also establishes greater credibility for us with our distributors and retailers.

### **Intellectual Property**

Trademarks are an important aspect of our business. We sell our products under a number of trademarks, which we own or use under license. Our brands are protected by trademark registrations or are the subject of pending applications for trademark registration in the U.S. where we distribute, or plan to distribute, our brands. The trademarks may be registered in the names of our subsidiary. In the U.S., trademark registrations need to be renewed every ten years. We expect to register our trademarks in additional markets as we expand our distribution territories.

### **Seasonality**

Our industry is subject to seasonality with peak retail sales generally occurring in the fourth calendar quarter, primarily due to seasonal holiday buying. Historically, this holiday demand has resulted in higher sales for us in our fourth quarter.

### **Competition**

The beverage alcohol industry is highly competitive. We believe that we compete on the basis of quality, price, brand recognition and distribution strength. Our premium brands compete with other alcoholic and nonalcoholic beverages for consumer purchases, retail shelf space, restaurant presence and wholesaler attention. We compete with numerous multinational producers and distributors of beverage alcohol products, many of which have greater resources than us.

Over the past ten years, the U.S. wine and spirits industry has undergone dramatic consolidation and realignment of brands and brand ownership. The number of major importers in the U.S. has declined significantly. Today there are eight major companies: Diageo PLC, Pernod Ricard S.A., Bacardi Limited, Brown-Forman Corporation, Beam Suntory Inc., Davide Campari Milano-S.p.A., and Remy Cointreau S.A.

We believe that we are in a better position to partner with small-to-mid-size brands than the major importers. Despite our relative capital position and resources, we have been able to compete with these larger companies in pursuing agency distribution agreements and acquiring brands by being more responsive to private and family-owned brands, offering flexible transaction structures and providing brand owners the option to retain local production and “home” market sales. Given our size relative to our major competitors, most of which have multi-billion dollar operations, we believe that we can provide greater focus on smaller brands and tailor transaction structures based on individual brand owner preferences. However, our relative capital position and resources may limit our marketing capabilities, limit our ability to expand into new markets and limit our negotiating ability with our distributors.

By focusing on the premium and super-premium segments of the market, which typically have higher margins, and having an established, experienced sales force, we believe we are able to gain relatively significant attention from our distributors for a company of our size. Also, the continued consolidation among the major companies is expected to create an opportunity for small to mid-size wine and spirits companies, such as ourselves, as the major companies contract their portfolios to focus on fewer brands.



## **Government regulation**

We are subject to the jurisdiction of the Federal Alcohol Administration Act, U.S. Customs Laws, Internal Revenue Code of 1986 and the Alcoholic Beverage Control Laws of all fifty states.

The U.S. Treasury Department's Alcohol and Tobacco Tax and Trade Bureau regulates the production, blending, bottling, sales and advertising and transportation of alcohol products. Also, each state regulates the advertising, promotion, transportation, sale and distribution of alcohol products within its jurisdiction. We are also required to conduct business in the U.S. only with holders of licenses to import, warehouse, transport, distribute and sell spirits.

We are subject to U.S. regulations on the advertising, marketing and sale of beverage alcohol. These regulations range from a complete prohibition of the marketing of alcohol in some states to restrictions on the advertising style, media and messages used.

Labeling of spirits is also regulated in many markets, varying from health warning labels to importer identification, alcohol strength and other consumer information. All beverage alcohol products sold in the U.S. must include warning statements related to risks of drinking beverage alcohol products.

In the U.S. control states, the state liquor commissions act in place of distributors and decide which products are to be purchased and offered for sale in their respective states. Products are selected for purchase and sale through listing procedures which are generally made available to new products only at periodically scheduled listing interviews. Consumers may purchase products not selected for listings only through special orders, if at all.

The distribution of alcohol-based beverages is also subject to extensive federal and state taxation in the U.S. and internationally. Most foreign countries impose excise duties on wines and distilled spirits, although the form of such taxation varies from a simple application on units of alcohol by volume to intricate systems based on the imported or wholesale value of the product. Several countries impose additional import duty on distilled spirits, often discriminating between categories in the rate of such tariffs. Once we begin distributing our products internationally, import and excise duties could have a significant effect on our sales, both through reducing the consumption of alcohol and through encouraging consumer switching into lower-taxed categories of alcohol.

We believe that we are in material compliance with applicable federal, state and other regulations. However, we operate in a highly regulated industry which may be subject to more stringent interpretations of existing regulations. Future compliance costs due to regulatory changes could be significant.

## **Employees**

As of December 31, 2017, we had 25 full-time employees, 13 of whom were in sales and marketing and four of whom were in management and 8 in administration and production.

## **Geographic Information**

Eastside operates in the spirits business. Eastside's product categories are rum, whiskey, vodka, gin and specialty liquors. Eastside currently sells its products in 26 states (Oregon, Washington, California, Florida, Nevada, Texas, Virginia, Indiana, Illinois, New York, New Jersey, Massachusetts, Connecticut, Georgia, Rhode Island, Idaho, Maryland, West Virginia, Wyoming, North Carolina, Louisiana, Tennessee, Mississippi, South Dakota, Kansas and Alaska), as well as in Ontario, Canada.

## **Facilities**

The Company's corporate headquarters, including its wholly-owned Motherlode subsidiary, moved to 1001 SE Water Avenue, Suite 390, Portland, Oregon 97214, effective November 1, 2017. Located in Portland's Eastbank Commerce Center on the east side of Portland, this office space is home to the Company's executive offices, including finance, accounting, sales and general management, both for Eastside and its MotherLode bottling and canning subsidiary. The Company's production facilities are located in Milwaukie, OR and its Big Bottom Distillery operations are in Hillsboro, OR.

## **Item 1A. RISK FACTORS AND CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

The statements in this section describe the most significant risks to our business and should be considered carefully in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the “Notes to Consolidated Financial Statements” to this Form 10-K. In addition, the statements in this section and other sections of this Form 10-K include “forward-looking statements” as that term is defined in the Private Securities Litigation Reform Act of 1995 and involve uncertainties that could significantly impact results. Forward-looking statements give current expectations or forecasts of future events about the company or our outlook. You can identify forward-looking statements by the fact they do not relate to historical or current facts and by the use of words such as “believe,” “expect,” “estimate,” “anticipate,” “will be,” “should,” “plan,” “project,” “intend,” “could” and similar words or expressions.

Forward-looking statements are based on assumptions and on known risks and uncertainties. Although we believe we have been prudent in our assumptions, any or all of our forward-looking statements may prove to be inaccurate, and we can make no guarantees about our future performance. Should known or unknown risks or uncertainties materialize or underlying assumptions prove inaccurate, actual results could materially differ from past results and/or those anticipated, estimated or projected.

We undertake no obligation to provide updates to forward-looking statements to the public, whether as a result of new information, future events or otherwise. You should, however, consult any subsequent disclosures we make in our filings with the SEC on Form 10-Q or Form 8-K.

The following is a cautionary discussion of risks, uncertainties and assumptions that we believe are significant to our business. In addition to the factors discussed elsewhere in this report, the following are some of the important factors that, individually or in the aggregate, we believe could make our actual results differ materially from those described in any forward-looking statements. It is impossible to predict or identify all such factors and, as a result, you should not consider the following factors to be a complete discussion of risks, uncertainties and assumptions.

### **RISKS RELATING TO OUR BUSINESS**

#### ***If our brands do not achieve more widespread consumer acceptance, our growth may be limited.***

Although our brands have achieved acceptance in the Pacific Northwest, most of our brands are relatively new and have not achieved extensive national brand recognition. Also, brands we may develop and/or acquire in the future may not establish widespread brand recognition. Accordingly, if consumers do not accept our brands, we will not be able to penetrate our markets and our growth may be limited.

#### ***We have incurred significant operating losses every quarter since our inception and anticipate that we will continue to incur significant operating losses in the future.***

We believe that we will continue to incur net losses for the foreseeable future as we expect to make continued significant investment in product development and sales and marketing and to incur significant administrative expenses as we seek to grow our brands. We also anticipate that our cash needs will exceed our income from sales for the foreseeable future. Some of our products may never achieve widespread market acceptance and may not generate sales and profits to justify our investment in them. Also, we may find that our expansion plans are more costly than we anticipate and that they do not ultimately result in commensurate increases in our sales, which would further increase our losses. We expect we will continue to experience losses and negative cash flow, some of which could be significant. Results of operations will depend upon numerous factors, some of which are beyond our control, including market acceptance of our products, new product introductions and competition. We also incur substantial operating expenses at the corporate level, including costs directly related to being a reporting company with the U.S. Securities and Exchange Commission (the “SEC”). For the year ended December 31, 2017, we reported a net loss of \$5.3 million. As of December 31, 2017, we had an accumulated deficit since inception of \$18.1 million.

***We depend on a limited number of suppliers. Failure to obtain satisfactory performance from our suppliers or loss of our existing suppliers could cause us to lose sales, incur additional costs and lose credibility in the marketplace.***

We depend on a limited number of third-party suppliers for the sourcing of the raw materials for all of our products, including our distillate products and other ingredients. These suppliers consist of third-party producers in the U.S. We do not have long-term, written agreements with any of our suppliers. The termination of our relationships or an adverse change in the terms of these arrangements could have a negative impact on our business. If our suppliers increase their prices, we may not be able to secure alternative suppliers, and may not be able to raise the prices of our products to cover all or even a portion of the increased costs. Also, our suppliers' failure to perform satisfactorily or handle increased orders, delays in shipments of products from suppliers or the loss of our existing suppliers, especially our key suppliers, could cause us to fail to meet orders for our products, lose sales, incur additional costs and/or expose us to product quality issues. In turn, this could cause us to lose credibility in the marketplace and damage our relationships with distributors, ultimately leading to a decline in our business and results of operations. If we are not able to renegotiate these contracts on acceptable terms or find suitable alternatives, our business could be negatively impacted.

***We depend on our independent wholesale distributors to distribute our products. The failure or inability of even a few of our distributors to distribute our products adequately within their territories could harm our sales and result in a decline in our results of operations.***

We are required by law to use state-licensed distributors or, in 18 states known as "control states," state-owned agencies performing this function, to sell our products to retail outlets, including liquor stores, bars, restaurants and national chains in the U.S. We have established relationships for our brands with a limited number of wholesale distributors; however, failure to maintain those relationships could significantly and adversely affect our business, sales and growth. We currently distribute our products in 26 states – Oregon, Washington, California, Florida, Nevada, Texas, Virginia, Indiana, Illinois, New York, New Jersey, Massachusetts, Connecticut, Georgia, Rhode Island, Idaho, Maryland, West Virginia, Wyoming, North Carolina, Louisiana, Tennessee, Mississippi, South Dakota, Kansas and Alaska (as well as in Ontario, Canada).

Over the past decade there has been increasing consolidation, both intrastate and interstate, among distributors. As a result, many states now have only two or three significant distributors. Also, there are several distributors that now control distribution for several states. If we fail to maintain good relations with a distributor, our products could in some instances be frozen out of one or more markets entirely. The ultimate success of our products also depends in large part on our distributors' ability and desire to distribute our products to our desired U.S. target markets, as we rely significantly on them for product placement and retail store penetration. In addition, all of our distributors also distribute competitive brands and product lines. We cannot assure you that our U.S. alcohol distributors will continue to purchase our products, commit sufficient time and resources to promote and market our brands and product lines or that they can or will sell them to our desired or targeted markets. If they do not, our sales will be harmed, resulting in a decline in our results of operations.

***We rely on a few key distributors, and the loss of any one key distributor would substantially reduce our revenues.***

We currently derive a significant amount of our revenues from a few major distributors. A significant decrease in business from or loss of any of our major distributors could harm our financial condition by causing a significant decline in revenues attributable to such distributors. Sales to one distributor, the Oregon Liquor Control Commission, accounted for approximately 32% of our consolidated sales for each of the years 2017 and 2016. While we believe our relationships with our major distributors are good, we do not have long-term contracts with any of them and purchases generally occur on an order-by-order basis. If we experience a significant decrease in sales to any of our major distributors and are unable to replace such sales volume with orders from other customers, our sales may decrease which would have a material adverse financial effect on our results of operations and financial condition.

***The sales of our products could decrease significantly if we cannot secure and maintain listings in the control states.***

In the control states, the state liquor commissions act in place of distributors and decide which products are to be purchased and offered for sale in their respective states. Products selected for listing in control states must generally reach certain volumes and/or profit levels to maintain their listings. Products in control states are selected for purchase and sale through listing procedures which are generally made available to new products only at periodically scheduled listing interviews. Products not selected for listings can only be purchased by consumers in the applicable control state through special orders, if at all. If, in the future, we are unable to maintain our current listings in the control states, or secure and maintain listings in those states for any additional products we may develop or acquire, sales of our products could decrease significantly which would have a material adverse financial effect on our results of operations and financial condition.

***We must maintain a relatively large inventory of our products to support customer delivery requirements, and if this inventory is lost due to theft, fire or other damage or becomes obsolete, our results of operations would be negatively impacted.***

We must maintain relatively large inventories of our products to meet customer delivery requirements. We are always at risk of loss of that inventory due to theft, fire or other damage, and any such loss, whether insured against or not, could cause us to fail to meet our orders and harm our sales and operating results. Also, our inventory may become obsolete as we introduce new products, cease to produce old products or modify the design of our products' packaging, which would increase our operating losses and negatively impact our results of operations.

***If we are unable to identify and successfully acquire additional brands that are complementary to our existing portfolio, our growth will be limited, and, even if additional brands are acquired, we may not realize anticipated benefits, due to integration difficulties or other operating issues.***

A component of our growth strategy may be the acquisition of additional brands that are complementary to our existing portfolio through acquisitions of such brands or their corporate owners, directly or through mergers, joint ventures, long-term exclusive distribution arrangements and/or other strategic relationships. For example, in May 2017, we acquired 90% of the ownership of BBD for its award-winning range of super-premium gins and whiskeys, and we acquired MotherLode in March 2017, which provides contract bottling and packaging services for existing and emerging spirits producers, some of whom contract with us to blend or distill spirits. If we are unable to identify suitable brand candidates and successfully execute our acquisition strategy, our growth will be limited.

Also, even if we are successful in acquiring additional brands, we may not be able to achieve or maintain profitability levels that justify our investment in, or realize operating and economic efficiencies or other planned benefits with respect to, those additional brands. The addition of new products or businesses entails numerous risks with respect to integration and other operating issues, any of which could have a detrimental effect on our results of operations and/or the value of our equity. These risks include, but are not limited to:

- difficulties in assimilating acquired operations or products;
- unanticipated costs that could materially adversely affect our results of operations;
- negative effects on reported results of operations from acquisition-related charges and amortization of acquired intangibles;
- diversion of management's attention from other business concerns;
- adverse effects on existing business relationships with suppliers, distributors and retail customers;
- risks of entering new markets or markets in which we have limited prior experience; and
- the potential inability to retain and motivate key employees of acquired businesses.

Our ability to grow through the acquisition of additional brands will also be dependent upon the availability of capital to complete the necessary acquisition arrangements. We intend to finance our brand acquisitions through a combination of our available cash resources, third-party financing and, in appropriate circumstances, the further issuance of equity and/or debt securities. Acquiring additional brands could have a significant effect on our financial position, and could cause substantial fluctuations in our quarterly and yearly operating results. Also, acquisitions could result in the recording of significant goodwill and intangible assets on our financial statements, the amortization or impairment of which would reduce reported earnings in subsequent years.

***Our failure to protect our trademarks and trade secrets could compromise our competitive position and decrease the value of our brand portfolio.***

Our business and prospects depend in part on our ability to develop favorable consumer recognition of our brands and trademarks. Although we apply for registration of our brands and trademarks, they could be imitated in ways that we cannot prevent. Also, we rely on trade secrets and proprietary know-how, concepts and formulas. Our methods of protecting this information may not be adequate. Moreover, we may face claims of misappropriation or infringement of third parties' rights that could interfere with our use of this information. Defending these claims may be costly and, if unsuccessful, may prevent us from continuing to use this proprietary information in the future and result in a judgment or monetary damages being levied against us. We do not maintain non-competition agreements with all of our key personnel or with some of our key suppliers. If competitors independently develop or otherwise obtain access to our trade secrets, proprietary know-how or recipes, the appeal, and thus the value, of our brand portfolio could be reduced, negatively impacting our sales and growth potential.

***A failure of one or more of our key information technology systems, networks, processes, associated sites or service providers could have a material adverse impact on our business.***

We rely on information technology (IT) systems, networks, and services, including internet sites, data hosting and processing facilities and tools, hardware (including laptops and mobile devices), software and technical applications and platforms, some of which are managed, hosted, provided and/or used by third-parties or their vendors, to assist us in the management of our business. The various uses of these IT systems, networks and services include, but are not limited to: hosting our internal network and communication systems; ordering and managing materials from suppliers; supply/demand planning; production; shipping products to customers; hosting our branded websites and marketing products to consumers; collecting and storing customer, consumer, employee, investor, and other data; processing transactions; summarizing and reporting results of operations; hosting, processing, and sharing confidential and proprietary research, business plans, and financial information; complying with regulatory, legal or tax requirements; providing data security; and handling other processes necessary to manage our business.

Increased IT security threats and more sophisticated cyber-crime pose a potential risk to the security of our IT systems, networks, and services, as well as the confidentiality, availability, and integrity of our data. If the IT systems, networks, or service providers we rely upon fail to function properly, or if we suffer a loss or disclosure of business or other sensitive information, due to any number of causes, ranging from catastrophic events to power outages to security breaches, and our business continuity plans do not effectively address these failures on a timely basis, we may suffer interruptions in our ability to manage operations and reputational, competitive and/or business harm, which may adversely affect our business operations and/or financial condition. In addition, such events could result in unauthorized disclosure of material confidential information, and we may suffer financial and reputational damage because of lost or misappropriated confidential information belonging to us or to our partners, our employees, customers, suppliers or consumers. In any of these events, we could also be required to spend significant financial and other resources to remedy the damage caused by a security breach or to repair or replace networks and IT systems.

***Our failure to attract or retain key executive or employee talent could adversely affect our business.***

Our success depends upon the efforts and abilities of our senior management team, other key employees, and a high-quality employee base, as well as our ability to attract, motivate, reward, and retain them. If one of our executive officers or significant employees terminates her or his employment, we may not be able to replace their expertise, fully integrate new personnel or replicate the prior working relationships, and the loss of their services might significantly delay or prevent the achievement of our business objectives. Qualified individuals with the breadth of skills and experience in our industry that we require are in high demand, and we may incur significant costs to attract them. We do not maintain and do not intend to obtain key man insurance on the life of any executive or employee. Difficulties in hiring or retaining key executive or employee talent, or the unexpected loss of experienced employees could have an adverse impact our business performance. In addition, we could experience business disruption and/or increased costs related to organizational changes, reductions in workforce, or other cost-cutting measures.

***If we fail to manage growth effectively or prepare for product scalability, it could have an adverse effect on our employee efficiency, product quality, working capital levels and results of operations.***

Any significant growth in the market for our products or our entry into new markets may require an expansion of our employee base for managerial, operational, financial, and other purposes. During any period of growth, we may face problems related to our operational and financial systems and controls, including quality control and delivery and service capacities. We would also need to continue to expand, train and manage our employee base. Continued future growth will impose significant added responsibilities upon the members of management to identify, recruit, maintain, integrate, and motivate new employees. Aside from increased difficulties in the management of human resources, we may also encounter working capital issues, as we will need increased liquidity to finance the marketing of the products we sell, and the hiring of additional employees. For effective growth management, we will be required to continue improving our operations, management, and financial systems and controls. Our failure to manage growth effectively may lead to operational and financial inefficiencies that will have a negative effect on our profitability. We cannot assure investors that we will be able to timely and effectively meet that demand and maintain the quality standards required by our existing and potential customers.

## **RISKS RELATED TO OUR INDUSTRY**

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

Consumer preferences may shift due to a variety of factors, including changes in demographic and social trends, public health initiatives, product innovations, changes in vacation or leisure, dining and beverage consumption patterns and a downturn in economic conditions, which may reduce consumers' willingness to purchase distilled spirits or cause a shift in consumer preferences toward beer, wine or non-alcoholic beverages. Our success depends in part on fulfilling available opportunities to meet consumer needs and anticipating changes in consumer preferences with successful new products and product innovations.

A limited or general decline in consumption in one or more of our product categories could occur in the future due to a variety of factors, including:

- a general decline in economic or geopolitical conditions;
- concern about the health consequences of consuming beverage alcohol products and about drinking and driving;
- a general decline in the consumption of beverage alcohol products in on-premises establishments, such as may result from smoking bans and stricter laws relating to driving while under the influence of alcohol;
- consumer dietary preferences favoring lighter, lower calorie beverages such as diet soft drinks, sports drinks and water products;
- increased federal, state, provincial and foreign excise or other taxes on beverage alcohol products and possible restrictions on beverage alcohol advertising and marketing;
- increased regulation placing restrictions on the purchase or consumption of beverage alcohol products or increasing prices due to the imposition of duties or excise tax;
- inflation; and
- wars, pandemics, weather and natural or man-made disasters.

In addition, our continued success depends, in part, on our ability to develop new products to meet consumer needs and anticipate changes in consumer preferences. The launch and ongoing success of new products are inherently uncertain especially with regard to their appeal to consumers. The launch of a new product can give rise to a variety of costs and an unsuccessful launch, among other things, can affect consumer perception of existing brands and our reputation. Unsuccessful implementation or short-lived popularity of our product innovations may result in inventory write-offs and other costs.

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

We compete on the basis of product taste and quality, brand image, price, service and ability to innovate in response to consumer preferences. The global spirits industry is highly competitive and is dominated by several large, well-funded international companies. Many of our current and potential competitors have longer operating histories and have substantially greater financial, sales, marketing and other resources than we do, as well as larger installed customer bases, greater name recognition and broader product offerings. Some of these competitors can devote greater resources to the development, promotion, sale and support of their products. As a result, it is possible that our competitors may either respond to industry conditions or consumer trends more rapidly or effectively or resort to price competition to sustain market share, which could adversely affect our sales and profitability.

In addition, the legalization of marijuana in any of the jurisdictions in which we sell our products may result in a reduction in sales. Studies have shown that sales of alcohol may decrease in jurisdictions where marijuana has been legalized (e.g. California, Colorado, Washington and Oregon). As a result, marijuana sales may adversely affect our sales and profitability.

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

Our industry faces the possibility of class action or similar litigation alleging that the continued excessive use or abuse of beverage alcohol has caused death or serious health problems, or related to the labelling of our products. It is also possible that governments could assert that the use of alcohol has significantly increased government funded health care costs. Litigation or assertions of this type have adversely affected companies in the tobacco industry, and it is possible that we, as well as our suppliers, could be named in litigation of this type.

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

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

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

Also, the distribution of beverage alcohol products is subject to extensive taxation (at both the federal and state government levels), and beverage alcohol products themselves are the subject of national import and excise duties in most countries around the world. An increase in taxation or in import or excise duties could also significantly harm our sales revenue and margins, both through the reduction of overall consumption and by encouraging consumers to switch to lower-taxed categories of beverage alcohol. Although we expect a significantly positive impact on our operating results from the enactment of the Craft Modernization and Tax Reform Act of 2017, which was part of the 2017 federal tax legislation that went into effect on January 1, 2018, resulting from the lowering of the federal excise tax on spirits for the first 100,000 proof gallons per year from \$13.50 to \$2.70 per gallon, there can be no assurance this revised tax rate will remain in effect after the initial two-year period.

***We could face product liability or other related liabilities that increase our costs of operations and harm our reputation.***

Although we maintain liability insurance and will attempt to limit contractually our liability for damages arising from our products, these measures may not be sufficient for us to successfully avoid or limit liability. Our product liability insurance coverage is limited to \$1 million per occurrence and \$4 million in the aggregate and our general liability umbrella policy is capped at \$2 million. Further, any contractual indemnification and insurance coverage we have from parties supplying our products is limited, as a practical matter, to the creditworthiness of the indemnifying party and the insured limits of any insurance provided by these suppliers. In any event, extensive product liability claims could be costly to defend and/or costly to resolve and could harm our reputation.

***Contamination of our products and/or counterfeit or confusingly similar products could harm the image and integrity of, or decrease customer support for, our brands and decrease our sales.***

The success of our brands depends upon the positive image that consumers have of them. Contamination, whether arising accidentally or through deliberate third-party action, or other events that harm the integrity or consumer support for our brands, could affect the demand for our products. Contaminants in raw materials purchased from third parties and used in the production of our products or defects in the distillation and fermentation processes could lead to low beverage quality as well as illness among, or injury to, consumers of our products and could result in reduced sales of the affected brand or all of our brands. Also, to the extent that third parties sell products that are either counterfeit versions of our brands or brands that look like our brands, consumers of our brands could confuse our products with products that they consider inferior. This could cause them to refrain from purchasing our brands in the future and in turn could impair our brand equity and adversely affect our sales and operations.

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

Anti-alcohol groups have, in the past, advocated successfully for more stringent labeling requirements, higher taxes and other regulations designed to discourage alcohol consumption. In addition, recent developments in the industry may compel us to identify the source and location of our distillate products, and notify the consumer of whether the product was distilled by us. More restrictive regulations, negative publicity regarding alcohol consumption and/or changes in consumer perceptions of the relative healthfulness or safety of beverage alcohol could decrease sales and consumption of alcohol and thus the demand for our products. This could, in turn, significantly decrease both our revenues and our revenue growth, causing a decline in our results of operations.

**RISKS RELATED TO OUR COMMON STOCK**

***We are an “emerging growth company,” and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.***

We are an “emerging growth company,” as defined in the Jumpstart our Business Startups Act of 2012, or the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Investors may find our common stock less attractive because we rely on these exemptions; which may result in a less active trading market for our common stock, making the market prices more volatile.

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

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

***Our failure to meet the continued listing requirements of the Nasdaq Capital Market could result in a delisting of our common stock.***

In August 2017, our shares of common stock began trading on the Nasdaq Capital Market. If we fail to satisfy the continued listing requirements of the Nasdaq Capital Market, such as the corporate governance requirements or the minimum closing bid price requirement, Nasdaq may take steps to delist our common stock. Such a delisting would likely have a negative effect on the price of our common stock and would impair your ability to sell or purchase our common stock when you wish to do so. In the event of a delisting, we would take actions to restore our compliance with Nasdaq’s listing requirements, but we can provide no assurance that any such action taken by us would allow our common stock to become listed again, stabilize the market price or improve the liquidity of our common stock, prevent our common stock from dropping below the Nasdaq minimum bid price requirement or prevent future non-compliance with Nasdaq’s listing requirements.



***While our warrants are outstanding, it may be more difficult to raise additional equity capital.***

We currently have outstanding publicly-traded warrants to purchase 1,380,000 shares of common stock (the “Public Warrants”) that were issued in our August 2017 public offering. As of April 2, 2018, we also have an aggregate of 1,243,077 non-trading, privately-issued common stock purchase warrants (the “Private Warrants”). During the term that our Public Warrants and Private Warrants are outstanding, the holders of such warrants will be given the opportunity to profit from a rise in the market price of our common stock. We may find it more difficult to raise additional equity capital while the Public Warrants and/or Private Warrants are outstanding.

***A decline in the price of our common stock could affect our ability to raise working capital and adversely impact our ability to continue operations.***

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. A decline in the price of our common stock could be especially detrimental to our liquidity and our operations. Such reductions may force us to reallocate funds from other planned uses and may have a significant negative effect on our business plans and operations, including our ability to develop new services and continue our current operations. If our common stock price declines, we can offer no assurance that we will be able to raise additional capital or generate funds from operations sufficient to meet our obligations. If we are unable to raise sufficient capital in the future, we may not be able to have the resources to continue our normal operations.

***We do not expect to pay dividends for the foreseeable future.***

For the foreseeable future, it is anticipated that earnings, if any, that may be generated from our operations will be used to finance our operations and that cash dividends will not be paid to holders of common stock.

***Our Chairman and Chief Executive Officer owns a significant number of shares of our outstanding common stock, and as long as he does, he may be able to control the outcome of stockholder voting.***

Grover T. Wickersham, our chairman and chief executive officer, is the beneficial owner of approximately 8.3% of the outstanding shares of our common stock as of April 2, 2018, including shares he owns as the indirect beneficial owner (but for which he disclaims beneficial ownership), and excluding shares he (or the entities for which he is deemed to be the beneficial owner) has the right to acquire upon exercise of warrants and options that may be exercised in the future. Accordingly, as a result of his direct and indirect beneficial ownership, he may be able to exercise substantial control and directly influence our affairs and business, including any determination with respect to a change in control, future issuances of common stock or other securities, declaration of dividends on the common stock and the election of directors. Were all of the options and warrants exercised for which Mr. Wickersham is deemed to own, whether directly and indirectly, his influence over matters that are subject to a stockholder vote would significantly increase.

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

Our Articles of Incorporation authorizes the Board of Directors to issue up to 15,000,000 shares of common stock and up to 100,000,000 shares of preferred stock. The power of the Board of Directors to issue shares of common stock, preferred stock or warrants or options to purchase shares of common stock or preferred stock is generally not subject to stockholder approval. Accordingly, any additional issuance of our common stock, or preferred stock that may be convertible into common stock, may have the effect of diluting your investment, and the new securities may have rights, preferences and privileges senior to those of our common stock.

***By issuing preferred stock, we may be able to delay, defer, or prevent a change of control.***

Our Articles of Incorporation permits us to issue, without approval from our stockholders, a total of 100,000,000 shares of preferred stock. Our Board of Directors may determine the rights, preferences, privileges and restrictions granted to, or imposed upon, the shares of preferred stock and to fix the number of shares constituting any series and the designation of such series. It is possible that our Board of Directors, in determining the rights, preferences and privileges to be granted when the preferred stock is issued, may include provisions that have the effect of delaying, deferring or preventing a change in control, discouraging bids for our common stock at a premium over the market price, or that adversely affect the market price of and the voting and other rights of the holders of our common stock.

***We face risks related to compliance with corporate governance laws and financial reporting standard.***

The Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”), as well as related rules and regulations implemented by the SEC and the Public Company Accounting Oversight Board, require compliance with certain corporate governance practices and financial reporting standards for public companies. These laws, rules and regulations, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002 relating to internal control over financial reporting (“SOX 404”), has materially increased our legal and financial compliance costs and made some activities more time-consuming, burdensome and expensive. Although we currently believe our internal control over financial reporting is effective, the effectiveness of our internal controls in future periods is subject to the risk that our controls may become inadequate or may not operate effectively. Any failure to comply with the requirements of SOX 404, our ability to remediate any material weaknesses that we may identify during our compliance program, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of the periodic management evaluations of our internal controls and, in the case of a failure to remediate any material weaknesses that we may identify, would adversely affect the annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting that are required under SOX 404. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock and we could be subject to regulatory sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

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

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

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

Our executive offices are located at 1001 SE Water Avenue, Suite 390, Portland, Oregon 97214. We lease these premises under a lease agreement which started on November 1, 2017 and ends on June 30, 2020. Current monthly lease payments are \$5,719.

Our primary production facility is located at 2150 Hanna Harvester Rd, Milwaukie, OR and comprises approximately 13,480 square feet. Additionally, we have leased approximately 4,250 square feet of adjacent space that contains 10 storage racks. This lease has a current monthly lease rate of \$10,875. Our lease rate will increase \$250 per month beginning January 1, 2019 to a maximum of \$11,125 at the end of the lease term on October 31, 2021. We have two successive options to extend the lease for an additional 5 years each at the then fair market value of comparable space. We also have the option to lease the bay adjacent to the Premises, consisting of approximately 4,620 sq. ft., for monthly rent equal to \$4,150.

We also lease retail space for our tasting rooms in the Portland, Oregon area. We lease a 683 square foot retail store in Clackamas Town Center, under a two-year lease expiring March 31, 2020 at a rate of \$3,529 per month and percentage rent equal to 15% of the excess of net sales made at the retail space above \$210,000 per year. We lease retail space at 1512 SE 7<sup>th</sup> Avenue, Portland, Oregon 97214, with a current monthly lease rate of \$1,857 per month expiring on March 31, 2021. Our monthly lease rate will increase 3% each year. In February 2017, we entered into a lease for a retail store at Woodburn Outlet Mall, and that lease expires February 2018, which was amended to expire in January 2019. The monthly rent at this location varies from \$500 to \$4,500 based on retail seasonality. During the holiday season (November and December) we generally will open additional, temporary locations. We intend to maintain these retail stores and kiosks to build local brand awareness and direct-to-consumer retail sales. Some of these stores will contain in-store tastings, which we believe will lead to additional product purchases.

**Item 3. LEGAL PROCEEDINGS**

We are not currently subject to any material legal proceedings; however, we could be subject to legal proceedings and claims from time to time in the ordinary course of our business. Regardless of the outcome, litigation is time consuming and expensive to resolve, and it diverts management resources.

**Item 4. MINE SAFETY DISCLOSURES.**

Not applicable.

## PART II

### Item 5. MARKET FOR COMMON EQUITY

Our common stock trades on the NASDAQ under the symbol “EAST.” Limited trading of our common stock has occurred during the past two years; therefore, only limited historical price information is available. The following table sets forth the high and low closing prices of our common stock (USD) for the last two fiscal years, as reported by both NASDAQ and OTC Markets Group Inc. (*where the stock previously traded during 2016 and part of 2017*) and represents inter dealer quotations, without retail mark-up, mark-down or commission and may not be reflective of actual transactions.

We consider our stock to be “thinly traded” and any reported sale prices may not be a true market-based valuation of our stock. Some of the bid quotations from the NASDAQ or OTC Bulletin Board (*prior to August 2017*) set forth below may reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

2016 (OTC Markets)	High	Low
First quarter.....	\$ 6.00	\$ 2.99
Second quarter .....	3.28	0.93
Third quarter .....	2.10	1.60
Fourth quarter .....	2.45	1.50
2017 (NASDAQ and OTC Markets - through August 10, 2017)	High	Low
First quarter.....	\$ 7.50	\$ 4.35
Second quarter .....	6.75	4.00
Third quarter .....	6.72	3.40
Fourth quarter .....	5.69	3.91

#### Shareholders

Our shares of common stock are issued in registered form. The registrar and transfer agent for our shares of common stock is Pacific Stock Transfer Company, 6725 Via Austi Pkwy Suite 300, Las Vegas, NV 89119 (Telephone: (702) 361-3033; Facsimile: (800) 785-7782).

As of April 2, 2018, there were 5,044,770 shares of our common stock outstanding, which were held by approximately 128 record stockholders. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of shares of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

#### Dividend Policy

We have not paid cash dividends on our common stock since our inception and we do not contemplate paying dividends in the foreseeable future.

The previous Series A convertible preferred stock accrued dividends at a rate of 8% per annum, cumulative. All remaining preferred shares were converted in the first quarter of 2017 and no dividends are due.

**Securities Authorized for Issuance Under Equity Compensation Plans.** The following provides information concerning compensation plans under which our equity securities are authorized for issuance as of December 31, 2017:

<u>Plan Category</u>	<u>(a)</u> Number of securities to be issued upon exercise of outstanding options, warrants and rights	<u>(b)</u> Weighted-average exercise price of outstanding options, warrants and rights	<u>(c)</u> 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 <sup>(1)</sup> <sup>(2)</sup> .....	369,006	\$ 4.63	20,432
Equity compensation plans not approved by security holders .....	—	—	—
Total.....	369,006	\$ 4.63	20,432

- (1) **2015 Stock Incentive Plan.** On January 29, 2015, our Board of Directors adopted the 2015 Stock Incentive Plan (the “2015 Plan”). The total number of shares available for the grant of either stock options or compensation stock under the plan is 50,000 shares, subject to adjustment. At December 31, 2017, there were 14,584 options issued under the Plan outstanding, which options vest at the rate of at least 25 percent in the first year, starting 6-months after the grant date, and 75% in year two.
- (2) **2016 Stock Incentive Plan.** On September 8, 2016, the Company adopted the 2016 Equity Incentive Plan (the “2016 Plan”). The total number of shares available for the grant of either stock options or compensation stock under the 2016 Plan is 166,667 shares, subject to adjustment. On January 1, 2017, the number of shares available for grant under the 2016 Plan reset to 307,139 shares, equal to 8% of the number of outstanding shares of the Company’s capital stock, calculated on an as-converted basis, on December 31 of the preceding calendar year. On October 18, 2017, the Board of Directors (the “Board”) approved amendments to the 2016 Plan to (i) increase the number of shares of the common stock that may be issued under the 2016 Plan (the “Aggregate Limit”) by an additional 192,861 shares of common stock, for a total of 500,000 shares of common stock, (ii) increase the number of shares of common stock that may be granted to any participant pursuant to options to purchase common stock and stock appreciation rights under the 2016 Plan in any one year period (the “Individual Option Limit”) from 8,333 shares to 200,000 shares, (iii) increase the number of shares of common stock that may be granted to any participant pursuant to other awards (the “Individual Award Limit”) under the 2016 Plan in any one year period from 8,333 shares to 200,000 shares and (iv) increase the number of shares of common stock that may be paid to any one participant under the 2016 Plan for a performance period pursuant to performance compensation awards under the 2016 Plan (the “Individual Performance Award Limit”) from 8,333 shares to 200,000 shares, which amendments were adopted and approved at the December 2017 meeting of stockholders. The exercise price per share of each stock option shall not be less than 100 percent of the fair market value of the Company’s common stock on the date of grant. At December 31, 2017, there were 354,422 options and 125,146 restricted stock units (“RSUs”) issued under the 2016 Plan, with vesting schedules varying between immediate and five (5) years from the grant date.

### **Recent Sales of Unregistered Securities**

The following lists set forth information regarding all securities sold or granted by the Registrant within the past year that were not registered under the Securities Act, and the consideration, if any, received by the Registrant for such securities:

- In December 2017, the Company issued 32,000 shares to a third-party consultant in exchange for services rendered. The shares were valued using the closing share price of our common stock on the date of grant, at \$4.54 per share.
- In December 2017, the Company issued 14,384 shares of common stock upon conversion of 8% promissory notes with an aggregate principal amount converted of \$52,500. The Registrant did not receive any cash proceeds from these issuances

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, general solicitation or any public offering, and the Registrant believes each transaction was exempt from the registration requirements of the Securities Act, as stated above. The Registrant believes that the Section 4(a)(2) exemption applies to certain of the transactions described above because such transactions were predicated on the fact that the issuances were made only to investors who (i) confirmed to the Registrant in writing that they are accredited investors, or if not accredited, have such knowledge and experience in financial and business matters that they are capable of evaluating the merits and risks of their investment; and (ii) either received adequate business and financial information about the Registrant or had access, through their relationships with the Registrant, to such information. Furthermore, the Registrant affixed appropriate legends to the share certificates and instruments issued in each foregoing transaction setting forth that the securities had not been registered and the applicable restrictions on transfer.

### **Item 6. SELECTED FINANCIAL DATA**

Not applicable.

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

*In this Form 10-K and in other documents incorporated herein, as well as in oral statements made by the Company, statements that are prefaced with the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," "designed," and similar expressions, are intended to identify forward-looking statements regarding events, conditions, and financial trends that may affect the Company's future plans of operations, business strategy, results of operations, and financial position. These statements are based on the Company's current expectations and estimates as to prospective events and circumstances about which the Company can give no firm assurance. Further, any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement to reflect future events or circumstances. Forward-looking statements should not be relied upon as a prediction of actual future financial condition or results. These forward-looking statements, like any forward-looking statements, involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include the factors set forth above and the other information set forth in this Form 10-K.*

### Overview

We are an Oregon-based producer and marketer of craft spirits, founded in 2008. Our products span several alcoholic beverage categories, including bourbon, American whiskey, vodka, gin and rum. Unlike other distillers, we operate several retail tasting rooms in Oregon to market our brands directly to consumers. Our strategy for growth is to build on our local base in the Pacific Northwest and expand selectively to other markets, using major spirits distributors. In December 2016, we retained Sandstrom Partners, an internationally-known spirit branding firm that branded St-Germain and Bulleit Bourbon, to guide our marketing strategy and branding. Sandstrom Partners subsequently became an investor in our company. With the assistance of Sandstrom Partners and using our in-house spirits expertise, during 2017, we created Redneck Riviera Whiskey ("RRW"), in collaboration with Country Music superstar John Rich, of the duo "Big & Rich." Supported by John Rich's marketing efforts, we launched RRW in the Southeastern and Gulf States primarily through Republic National Distributing Company ("RNDC"). We believe that RRW will achieve commercial success on a broad scale, and we have therefore focused our sales efforts outside Oregon on RRW. We believe RRW will be our primary growth engine in 2018 and will also provide a "coattail" effect for our other brands, helping them to achieve national recognition and success.

Operating as a small business in a large, international spirits marketplace occupied by massive conglomerates, we seek to turn our small size from a disadvantage into an advantage. As RRW demonstrates, our team can work with Sandstrom Partners to develop and launch new brands exponentially faster than multi-billion dollar conglomerates that typically acquire innovators rather than innovate themselves. We believe that Canadian whiskeys' dominance of the light whiskey segment is vulnerable to a light whiskey that is 100% American, and we are exploiting that vulnerability with RRW, a product that went from idea, to celebrity collaboration, to design and formulation, to market roll-out in less than nine months. We are innovative in targeting emerging trends with our products, for example, our Coffee Rum with cold brew coffee and low sugar and our gluten-free potato vodka. We seek to be both a leader in creating spirits that offer better value than comparable spirits, for example our value-priced Portland Potato Vodka, and an innovator in creating imaginative spirits that offer a unique taste experience, like our Coffee Rum, Oregon oak aged whiskeys and Marionberry Whiskey.

As a Nasdaq-traded company, we have access to public capital markets to support our growth initiatives, including strategic acquisitions. In May 2017, we used our shares to acquire 90% of Big Bottom Distillery ("BBD"), known for its award-winning, super-premium gins and whiskeys, including The Ninety One Gin, Navy Strength Gin, Oregon Gin, Delta Rye and American Single Malt Whiskey. BBD's super-premium spirits give us a presence at the "high end" of the market. In addition, through MotherLode Craft Distillery ("MotherLode"), our wholly-owned subsidiary acquired in March 2017, we also provide contract bottling and packaging services for existing and emerging spirits producers, some of whom contract with us to blend or distill spirits. During 2018, we intend to use our "slim line" canning equipment, newly installed at MotherLode, to profit from an emerging consumer interest in canned wine. We believe our location close to vineyards in Oregon and Washington is a competitive advantage.

### Recent Developments

*MotherLode begins canning operations.* In March 2018, the Company announced it had begun canning for two separate companies; on March 6<sup>th</sup>, 2018 for Dear Mom Wine Co. and on March 27<sup>th</sup>, 2018 for Backpack Wine. These projects represented the first initial customers for Eastside's new canning services being offered under its wholly-owned subsidiary, MotherLode.

*Appointment of Tom Wood as V.P. of Production.* On March 22<sup>nd</sup>, 2018, the Company announced that it appointed Tom Wood as Vice President of Production. Wood has over 25 years of executive and management experience in high volume production, manufacturing and corporate team development for companies. He had been previously working as a consultant for Eastside, focused on assisting with MotherLode and the new canning operations.

*Southern Glazer's to distribute Redneck Riviera in California.* On March 8, 2018, the Company announced that Southern Glazer's will distribute Eastside's Redneck Riviera Whiskey throughout the state of California.

*Introduction of Hue-Hue Coffee Rum.* On February 26<sup>th</sup>, 2018 the Company announced the introduction of its Hue-Hue Coffee Rum. The Hue-Hue (pronounced "way way") name is derived from Huehuetenango, a city in the highlands of western Guatemala where our coffee is sourced. The Hue-Hue bottle design created by Portland's Sandstrom Partner's takes inspiration from Guatemala's burlap coffee sacks that are uniformly labeled throughout the country to convey details of origin. Similarly, the Hue-Hue bottle conveys the Hue-Hue coffee's origin on the El Paternal Estate, its Portland roasting history, and the cold brewing and infusion with select rum. It authentically represents a unique Guatemalan coffee that has been roasted and brewed by hand in Portland, then blended with select silver rum in small batches. Eastside's popular Below Deck Coffee Rum, upon which Hue-Hue is based, has been replaced by Hue-Hue.

*RNDC Expands Distribution of Redneck Riviera Whiskey.* On February 15<sup>th</sup>, 2018 the Company announced Republic National Distributing Company ("RNDC") would distribute Eastside's newly launched Redneck Riviera Whiskey ("RRW") in North Dakota, Nebraska and Oklahoma.

*Walmart Authorizes Redneck Riviera Whiskey Product.* On January 31<sup>st</sup>, 2018, the Company announced that Walmart has initially authorized Redneck Riviera Whiskey for Florida, California and Louisiana for 2018.

*RNDC to Distribution Redneck Riviera Whiskey Product.* On January 23<sup>rd</sup>, 2018 the Company announced that Republic National Distributing Company ("RNDC") will distribute Eastside's newly launched Redneck Riviera Whiskey in the six initial gulf coast states including Texas, Louisiana, Alabama, Georgia, Mississippi, Florida as well as North Carolina.

## **Corporate Information**

Our executive offices are located at 1001 SE Water Ave, Suite 390, Portland, Oregon 97214. Our telephone number is (971) 888-4264 and our internet address is [www.east-sidedistilling.com](http://www.east-sidedistilling.com). The information on, or that may be, accessed from our website is not part of this annual report.

## **Results of Operations**

### **Overview**

Fiscal year 2017 represented a year of significant progress for Eastside. Important achievements or milestones included:

- *New Burnside product launch.* In early October of 2017, the company introduced the first of several new products under its Burnside brand. We launched two additional products before year end and a fourth in early 2018. This re-branding/re-packaging of one of our major product lines was led by Sandstrom Partners, our strategic branding and marketing partner.
- *Acquisitions.* The Company completed two strategic acquisitions (MotherLode LLC, and Big Bottom Distillery) and fully integrated their operations with Eastside during the year.
- *Production facilities consolidation and expansion.* During 2017, we consolidated our original production facility into MotherLode's production facility (which we acquired in March of 2017). We also made key investments to add additional equipment and increase our overall production capabilities. We generally completed that effort around the October timeframe and believe we are well positioned to handle the new product launches and anticipated growth.
- *New canning line.* We further expanded our production capabilities by adding a fully automated canning line in order to produce ready-to-made drinks (RTDs) in a can and single-serving wine in a can. The equipment was installed during the 4<sup>th</sup> quarter and became operational in the first quarter of 2018.
- *Public offering and Nasdaq up-listing.* We successfully completed a public offering in August of 2017 that also coincided with an up-listing of our common stock to NASDAQ.

- *Major new product launch in partnership with country star, John Rich.* In November 2017, the company announced that it had been granted an exclusive license for use of the Redneck Riviera brand for spirits-based products. The company subsequently launched (in early 2018) its newest product, Redneck Riviera Whiskey utilizing this license agreement.

As we look ahead to 2018, the Company believes it has built a strong foundation and is well positioned to continue its aggressive expansion efforts and drive further successes for shareholders. While we have become the third largest spirits company in Oregon, there remains substantial opportunities and we expect Oregon, our largest market, to continue to grow at a strong pace. In addition, as we continue to work closely with major distributors and focus on our new Redneck Riviera product, we expect both our national and international sales efforts to increase at a rapid pace and become a larger percentage of our overall business. We also expect our new canning abilities at MotherLode to further add to our growth in 2018.

**Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016**

Our sales for the year ended December 31, 2017 increased to \$3,791,382, or approximately 25%, from \$3,042,527 for the year ended December 31, 2016.

	<u>2017</u>		<u>2016</u>	
Wholesale .....	\$ 1,947,431	51%	\$ 1,858,472	61%
Private Label.....	324,525	9%	-	-
Retail / Special Events .....	1,519,426	40%	1,184,055	39%
Total.....	<u>\$ 3,791,382</u>	<u>100%</u>	<u>\$ 3,042,527</u>	<u>100%</u>

The increase in sales for 2017 is primarily attributable to our increased wholesale sales traction within the Pacific Northwest, growth in our Oregon-based retail operations due to added store locations during the year and our new private label business (as a result of our 2017 acquisition of MotherLode).

Excise taxes, customer programs and incentives for the year ended December 31, 2017 increased to \$1,180,386, or approximately 26%, from \$934,221 for the comparable 2016 period. The increase is attributable to the increase in liquor sales due to our increased distribution and sales traction during the year. In addition, customer programs and incentives increased due to our increased distribution.

During the year ended December 31, 2017, cost of sales increased to \$1,634,069, or approximately 28%, from \$1,280,344 for the year ended December 31, 2016. The increase is primarily attributable to the costs associated with our increased liquor sales in the year. The cost of sales we reported in both 2017 and 2016, however, are not typical of our expected future results because the product costs in both years are based on smaller production lots, and do not reflect the economies of scale that we anticipate as we continue to scale our operations.

Gross profit is calculated by subtracting the cost of products sold from net sales. Cost of sales consists of the costs of ingredients utilized in the production of spirits, manufacturing labor and overhead, warehousing rent, packaging, and in-bound freight charges. Ingredients account for the largest portion of the cost of sales, followed by packaging and production costs. Gross margin is gross profits stated as a percentage of net sales.

The following table compares our gross profit (in thousands of dollars) and gross margin in the years ended December 31, 2017 and 2016:

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Gross profit.....	\$ 977	\$ 828
Gross margin .....	37%	39%

Our gross margin of 37% of net sales in the year ended December 31, 2017 declined from our gross margin of 39% for the year ended December 31, 2016 primarily due to customer mix, higher customer programs and incentives from regional product expansion efforts, and higher raw material costs experienced during the year.

Advertising, promotional and selling expenses for the year ended December 31, 2017 increased to \$2,219,168 or approximately 78% from \$1,244,152 for the year ended December 31, 2016. This increase is primarily due to our efforts to expand our product sales nationally.

General and administrative expenses for the year ended December 31, 2017 decreased to \$3,546,659, or approximately 9%, from \$3,881,771 for the year ended December 31, 2016. This decrease is primarily due to reduced professional fees and management headcount for the majority of 2017 and tighter expense controls. During the year, we also had a \$40,975 loss on disposal of property and equipment, primarily related to the write-off of construction-in-process on our MLK facility due to the early lease termination agreement we were able to execute in February 2017, and the write-off of leasehold improvements on our MotherLode facility as it was being renovated to accommodate new and expanded production capabilities.

Other expense, net was \$448,042 for the year ended December 31, 2017, compared to \$901,658 for the year ended December 31, 2016, a decrease of 50%. This decrease was primarily due to a decrease in interest expense and amortization of debt discounts of \$750,010 pertaining to the 2016 debt financings. During the year ended December 31, 2017, the Company expensed an impairment of \$25,000 of the intangible assets and \$193,374 of the goodwill initially recorded in the second quarter acquisition of Big Bottom Distillery, LLC.

Net loss available to common shareholders during the year ended December 31, 2017 was \$5,277,316 as compared to a loss of \$5,251,293 for the year ended December 31, 2016. Our net loss was primarily attributable to our increased advertising, promotional and selling expenses relating to increased national sales distribution expenses, increased legal and accounting, and intangible and goodwill impairment expense during 2017, which amounts were offset by our increased gross profit during the year and lower general and administrative and other expenses.

## Liquidity and Capital Resources

### *Year Ended December 31, 2017*

The Company's primary capital requirements are for the financing of inventories, and cash used in operating activities. Funds for such purposes have historically not been generated from operations but rather from short-term credit in the form of extended payment terms from suppliers, convertible debt and equity financings.

Historically, the Company has funded its cash and liquidity needs through convertible notes, extended credit terms, and equity raisings. For the years ended December 31, 2017 and 2016, the Company incurred a net loss of approximately \$5.3 million each year and has an accumulated deficit of approximately \$18.1 million as of December 31, 2017. The Company has been dependent on raising capital from debt and equity financings to meet its needs for cash flow used in operating activities. For the year ended December 31, 2017, the Company raised approximately \$9.2 million from cash flow from financing activities to meet cash flows used in operating activities.

At December 31, 2017, the Company had approximately \$2.6 million of cash on hand with a positive working capital of \$6.1 million. While the Company has successfully raised additional equity and debt funding since year end, management is also heavily focused on meeting the ongoing operating cash needs by generating positive operating cash flow, primarily through rapidly increased sales, improved profit margins and controlling expenses. Through April 2, 2018, the Company has raised an additional \$1.9 million in cash through a debt offering and the exercise of previously issued warrants (see Note 15, Subsequent Events).

The Company's cash flow related information for the years 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Net cash flows provided by (used in):		
Operating activities.....	\$ (7,011,741)	\$ (4,954,671)
Investing activities.....	\$ (652,936)	\$ (9,202)
Financing activities.....	\$ 9,162,926	\$ 5,910,622

### *Operating Activities*

In 2017, the net loss plus non-cash adjustments resulted in cash used of approximately \$3.6 million compared to using \$4.1 million in 2016. Total operating cash used was \$7.0 million compared to \$4.9 million in 2016. The increase in cash usage can be primarily attributed to a \$3.0 million inventory build, an increase of \$0.6 million in prepaids and a \$0.6 million decrease in accrued liabilities partially offset by a \$0.8 million increase in accounts payable.

In 2016, the inventory build was \$0.1 million, a build-up of accounts receivable of \$0.2 million and accrued liabilities of \$0.3 million which was offset by a \$0.8 million decrease in accounts payable.



### *Investing Activities*

Cash used in investing activities consists primarily of purchases of property and equipment. Capital expenditures of \$657,477 and \$9,202 were incurred in 2017 and 2016 respectively. The increase in cash usage can be attributed to a \$0.6 million addition to equipment for the new canning line.

### *Financing Activities*

During 2017, operating losses and working capital needs were primarily funded by \$6.7 million in proceeds from the sale of common stock, \$2.5 million in proceeds from the issuance of convertible notes and warrant exercises of \$0.2 million partially offset by payments on conversion of notes payable of \$0.1 million and principal payments on notes of \$0.1 million.

#### **Common Stock and Warrant Unit Financings**

In August 2017, the Company completed an underwritten public offering of 1,200,000 units consisting of 1,200,000 shares of its common stock and warrants to purchase up to an aggregate of 1,200,000 shares of its common stock (each, a “Unit”) at a public offering price of \$4.50 per Unit. The warrants have a per share exercise price of \$5.40, are exercisable immediately, and will expire five years from the date of issuance. The gross proceeds to the Company from this offering were \$5.4 million, before deducting underwriting discounts and commissions and other estimated offering expenses. On August 24, 2017, the underwriters exercised their option to purchase an additional 180,000 Units to cover over-allotments, that resulted in additional gross proceeds to the Company of \$810,000, before deducting offering expenses.

From March 31, 2017 through June 2, 2017, the Company concluded an equity financing of 400,019 units at \$3.90 per unit, with each unit consisting of one share of common stock and one three-year common stock purchase warrant exercisable at \$7.50 per share (subject to adjustment), for total proceeds of \$1,560,000 in cash. The financing closed in several phases: (1) on March 31, 2017, on which date we issued 192,308 shares of our common stock for \$750,000 in cash and warrants to purchase 192,308 shares of common stock, (2) on several dates between April 3, 2017 and May 4, 2017, during which period we issued 85,601 shares of our common stock for \$333,815 in cash and warrants to purchase 85,601 shares of common stock, and (3) on several dates between May 5, 2017 and June 4, 2017, during which period we issued 122,110 shares of our common stock for \$476,185 in cash and warrants to purchase 122,110 shares of common stock.

From January 4, 2017 to January 22, 2017, the Company sold 15,001 shares of common stock to accredited investors at a price of \$3.90 per share for aggregate cash proceeds of \$58,500.

#### **Convertible Notes**

On several dates between April 21, 2017 and June 30, 2017, we issued an aggregate of \$1,400,000 convertible promissory notes to accredited investors. The notes have a maturity date of three years from the date of issuance, and bear interest at the rate of five percent (5%) and six percent (6%) per annum. The notes have an automatic conversion feature upon the closing (or first in a series of closings) of the next equity financing in which we sell shares of its equity securities for an aggregate consideration of at least \$4,000,000 at a purchase price of at least \$7.50. The outstanding principal and unpaid accrued interest on the notes shall be automatically converted into equity securities at a price equal to 80% of the price paid per share by the investors in the next equity financing or \$6.00, whichever is lower, provided, however, that in no event shall the conversion price be less than \$6.00. The notes have a voluntary conversion feature where the investor may convert, in whole or in part, at any time at the conversion rate of \$6.00. In August 2017, the Company issued 83,334 shares of its common stock upon conversion of an aggregate principal amount of \$500,000 of these notes. No gain or loss recorded on the transaction.

#### **Promissory Notes**

On December 29, 2017, we issued an aggregate of \$1,101,840 promissory notes to accredited investors. The notes have a maturity date of 18 months from the date of issuance, and bear interest at the rate of eight percent (8%). In the event the Company completes a private or public offering of its equity or debt securities in which the gross amount raised in such financing is at least \$2.0 million (a “Future Financing”), all amounts due under this Note shall become due and payable within five (5) business days of the final closing of such Future Financing. In lieu of receiving the cash repayment of amounts due under this Note in connection with a Future Financing, at the option of Payee, the principal amount due and payable may be used to purchase the securities offered in the Future Financing.

## **Critical Accounting Policies**

The discussion and analysis of the Company's financial condition and results of operations is based upon its consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Company to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These items are monitored and analyzed by management for changes in facts and circumstances, and material changes in these estimates could occur in the future. The more judgmental estimates are summarized below. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that the Company believes to be reasonable under the circumstances. Actual results may differ from the Company's estimates if past experience or other assumptions do not turn out to be substantially accurate.

### *Revenue Recognition*

Net revenue includes product sales, less excise taxes and customer programs and incentives. The Company records revenue when all four of the following criteria are met: (i) there is persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectability is reasonably assured.

The Company recognizes sales when merchandise is shipped from a warehouse directly to wholesale customers (except in the case of a consignment sale). For consignment sales, which include sales to the Oregon Liquor Control Commission (OLCC), the Company recognizes sales upon the consignee's shipment to the customer. Postage and handling charges billed to customers are also recognized as sales upon shipment of the related merchandise. Shipping terms are generally FOB shipping point, and title passes to the customer at the time and place of shipment or purchase by customers at a retail location. For consignment sales, title passes to the consignee concurrent with the consignee's shipment to the customer. The customer has no cancellation privileges after shipment or upon purchase at retail locations, other than customary rights of return. The Company excludes sales tax collected and remitted to various states from sales and cost of sales. Sales from items sold through the Company's retail location are recognized at the time of sale.

Sales received from online merchants who sell discounted gift certificates for the Company's merchandise and tastings is deferred until the customer has redeemed the discounted gift certificate or the gift certificate has expired, whichever occurs earlier.

### *Customer Programs and Incentives*

Customer programs and incentives, which include customer promotional discount programs, customer incentives and other payments, are a common practice in the alcohol beverage industry. The Company makes these payments to customers and incurs these costs to promote sales of products and to maintain competitive pricing. Amounts paid in connection with customer programs and incentives are recorded as reductions to net revenue or as advertising, promotional and selling expenses in accordance with ASC Topic 605-50, *Revenue Recognition- Customer Payments and Incentives*, based on the nature of the expenditure. Amounts paid to customers totaled \$182,975 and \$136,786 in 2017 and 2016, respectively.

### *Cost of Sales*

Cost of sales consists of the costs of ingredients utilized in the production of spirits, manufacturing labor and overhead, warehousing rent, packaging, and in-bound freight charges. Ingredients account for the largest portion of the cost of sales, followed by packaging and production costs.

### *Advertising, Promotional and Selling Expenses*

The following expenses are included in advertising, promotions and selling expenses in the accompanying consolidated statements of operations: media advertising costs, special event costs, tasting room costs, sales and marketing expenses, salary and benefit expenses, travel and entertainment expenses for the sales, brand and sales support workforce and promotional activity expenses. Advertising, promotional and selling costs are expensed as incurred. Advertising, promotional and selling expense was \$2,219,168 and \$1,244,152 in 2017 and 2016, respectively.

### *Shipping and Fulfillment Costs*

Freight costs incurred related to shipment of merchandise from Eastside's distribution facilities to customers are recorded in cost of sales.

### *Cash and Cash Equivalents*

Cash equivalents are considered to be highly-liquid investments with maturities of three months or less at the time of the purchase. The Company had no cash equivalents at December 31, 2017 and December 31, 2016.

### *Concentrations*

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. At December 31, 2017, two distributors represented 79% of trade receivables. At December 31, 2016, three distributors represented 91% of trade receivables. Sales to two distributors accounted for approximately 35% of consolidated sales for the year ended December 31, 2017.

### *Inventories*

Inventories primarily consist of bulk and bottled liquor and merchandise and are stated at the lower of cost or market. Cost is determined using an average costing methodology, which approximates cost under the first-in, first-out (FIFO) method. A portion of inventory is held by the OLCC on consignment until it is sold to a third party. Eastside regularly monitors inventory quantities on hand and records write-downs for excess and obsolete inventories based primarily on the Company's estimated forecast of product demand and production requirements. Such write-downs establish a new cost basis of accounting for the related inventory. The Company has recorded no write-downs of inventory for the years ended December 31, 2017 and 2016.

### *Excise Taxes*

The Company is responsible for compliance with the TTB regulations which includes making timely and accurate excise tax payments. Eastside is subject to periodic compliance audits by the TTB. Individual states also impose excise taxes on alcohol beverages in varying amounts. The Company calculates its excise tax expense based upon units produced and on its understanding of the applicable excise tax laws. Excise taxes totaled \$997,410 and \$797,435 in 2017 and 2016, respectively.

### *Stock-Based Compensation*

The Company recognizes as compensation expense all stock-based awards issued to employees in accordance with the fair value recognition provisions of Accounting Standards Codification Topic 718, *Compensation - Stock Compensation*. The compensation cost is measured based on the grant-date fair value of the related stock-based awards and is recognized over the service period of stock-based awards, which is generally the same as the vesting period. The fair value of stock options is determined using the Black-Scholes valuation model, which estimates the fair value of each award on the date of grant based on a variety of assumptions including expected stock price volatility, expected terms of the awards, risk-free interest rate, and dividend rates, if applicable. Stock-based awards issued to nonemployees are recorded at fair value on the measurement date and are subject to periodic market adjustments as the underlying stock-based awards vest. Stock-based compensation was \$563,356 and \$374,687 in 2017 and 2016, respectively.

### **Off-Balance Sheet Arrangements**

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material.

### **Item 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

## **Item 8. FINANCIAL STATEMENTS**

### **Report of Independent Registered Public Accounting Firm**

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#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Eastside Distilling, Inc.

#### **Opinion on the Financial Statements**

We have audited the accompanying balance sheet of Eastside Distilling, Inc. (the Company) as of December 31, 2017, and the related statement of income, comprehensive income, stockholders' equity, and cash flows for the year ended December 31, 2017, and the related notes and schedules (collectively referred to as the financial statements). The financial statements of Eastside Distilling, Inc. as of December 31, 2016, were audited by other auditors whose report dated March 31, 2017 expressed an unqualified opinion on those statements. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, 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.

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

*/s/ M&K CPAS, PLLC*

We have served as the Company's auditor since 2017.

Houston, TX

April 2, 2018

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Board of Directors and  
Stockholders of Eastside Distilling, Inc. and Subsidiary**

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of Eastside Distilling, Inc. and Subsidiary (the “Company”) as of December 31, 2016, and the related consolidated statements of operations, stockholders’ equity, and cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting 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.

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

*/s/ BPM LLP*

We have served as the Company’s auditor since 2014.

San Francisco, California  
March 31, 2017 – except for Note 11 “Reverse stock splits” for  
which the date is June 15, 2017

**Eastside Distilling, Inc. and Subsidiary**  
**Consolidated Balance Sheets**  
**December 31, 2017 and 2016**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>		
Current assets:		
Cash .....	\$ 2,586,315	\$ 1,088,066
Trade receivables .....	315,321	344,955
Inventories .....	4,051,282	780,037
Prepaid expenses and current assets .....	649,749	187,714
<b>Total current assets</b> .....	<b>7,602,667</b>	<b>2,400,772</b>
Property and equipment, net .....	728,506	99,216
Intangible assets, net .....	325,668	-
Goodwill, net .....	28,182	-
Other assets .....	343,942	48,000
<b>Total Assets</b> .....	<b>\$ 9,028,965</b>	<b>\$ 2,547,988</b>
 <b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable .....	\$ 1,267,189	\$ 457,034
Accrued liabilities .....	156,163	523,702
Deferred revenue .....	1,579	2,126
Current portion of notes payable .....	293,726	4,537
<b>Total current liabilities</b> .....	<b>1,718,657</b>	<b>987,399</b>
Notes payable - less current portion and debt discount .....	2,161,760	427,756
<b>Total liabilities</b> .....	<b>3,880,417</b>	<b>1,415,155</b>
 Commitments and contingencies (Note 11)		
 Stockholders' equity:		
Series A convertible preferred stock, \$0.0001 par value; 3,000 shares authorized; 0 and 300 shares issued and outstanding at December 31, 2017 and 2016, respectively (liquidation values of \$0 and \$750,000, respectively) .....	-	245,838
Common stock, \$0.0001 par value; 15,000,000 shares authorized; 4,889,745 and 2,542,504 shares issued and outstanding at December 31, 2017 and 2016, respectively .....	489	254
Additional paid-in capital .....	23,223,435	13,699,785
Accumulated deficit .....	(18,090,961)	(12,813,044)
<b>Total Eastside Distilling, Inc. Stockholders' Equity</b> .....	<b>5,132,963</b>	<b>1,132,833</b>
Noncontrolling interests .....	15,585	-
<b>Total Stockholders' Equity</b> .....	<b>5,148,548</b>	<b>1,132,833</b>
<b>Total Liabilities and Stockholders' Equity</b> .....	<b>\$ 9,028,965</b>	<b>\$ 2,547,988</b>

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

**Eastside Distilling, Inc. and Subsidiary  
Consolidated Statements of Operations  
Years ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Sales.....	\$ 3,791,382	\$ 3,042,527
Less excise taxes, customer programs and incentives .....	<u>1,180,386</u>	<u>934,221</u>
Net sales.....	2,610,996	2,108,306
Cost of sales.....	<u>1,634,069</u>	<u>1,280,344</u>
Gross profit.....	<u>976,927</u>	<u>827,962</u>
Operating expenses:		
Advertising, promotional and selling expenses .....	2,219,168	1,244,152
General and administrative expenses.....	3,546,659	3,881,771
Loss on disposal of property and equipment .....	<u>40,975</u>	<u>-</u>
Total operating expenses .....	<u>5,806,802</u>	<u>5,125,923</u>
<b>Loss from operations</b> .....	<u>(4,829,875)</u>	<u>(4,297,961)</u>
Other income (expense), net		
Interest expense .....	(235,053)	(862,468)
Other income (expense) .....	<u>(212,989)</u>	<u>(39,190)</u>
Total other expense, net .....	<u>(448,042)</u>	<u>(901,658)</u>
<b>Loss before income taxes</b> .....	<u>(5,277,917)</u>	<u>(5,199,619)</u>
Provision for income taxes .....	<u>-</u>	<u>-</u>
<b>Net loss</b> .....	<u>(5,277,917)</u>	<u>(5,199,619)</u>
Dividends on convertible preferred stock .....	-	(51,674)
Income (loss) attributable to noncontrolling interests.....	<u>601</u>	<u>-</u>
<b>Net loss attributable to Eastside Distilling, Inc. common shareholders</b> .....	<u>\$ (5,277,316)</u>	<u>\$ (5,251,293)</u>
<b>Basic and diluted net loss per common share</b> .....	<u>\$ (1.42)</u>	<u>\$ (4.21)</u>
<b>Basic and diluted weighted average common shares outstanding</b> .....	<u>3,717,956</u>	<u>1,247,281</u>

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

**Eastside Distilling, Inc. and Subsidiary**  
**Consolidated Statements of Stockholder's (Deficit) Equity**  
**Years ended December 31, 2017 and 2016**

	Convertible Series A Preferred Stock		Common Stock		Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)	Non-controlling interest in consolidated entities	Total Equity
	Shares	Amount	Shares	Amount					
<b>Balance, December 31, 2016</b> .....	300	\$ 245,838	2,542,504	\$ 254	\$13,699,785	\$ (12,813,044)	\$ 1,132,833	\$ -	\$ 1,132,833
Issuance of common stock .....	-	-	15,001	2	58,498	-	58,500	-	58,500
Issuance of common stock, net of issuance costs of \$1,120,323, with detachable warrants .....	-	-	1,780,019	177	6,669,401	-	6,669,578	-	6,669,578
Issuance of common stock from warrant exercise for cash .....	-	-	40,834	4	159,246	-	159,250	-	159,250
Issuance of common stock for services by third parties .....	-	-	107,340	11	479,903	-	479,914	-	479,914
Issuance of common stock for services by employees .....	-	-	59,538	6	253,649	-	253,655	-	253,655
Stock option exercises .....	-	-	9,260	1	50,000	-	50,001	-	50,001
Stock-based compensation .....	-	-	-	-	563,356	-	563,356	-	563,356
Issuance of common stock for acquisition of MotherLode, net of issuance costs of \$5,580 .....	-	-	86,667	9	371,411	-	371,420	-	371,420
Issuance of common stock for 90% acquisition of Big Bottom Distilling, net of issuance costs of \$14,400.....	-	-	28,096	3	120,455	-	120,458	14,984	135,442
Shares issued for payoff of long-term notes.....	-	-	120,154	12	561,866	-	561,878	-	561,878
Cumulative dividend on Series A preferred .....	-	5,037	-	-	-	-	5,037	-	5,037
Common shares issued for preferred conversion.....	(300)	(250,875)	100,001	10	235,865	-	(15,000)	-	(15,000)
Adjustment of shares for reverse stock-split .....	-	-	331	-	-	-	-	-	-
Net profit attributable to noncontrolling interests .....	-	-	-	-	-	-	-	601	601
Net loss attributable to common shareholders.....	-	-	-	-	-	(5,277,917)	(5,277,917)	-	(5,277,917)
<b>Balance, December 31, 2017</b> .....	-	\$ -	4,889,745	\$ 489	\$23,223,435	\$ (18,090,961)	\$ 5,132,963	\$ 15,585	\$ 5,148,548

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



**Eastside Distilling, Inc. and Subsidiary  
Consolidated Statements of Cash Flows  
Years ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Cash Flows From Operating Activities:</b>		
Net loss .....	\$ (5,277,917)	\$ (5,199,619)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization .....	92,016	21,991
Loss on disposal of property and equipment .....	40,975	-
Amortization of debt issuance costs .....	92,156	116,750
Impairment of goodwill and intangible assets .....	218,374	-
Amortization of beneficial conversion feature .....	-	228,550
Issuance of common stock in exchange for services .....	642,309	265,065
Issuance of common stock for payoff of trade debt .....	-	19,212
Stock-based compensation .....	563,356	374,687
Cumulative dividend on preferred stock .....	-	39,200
 Changes in operating assets and liabilities:		
Trade receivables .....	35,858	(202,749)
Inventories .....	(3,037,835)	(96,213)
Prepaid expenses and other assets .....	(612,977)	(23,208)
Accounts payable .....	804,976	(843,498)
Accrued liabilities .....	(572,485)	343,762
Deferred revenue .....	(547)	1,399
Net cash used in operating activities .....	(7,011,741)	(4,954,671)
<b>Cash Flows From Investing Activities:</b>		
Cash acquired in acquisition .....	4,541	-
Purchases of property and equipment .....	(657,477)	(9,202)
Net cash used in investing activities .....	(652,936)	(9,202)
<b>Cash Flows From Financing Activities:</b>		
Stock issuance cost related to acquisitions .....	(19,980)	-
Stock issuance cost related to common shares issued for preferred conversion .....	(9,361)	-
Proceeds from common stock, net of issuance costs of \$1,120,323 and \$23,762, respectively, with detachable warrants .....	6,728,079	2,451,238
Proceeds from preferred stock, net of issuance costs of \$69,528, with detachable warrants .....	-	429,572
Proceeds from warrant exercise - related party .....	-	50,000
Proceeds from warrant exercise .....	159,250	684,216
Payments on conversion of note payable .....	(90,000)	(141,904)
Payments of principal on notes payable .....	(106,902)	-
Proceeds from convertible notes payable, net of issuance costs .....	2,501,840	185,000
Repayment of related party note payable .....	-	(12,500)
Proceeds from notes payable, warrants issued - related party .....	-	295,000
Proceeds from notes payable, warrants issued .....	-	1,405,000
Proceeds from common stock, with detachable warrants - related party .....	-	565,000
Net cash provided by financing activities .....	9,162,926	5,910,622
<b>Net increase in cash</b> .....	1,498,249	946,749
Cash - beginning of year .....	1,088,066	141,317
<b>Cash - end of year</b> .....	\$ 2,586,315	\$ 1,088,066
 <b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for interest .....	\$ 103,293	\$ 91,237
 <b>Supplemental Disclosure of Non-Cash Financing Activity</b>		
Issuance of common stock for the acquisition of MotherLode Craft Distillery, LLC .....	\$ 377,000	\$ -
Issuance of common stock for the acquisition of Big Bottom Distilling, LLC .....	\$ 134,858	\$ -
Common stock issued in exchange of notes payable .....	\$ 558,137	\$ -
Stock issued for payment of trade debt .....	\$ -	\$ 19,213
Dividends paid in common stock .....	\$ -	\$ 17,759
Stock issued in lieu of accrued compensation .....	\$ -	\$ 423,000
Stock issued to retire notes and accrued interest .....	\$ -	\$ 246,330
Exchange of warrant exercise used to repay notes payable - related party .....	\$ -	\$ 169,999
Exchange of warrant exercise used to repay notes payable .....	\$ -	\$ 401,148

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

**Eastside Distilling, Inc. and Subsidiary**  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2017 and 2016

**1. Description of Business**

We are an Oregon-based producer and marketer of craft spirits, founded in 2008. Our products span several alcoholic beverage categories, including bourbon, American whiskey, vodka, gin and rum. Unlike other distillers, we operate several retail tasting rooms in Oregon to market our brands directly to consumers. Our strategy for growth is to build on our local base in the Pacific Northwest and expand selectively to other markets, using major spirits distributors. In December 2016, we retained Sandstrom Partners, an internationally-known spirit branding firm that branded St-Germain and Bulleit Bourbon, to guide our marketing strategy and branding. Sandstrom Partners subsequently became an investor in our company. With the assistance of Sandstrom Partners and using our in-house spirits expertise, during 2017, we created Redneck Riviera Whiskey (“RRW”), in collaboration with Country Music superstar John Rich, of the duo “Big & Rich.” Supported by John Rich’s marketing efforts, we launched RRW in the Southeastern and Gulf States primarily through Republic National Distributing Company (“RNDC”).

As a small business in a large, international spirits marketplace populated with massive conglomerates, we seek to turn our small size from a disadvantage into an advantage. As RRW demonstrates, our team can work with Sandstrom Partners to develop and launch new brands exponentially faster than multi-billion dollar conglomerates that typically acquire innovators rather than innovate themselves. We believe that Canadian whiskeys’ dominance of the light whiskey segment is vulnerable to a light whiskey that is 100% American, and we are exploiting that vulnerability with RRW, a product that went from idea, to celebrity collaboration, to design and formulation, to market roll-out in less than nine months. We are innovative in targeting emerging trends with our products, for example, our Coffee Rum with cold brew coffee and low sugar and our gluten-free potato vodka. We seek to be both a leader in creating spirits that offer better value than comparable spirits, for example our value-priced Portland Potato Vodka, and an innovator in creating imaginative spirits that offer a unique taste experience, like our Coffee Rum, Oregon oak aged whiskeys and Marionberry Whiskey.

As a Nasdaq-traded company, we have access to public capital markets to support our growth initiatives, including strategic acquisitions. In May 2017, we used our shares to acquire 90% of Big Bottom Distillery (“BBD”), known for its excellent, award winning super- premium gins and whiskeys, including The Ninety One Gin, Navy Strength Gin, Oregon Gin, Delta Rye and American Single Malt Whiskey. BBD’s super-premium spirits give us a presence at the “high end” of the market. In addition, through MotherLode Craft Distillery (“MotherLode”), our wholly-owned subsidiary acquired in March 2017, we also provide contract bottling and packaging services for existing and emerging spirits producers, some of whom contract with us to blend or distill spirits. During 2018, we intend to use our “slim line” canning equipment, newly installed at MotherLode, to profit from an emerging consumer interest in canned wine. We believe our location close to vineyards in Oregon and Washington is a competitive advantage.

We currently sell our products in 26 states (Oregon, Washington, California, Florida, Nevada, Texas, Virginia, Indiana, Illinois, New York, New Jersey, Massachusetts, Connecticut, Georgia, Rhode Island, Idaho, Maryland, West Virginia, Wyoming, North Carolina, Louisiana, Tennessee, Mississippi, South Dakota, Kansas and Alaska) as well as Ontario, Canada. The Company also generates revenue from tastings, tasting room tours, private parties, and merchandise sales from its facilities in Oregon. The Company is subject to the Oregon Liquor Control Commission (OLCC) and the Alcohol and Tobacco Tax and Trade Bureau (TTB).

**2. Liquidity**

Historically, the Company has funded its cash and liquidity needs through convertible notes, extended credit terms, and equity raisings. For the years ended December 31, 2017 and 2016, the Company incurred a net loss of approximately \$5.3 million each year and has an accumulated deficit of approximately \$18.1 million as of December 31, 2017. The Company has been dependent on raising capital from debt and equity financings to meet its needs for cash flow used in operating activities. For the year ended December 31, 2017, the Company raised approximately \$9.2 million in cash flow from financing activities to meet cash flow used in operating activities.

**Eastside Distilling, Inc. and Subsidiary**  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2017 and 2016

At December 31, 2017, the Company has approximately \$2.6 million of cash on hand with a positive working capital of \$5.7 million. The Company's ability to meet their ongoing operating cash needs is dependent on generating positive operating cash flow, primarily through increased sales, improved profit growth and controlling expenses. Management has taken actions to improve profitability, reduce certain expenses and increase sales. In addition, through March 31, 2018, the Company raised an additional \$1.9 million in cash through a debt offering and the exercise of previously issued warrants (see Note 15, Subsequent Events). Management believes that cash on hand, including the most recent capital raised from a debt offering and warrant exercises will be sufficient to meet their operating activities to meet their near-term cash needs over the next twelve months.

### **3. Summary of Significant Accounting Policies**

#### **Basis of Presentation and Consolidation**

The accompanying consolidated financial statements for Eastside Distilling, Inc. and subsidiaries were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of Eastside Distilling, Inc.'s wholly-owned subsidiary MotherLode (beginning as of March 8, 2017), and majority-owned subsidiary BBD (beginning as of May 1, 2017). All intercompany balances and transactions have been eliminated in consolidation.

#### **Segment Reporting**

The Company determined its operating segment on the same basis that it uses to evaluate its performance internally. The Company has one business activity, marketing and distributing hand-crafted spirits, and operates as one segment. The Company's chief operating decision makers, its chief executive officer and chief financial officer, review the Company's operating results on an aggregate basis for purposes of allocating resources and evaluating financial performance.

#### **Use of Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

#### **Revenue Recognition**

Net revenue includes product sales, less excise taxes and customer programs and incentives. The Company records revenue when all four of the following criteria are met: (i) there is persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectability is reasonably assured.

The Company recognizes sales when merchandise is shipped from a warehouse directly to wholesale customers (except in the case of a consignment sale). For consignment sales, which include sales to the Oregon Liquor Control Commission (OLCC), the Company recognizes sales upon the consignee's shipment to the customer. Postage and handling charges billed to customers are also recognized as sales upon shipment of the related merchandise. Shipping terms are generally FOB shipping point, and title passes to the customer at the time and place of shipment or purchase by customers at a retail location. For consignment sales, title passes to the consignee concurrent with the consignee's shipment to the customer. The customer has no cancellation privileges after shipment or upon purchase at retail locations, other than customary rights of return. The Company excludes sales tax collected and remitted to various states from sales and cost of sales. Sales from items sold through the Company's retail location are recognized at the time of sale.

Revenue received from online merchants who sell discounted gift certificates for the Company's merchandise and tastings is deferred until the customer has redeemed the discounted gift certificate or the gift certificate has expired, whichever occurs earlier.

**Eastside Distilling, Inc. and Subsidiary**  
Notes to Consolidated Financial Statements  
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**Customer Programs and Incentives**

Customer programs and incentives, which include customer promotional discount programs, customer incentives and other payments, are a common practice in the alcohol beverage industry. The Company makes these payments to customers and incurs these costs to promote sales of products and to maintain competitive pricing. Amounts paid in connection with customer programs and incentives are recorded as reductions to net revenue or as advertising, promotional and selling expenses in accordance with ASC Topic 605-50, Revenue Recognition - Customer Payments and Incentives, based on the nature of the expenditure. Amounts paid to customers totaled \$182,975 and \$136,786 in years 2017 and 2016, respectively.

**Advertising, Promotional and Selling Expenses**

The following expenses are included in advertising, promotions and selling expenses in the accompanying consolidated statements of operations: media advertising costs, special event costs, tasting room costs, sales and marketing expenses, salary and benefit expenses, travel and entertainment expenses for the sales, brand and sales support workforce and promotional activity expenses. Advertising, promotional and selling costs are expensed as incurred. Advertising, promotional and selling expense totaled \$2,219,168 and \$1,244,152 in years 2017 and 2016, respectively.

**Cost of Sales**

Cost of sales consists of the costs of ingredients utilized in the production of spirits, manufacturing labor and overhead, warehousing rent, packaging, and in-bound freight charges. Ingredients account for the largest portion of the cost of sales, followed by packaging and production costs.

**Shipping and Fulfillment Costs**

Freight costs incurred related to shipment of merchandise from the Company's distribution facilities to customers are recorded in cost of sales.

**Cash and Cash Equivalents**

Cash equivalents are considered to be highly-liquid investments with maturities of three months or less at the time of the purchase. The Company had no cash equivalents at December 31, 2017 and 2016.

**Concentrations**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. At December 31, 2017, two customers represented 79% of trade receivables. At December 31, 2016, three distributors represented 91% of trade receivables.

**Fair Value Measurements**

GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. GAAP permits an entity to choose to measure many financial instruments and certain other items at fair value and contains financial statement presentation and disclosure requirements for assets and liabilities for which the fair value option is elected. At December 31, 2017 and December 31, 2016, management has not elected to report any of the Company's assets or liabilities at fair value under the "fair value option" provided by GAAP.

The hierarchy of fair value valuation techniques under GAAP provides for three levels: Level 1 provides the most reliable measure of fair value, whereas Level 3, if applicable, generally would require significant management judgment. The three levels for categorizing assets and liabilities under GAAP's fair value measurement requirements are as follows:

**Eastside Distilling, Inc. and Subsidiary**  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2017 and 2016

- Level 1: Fair value of the asset or liability is determined using unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Fair value of the asset or liability is determined using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Fair value of the asset or liability is determined using unobservable inputs that are significant to the fair value measurement and reflect management's own assumptions regarding the applicable asset or liability.

None of the Company's assets or liabilities were measured at fair value at December 31, 2017 and 2016. However, GAAP requires the disclosure of fair value information about financial instruments that are not measured at fair value. Financial instruments consist principally of trade receivables, accounts payable, accrued liabilities, note payable, and convertible note payable. The estimated fair value of trade receivables, accounts payable, and accrued liabilities approximates their carrying value due to the short period of time to their maturities. At December 31, 2017 and 2016, the Company's note payable and convertible notes payable are at fixed rates and their carrying value approximates fair value.

**Items Measured at Fair Value on a Nonrecurring Basis**

Certain assets and liabilities acquired in a business acquisition are valued at fair value at the date of acquisition.

**Inventories**

Inventories primarily consist of bulk and bottled liquor and merchandise and are stated at the lower of cost or market. Cost is determined using an average costing methodology, which approximates cost under the first-in, first-out (FIFO) method. A portion of inventory is held by certain independent distributors on consignment until it is sold to a third party. The Company regularly monitors inventory quantities on hand and records write-downs for excess and obsolete inventories based primarily on the Company's estimated forecast of product demand and production requirements. Such write-downs establish a new cost basis of accounting for the related inventory. The Company has recorded no write-downs of inventory for the years ended December 31, 2017 and 2016.

**Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. Amortization of leasehold improvements is computed using the straight-line method over the life of the lease or the useful lives of the assets, whichever is shorter. The cost and related accumulated depreciation and amortization of property and equipment sold or otherwise disposed of are removed from the accounts and any gain or loss is reported as current period income or expense. The costs of repairs and maintenance are expensed as incurred.

**Intangible Assets / Goodwill**

The Company accounts for long-lived assets, including property and equipment, at amortized cost. Management reviews long-lived assets for probable impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare 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 estimated cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value. At December 31, 2017, an impairment loss of \$218,374 was recognized related to its acquisition of Big Bottom Distillery, LLC.

**Eastside Distilling, Inc. and Subsidiary**  
Notes to Consolidated Financial Statements  
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**Long-lived Assets**

The Company accounts for long-lived assets, including property and equipment, at amortized cost. Management reviews long-lived assets for probable impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare 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 estimated cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value.

**Income Taxes**

The provision for income taxes is based on income and expenses as reported for financial statement purposes using the “asset and liability method” for accounting for deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. At December 31, 2017 and 2016, the Company established valuation allowances against its net deferred tax assets.

Income tax positions that meet the “more-likely-than-not” recognition threshold are measured at the largest amount of income tax benefit that is more than 50 percent likely to be realized upon settlement with the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized income tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized income tax benefits would be classified as additional income taxes in the accompanying consolidated statements of operations. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized income tax benefits, accrued or expensed at and for the years ended December 31, 2017 and 2016.

The Company files federal income tax returns in the U.S. and various state income tax returns. The Company is no longer subject to examinations by the related tax authorities for the Company’s U.S. federal and state income tax returns for years prior to 2011.

**Comprehensive Income**

The Company does not have any reconciling other comprehensive income items for the for the years ended December 31, 2017 and 2016, respectively.

**Excise Taxes**

The Company is responsible for compliance with the TTB regulations, which includes making timely and accurate excise tax payments. The Company is subject to periodic compliance audits by the TTB. Individual states also impose excise taxes on alcohol beverages in varying amounts. The Company calculates its excise tax expense based upon units produced and on its understanding of the applicable excise tax laws. Excise taxes totaled \$997,410 and \$797,435 in years 2017 and 2016, respectively.

**Stock-Based Compensation**

The Company recognizes as compensation expense all stock-based awards issued to employees. The compensation cost is measured based on the grant-date fair value of the related stock-based awards and is recognized over the service period of stock-based awards, which is generally the same as the vesting period. The fair value of stock options is determined using the Black-Scholes valuation model, which estimates the fair value of each award on the date of grant based on a variety of assumptions including expected stock price volatility, expected terms of the awards, risk-free interest rate, and dividend rates, if applicable. Stock-based awards issued to nonemployees are recorded at fair value on the measurement date and are subject to periodic market adjustments as the underlying stock-based awards vest. Stock-based compensation was \$563,356 and \$374,687 in fiscal years 2017 and 2016, respectively.

**Eastside Distilling, Inc. and Subsidiary**  
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**Accounts Receivable Factoring Program**

During 2017, we terminated our previous receivable factoring program. Under the prior program, we had the option to sell certain customer account receivables in advance of payment for 75% of the amount due. When the customer remitted payment, we would receive the remaining 25%. We were charged interest on the advanced 75% payment at a rate of 1.5% per month. Under the terms of the agreement with the factoring provider, any factored invoices had recourse should the customer fail to pay the invoice. Thus, we recorded factored amounts as a liability until the customer remitted payment and we received the remaining 25% of the non-factored amount. We did not factor any new invoices during 2017. At December 31, 2017, we had no factored invoices outstanding, and we incurred fees associated with the factoring program of \$63,238 during fiscal year 2017. During the year ended December 31, 2016, we factored invoices totaling \$542,083 and received total proceeds of \$406,562. At December 31, 2016, we had factored invoices outstanding of \$171,150, and we incurred fees associated with the factoring program of \$48,601 during 2016.

**Recent Accounting Pronouncements**

In March 2016, the Financial Accounting Standard Boards (the “FASB”) issued Accounting Standard Update (“ASU”) No. 2016-09, *Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting.* ASU 2016-09, which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company does not plan to early adopt. We are currently evaluating the impact ASU 2015-11 will have on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Early application is permitted for all public business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. We are currently evaluating the impact ASU 2016-02 will have on the Company’s condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 will supersede virtually all existing revenue guidance. Under this update, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. As such, an entity will need to use more judgment and make more estimates than under the current guidance. ASU 2014-09 is to be applied retrospectively either to each prior reporting period presented in the financial statements, or only to the most current reporting period presented in the financial statements with a cumulative effect adjustment to retained earnings. The Company will elect to apply the impact (if any) of applying ASU 2014-09 to the most current reporting period presented in the financial statements with a cumulative effect adjustment to retained earnings. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. ASU 2015-14 defers the effective date of ASU 2014-09 for one year, making it effective for the year beginning December 31, 2017, with early adoption permitted as of January 1, 2017. The Company currently expects to adopt ASU 2014-09 in the first quarter of 2018. The Company does not expect adoption of ASU 2014-09 to have a material impact on its consolidated financial statements.

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In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern*. The new guidance explicitly requires that management assess an entity’s ability to continue as a going concern and may require additional detailed disclosures. ASU 2014-15 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. We have adopted as of December 31, 2016.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330), Simplifying the Measurement of Inventory*. ASU 2015-11 is part of the FASB’s initiative to simplify accounting standards. The guidance requires an entity to recognize inventory within scope of the standard at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonable predictable costs of completion, disposal and transportation. ASU 2015-11 will be effective prospectively for the year beginning January 1, 2017. The Company is currently evaluating the impact of ASU 2015-11 and has preliminarily concluded that it will not have a significant impact on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, simplifying the presentation of debt issuance costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 is effective for annual and interim periods beginning after December 15, 2015 and early application is permitted. We have early adopted as of December 31, 2015.

**Reclassifications**

Certain prior period amounts have been reclassified to conform to the December 31, 2017 presentation with no changes to net loss or total stockholders’ equity (deficit) previously reported.

**4. Business Acquisitions**

During the fiscal year 2017, the Company completed the following acquisitions:

*MotherLode Craft Distillery, LLC*

On March 8, 2017, the Company completed the acquisition of MotherLode Craft Distillery, LLC (“MotherLode”), a small Portland, Oregon-based provider of bottling services and production support to craft distilleries. The Company’s condensed consolidated financial statements for fiscal 2017 include MotherLode’s results of operations from the acquisition date of March 8, 2017 through December 31, 2017. The Company’s condensed consolidated financial statements reflect the final purchase accounting adjustments in accordance with ASC 805 “Business Combinations”, whereby the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values on the acquisition date. MotherLode had approximately \$375,000 in revenues (unaudited) in 2016.

The following allocation of the purchase price is as follows:

Consideration given:	
86,667 shares of common stock valued at \$4.35 per share .....	\$ 377,000
Assets and liabilities acquired:	
Cash .....	7,062
Inventory .....	103,488
Property and equipment .....	46,250
Intangible assets - customer list and license .....	376,431
Goodwill .....	28,182
Accounts payable .....	(5,180)
Customer deposits .....	(179,233)
	<u>\$ 377,000</u>



**Eastside Distilling, Inc. and Subsidiary**  
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Intangible assets are recorded at estimated fair value, as determined by management based on available information. The fair value assigned to the customer list intangible asset was determined through the use of the income approach, specifically the relief from royalty and the multi-period excess earning methods. The major assumptions used in arriving at the estimated identifiable intangible asset value included management’s estimates of future cash flows, discounted at an appropriate rate of return which is based on the weighted average cost of capital for both the Company and other market participants, projected customer attrition rates, as well as applicable royalty rates for comparable assets. The useful lives for intangible assets were determined based upon the remaining useful economic lives of the tangible assets that are expected to contribute directly or indirectly to future cash flows. The customer relationships estimated useful life is seven years. The fair values assigned to the license intangible asset were determined through the use of the cost approach. The license has an indefinite life and will not be amortized.

Big Bottom Distillery, LLC

On May 1, 2017, the Company acquired 90% of the ownership of Big Bottom Distillery, LLC (“BBD”), a Hillsboro, Oregon-based distiller of super-premium spirits. The Company’s condensed consolidated financial statements for the fiscal year 2017 include BBD’s results of operations from the acquisition date of May 1, 2017 through December 31, 2017. The Company’s condensed consolidated financial statements reflect the final purchase accounting adjustments in accordance with ASC 805 “Business Combinations”, whereby the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values on the acquisition date. BBD had approximately \$201,000 in revenues (unaudited) in 2016.

The following allocation of the purchase price is as follows:

Consideration given:	
28,096 shares of common stock valued at \$4.80 per share for 90% .....	\$ 134,858
Non-controlling interests .....	14,984
Total value of acquisition.....	\$ 149,842
Assets and liabilities acquired:	
Cash (overdraft) .....	\$ (2,521)
Accounts receivable.....	6,224
Inventory.....	129,922
Property and equipment.....	22,717
Intangible assets - license .....	25,000
Goodwill .....	193,374
Accrued liabilities.....	(52,841)
Notes payable.....	(172,033)
Total.....	\$ 149,842

Intangible assets are recorded at estimated fair value, as determined by management based on available information. The fair value assigned to the license intangible asset was determined through the use of the cost approach. The license has an indefinite life and will not be amortized. For the year ended December 31, 2017, the Company recognized an impairment of \$218,374 for the intangible asset – license and the goodwill originally recorded as part of the purchase price allocation for BBD.

**5. Inventories**

Inventories consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Raw materials .....	\$ 3,755,477	\$ 439,739
Finished goods.....	295,805	340,298
Total inventories .....	<u>\$ 4,051,282</u>	<u>\$ 780,037</u>

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**6. Property and Equipment**

Property and equipment consists of the following at December 31:

	<u>2017</u>	<u>2016</u>
Furniture and fixtures .....	\$ 326,088	\$ 70,140
Leasehold improvements .....	56,410	8,607
Vehicles .....	49,483	38,831
Construction in progress .....	372,667	34,603
Total cost .....	<u>804,648</u>	<u>152,181</u>
Less accumulated depreciation and amortization .....	(76,142)	(52,965)
Total property and equipment, net .....	<u>\$ 728,506</u>	<u>\$ 99,216</u>

Depreciation and amortization expense totaled \$41,253 and \$21,991 for the years ended December 31, 2017 and 2016, respectively.

**7. Intangible Assets and Goodwill**

There were no intangible assets or goodwill at December 31, 2016. At December 31, 2017, intangible assets and goodwill consist of the following:

	<u>December 31, 2017</u>	<u>Life</u>
Permits and licenses.....	\$ 25,000	-
Customer lists .....	351,432	7 years
Goodwill .....	<u>28,182</u>	-
Total intangible assets and goodwill.....	404,614	
Less accumulated amortization.....	(50,764)	
Intangible assets and goodwill - net.....	<u>\$ 353,850</u>	

Amortization expense totaled \$50,764 and nil for the years ended December 31, 2017 and 2016, respectively.

**8. Other Assets**

Other assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Product branding.....	\$ 285,000	\$ -
Deposits .....	53,942	48,000
Other assets.....	<u>\$ 343,942</u>	<u>\$ 48,000</u>

As of December 31, 2017, the Company had \$285,000 of capitalized costs related to services provided for the rebranding of its Burnside product line. This amount will be amortized over a seven year life. Additionally, there was \$40,000 in deposits for the branding services related to the future release of other product lines. The remaining deposits of \$13,942 represent office and retail space lease deposits.

As of December 31, 2016, \$48,000 represents office space lease deposits.

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**9. Notes Payable**

Notes payable consists of the following at December 31, 2017 and December 31, 2016:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Notes payable bearing interest at 7.99%. The note is payable in monthly principal plus interest payments of \$472 through December 2020. The note is secured by a vehicle.....	\$ -	\$ 16,642
Notes payable bearing interest at 8%. The notes have a 2-year maturity, are due either June 30, 2018 or June 30, 2019 and pay interest-only on a monthly basis.....	407,500	547,500
Note payable bearing interest at 2.74%. The note is payable in monthly principal plus interest payments of \$100 through December 2019. ....	2,306	-
Note payable bearing interest at 4.00%. The note is payable in quarterly principal plus interest payments of \$9,614 through March 2019. ....	56,341	-
Convertible notes payable bearing interest at 4.00%. The notes principal plus accrued interest is due in full at various dates between April 3, 2020 – September 30, 2020. The notes have an automatic conversion feature upon the closing (or first in a series of closings) of the next equity financing in which the Company sells shares of its equity securities for an aggregate consideration of at least \$4,000,000 at a purchase price of at least \$7.50. The outstanding principal and unpaid accrued interest on the notes shall be automatically converted into equity securities at a price equal to 80% of the price paid per share by the investors in the next equity financing or \$6.00, whichever is lower, provided, however, that in no event shall the conversion price be less than \$6.00. The note has a voluntary conversion feature where the investor may convert, in whole or in part, at any time at the conversion price of \$6.00. ....	927,192	-
Promissory notes payable bearing interest at 8.00%. The notes' principal is due on June 30, 2019. Interest is paid monthly.....	<u>1,101,840</u>	<u>-</u>
Total notes payable.....	2,495,179	564,142
Less current portion.....	(293,726)	(4,537)
Less debt discount for detachable warrant .....	(39,693)	(131,849)
Long-term portion of notes payable .....	<u>\$ 2,161,760</u>	<u>\$ 427,756</u>

Maturities on notes payable as of December 31, 2017, are as follows:

Year ending December 31:

2018 .....	\$ 293,726
2019 .....	1,254,146
2020 .....	947,307
2021 .....	-
Thereafter.....	-
	<u>\$ 2,495,179</u>

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**10. Income Taxes**

The provision for income taxes results in effective tax rates which are different than the federal income tax statutory rate. The nature of the differences for the year ended December 31 were as follows:

	<u>2017</u>	<u>2016</u>
Expected federal income tax benefit.....	\$ (1,794,492)	\$ (1,774,361)
State income taxes after credits .....	(348,343)	(344,435)
Change in valuation allowance.....	<u>2,142,835</u>	<u>2,118,795</u>
 Total provision for income taxes .....	 <u>\$ -</u>	 <u>\$ -</u>

The components of the net deferred tax assets and liabilities at December 31 consisted of the following:

	<u>2017</u>	<u>2016</u>
Deferred tax assets:		
Net operating loss carryforwards.....	\$ 5,489,143	3,557,909
Stock-based compensation.....	563,356	213,181
Total deferred tax assets .....	<u>6,052,499</u>	<u>3,771,090</u>
 Deferred tax liabilities:		
Depreciation and amortization.....	(92,016)	(70,816)
Total deferred tax liabilities.....	<u>(92,016)</u>	<u>(70,816)</u>
Valuation allowance .....	(5,960,483)	(3,700,274)
Net deferred tax assets.....	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2017, the Company has a cumulative net operating loss carryforward (NOL) of approximately \$14 million, to offset against future income for federal and state tax purposes. These federal and state NOLs can be carried forward for 20 and 15 years, respectively. The federal NOLs begins to expire in 2034, and the state NOLs begins to expire in 2029. The utilization of the net operating loss carryforwards may be subject to substantial annual limitation due to ownership change provisions of the Internal Revenue code of 1986 and similar state provisions. In general, if the Company experiences a greater than 50 percentage aggregate change in ownership of certain significant stockholders over a three-year period (a “Section 382 ownership change”), utilization of its pre-change NOL carryforwards are subject to an annual limitation under Section 382 of the Internal Revenue Code (and similar state laws). The annual limitation generally is determined by multiplying the value of the Company’s stock at the time of such ownership change (subject to certain adjustments) by the applicable long-term tax-exempt rate. Such limitations may result in expiration of a portion of the NOL carryforwards before utilization and may be substantial.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. Due to the uncertainty of the realizability of the deferred tax assets, management has determined a full valuation allowance is appropriate.

**11. Commitments and Contingencies**

**Operating Leases**

The Company leases its corporate office, warehouse, kiosks, and tasting room space under operating lease agreements which expire at various dates through March 2021. Monthly lease payments range from \$1,857 to \$6,400 over the terms of the leases. For operating leases which contain fixed escalations in rental payments, the Company records the total rent expense on a straight-line basis over the lease term. The difference between the expense computed on a straight-line basis and actual payments for rent represents deferred rent which is included within accrued liabilities on the accompanying consolidated balance sheets. Retail spaces under lease are subject to monthly percentage rent adjustments when gross sales exceed certain minimums.

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At December 31, 2017, future minimum lease payments required under the operating leases are approximately as follows:

For year ending December 31st:

2018 .....	\$ 277,289
2019 .....	137,551
2020 .....	3,313
2021 .....	3,313
2022 .....	3,313
Total.....	<u>\$ 424,779</u>

Total rent expense was approximately \$362,000 and \$416,000 for the years ended December 31, 2017 and 2016, respectively.

**Legal Matters**

We are not currently subject to any material legal proceedings, however, we could be subject to legal proceedings and claims from time to time in the ordinary course of our business. Regardless of the outcome, litigation can, among other things, be time consuming and expensive to resolve, and divert management resources.

**12. Net Loss per Common Share**

Basic loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted net loss per common share is computed by dividing net loss by the sum of the weighted average number of common shares outstanding and the potential number of any dilutive common shares outstanding during the period. Potentially dilutive securities consist of the incremental common stock issuable upon exercise of stock options and convertible notes. Potentially dilutive securities are excluded from the computation if their effective is anti-dilutive. There were no dilutive common shares at December 31, 2017 and 2016. The numerators and denominators used in computing basic and diluted net loss per common share in 2017 and 2016 are as follows:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Net loss available to common shareholders (numerator).....	\$ (5,277,316)	\$ (5,251,293)
Weighted average shares (denominator).....	3,717,956	1,247,281
Basic and diluted net loss per common share .....	\$ (1.42)	\$ (4.21)

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**13. Stockholder's Equity**

	Convertible Series A		Common Stock	Paid-in	Accumulated	Total	Non-	Total			
	Preferred Stock	Common Stock							Stockholders'	controlling	Total
	Shares	Amount							Equity	interest in	Equity
				Capital	Deficit	(Deficit)	consolidated				
<b>Balance, December 31, 2016</b>	300	\$ 245,838	2,542,504	\$ 254	\$13,699,785	\$(12,813,044)	\$	\$ 1,132,833			
Issuance of common stock.....	-	-	15,001	2	58,498	-	-	58,500			
Issuance of common stock, net of issuance costs of \$1,120,323, with detachable warrants .....	-	-	1,780,019	177	6,669,401	-	-	6,669,578			
Issuance of common stock from warrant exercise for cash	-	-	40,834	4	159,246	-	-	159,250			
Issuance of common stock for services by third parties .....	-	-	107,340	11	479,903	-	-	479,914			
Issuance of common stock for services by employees .....	-	-	59,538	6	253,649	-	-	253,655			
Stock option exercises .....	-	-	9,260	1	50,000	-	-	50,001			
Stock-based compensation.....	-	-	-	-	563,356	-	-	563,356			
Issuance of common stock for acquisition of MotherLode, net of issuance costs of \$5,580	-	-	86,667	9	371,411	-	-	371,420			
Issuance of common stock for 90% acquisition of Big Bottom Distilling, net of issuance costs of \$14,400 .....	-	-	28,096	3	120,455	-	14,984	120,458			
Shares issued for payoff of long-term notes .....	-	-	120,154	12	561,866	-	-	561,878			
Cumulative dividend on Series A preferred.....	-	5,037	-	-	-	-	-	5,037			
Common shares issued for preferred conversion .....	(300)	(250,875)	100,001	10	235,865	-	-	(15,000)			
Adjustment of shares for reverse stock-split .....	-	-	331	-	-	-	-	-			
Net profit attributable to noncontrolling interests .....	-	-	-	-	-	-	601	601			
Net loss attributable to common shareholders .....	-	-	-	-	-	(5,277,917)	-	(5,277,917)			
<b>Balance, December 31, 2017.</b>	-	\$ -	4,889,745	\$ 489	\$23,223,435	\$(18,090,961)	\$	5,132,963			
							\$	15,585			
								\$ 5,148,548			

**Reverse Stock Splits**

All shares related and per share information in these financial statements has been adjusted to give effect to the 20-for-1 reverse stock split of the Company's common stock effected on October 18, 2016, and the 3-for-1 reverse stock split of the Company's common stock effected on June 15, 2017.

**Issuance of Common Stock**

In December 2017, the Company issued 18,371 shares of common stock to directors and employees for stock-based compensation of \$79,351. The shares were valued using the closing share price of our common stock on the date of grant, with the range of \$3.78 - \$4.33 per share.

In December 2017, the Company issued 32,000 shares of common stock to a consultant in exchange for services, which were subject to a claw-back provision tied to specific performance. The shares were valued using the closing share price of our common stock on the date of grant, \$4.54 per share.

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In December 2017, the Company issued 14,384 shares of its common stock upon conversion of 8% convertible promissory notes with an aggregate principal amount converted of \$52,500. No gain or loss recorded on the transactions.

In September 2017, the Company issued 14,760 shares of common stock to directors and employees for stock-based compensation of \$56,221. The shares were valued using the closing share price of our common stock on the date of grant, with the range of \$3.78 - \$4.38 per share.

In August 2017, the Company issued 83,334 shares of its common stock upon conversion of a 6% convertible promissory note with an aggregate principal amount converted of \$500,000. No gain or loss recorded on the transactions.

In August 2017, the Company issued 5,209 shares of common stock to a third-party consultant in exchange for services rendered. The shares were valued using the closing share price of our common stock on the date of grant, with the range of \$3.40 - \$3.50 per share.

In August 2017, the Company completed an underwritten public offering of 1,200,000 units consisting of 1,200,000 shares of its common stock and warrants to purchase up to an aggregate of 1,200,000 shares of its common stock (each, a "Unit") at a public offering price of \$4.50 per Unit. The warrants have a per share exercise price of \$5.40, are exercisable immediately, and will expire five years from the date of issuance. The gross proceeds to the Company from this offering were \$5.4 million, before deducting underwriting discounts and commissions and other estimated offering expenses. On August 24, 2017, the underwriters exercised their option to purchase an additional 180,000 Units to cover over-allotments, that resulted in additional gross proceeds to the Company of \$810,000, before deducting offering expenses.

In June 2017, the Company issued 2,716 shares of common stock to employees for stock-based compensation of \$15,943, all of which were fully vested upon issuance. The shares were valued using the closing share price of our common stock on the date of grant, with the range of \$4.38 - \$6.00 per share.

In May 2017, the Company completed the acquisition of a majority stake in BBD. We issued 28,096 shares of common stock to the owners of BBD as consideration for 90% of the BBD LLC units. Based on the closing share price of our common stock of \$4.80 on May 1, 2017, the value of the transaction was \$134,858. Issuance costs incurred were \$14,400.

In April 2017, the independent directors, Messrs. Trent Davis and Michael Fleming, respectively, each exercised 4,630 stock options to purchase common stock at \$5.40 per share.

In April 2017, the Company issued 50,335 shares of common stock to three third-party consultants in exchange for services rendered. The shares were valued using the closing share price of our common stock on the date of grant, with the range of \$4.35 - \$4.50 per share.

In April 2017, the Company approved a restricted stock unit grant of 33,334 shares of common stock to the Company's Chief Executive Officer, Grover Wickersham. The grant vested on April 5, 2017, of which 10,218 shares were withheld in order to satisfy Mr. Wickersham's personal tax withholding responsibility. The shares were valued using the \$4.80 closing share price of our common stock on the date of grant.

In April 2017, the Company issued 16,667 shares of its common stock upon conversion of 50 shares of preferred stock.

In March 2017, the Company issued 83,334 shares of its common stock upon conversion of 250 shares of preferred stock.

In March 2017, the Company issued 22,436 shares of its common stock upon conversion of 8% convertible promissory notes with an aggregate principal amount converted of \$87,500. No gain or loss recorded on the transactions.

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On March 8, 2017, the Company completed the acquisition of MotherLode. We issued 86,667 shares of common stock to the owners of MotherLode as consideration for the acquisition. Based on the closing share price of our common stock of \$4.35 on March 8, 2017, the value of the transaction was \$377,000. Issuance costs incurred were \$5,580.

In March 2017, the Company issued 575 shares of common stock to employees for stock-based compensation of \$2,517. The shares were valued using the \$4.38 closing share price of our common stock on the date of grant.

In March 2017, the Company issued 19,796 shares of common stock to four third-party consultants in exchange for services rendered. The shares were valued using the closing share price of our common stock on the date of grant, with the range of \$3.90 - \$4.35 per share.

From March 31, 2017 to June 2, 2017, the Company issued 400,019 shares of its common stock for aggregate cash proceeds of \$1,560,000, including 400,019 warrants for common stock.

From January 15, 2017 through February 16, 2017, the Company received warrant exercises and common stock subscriptions for 40,834 shares for aggregate cash proceeds of \$159,250.

From January 4, 2017 to January 22, 2017, the Company sold 15,001 shares of common stock to accredited investors at a price of \$3.90 per share for aggregate cash proceeds of \$58,500.

In the year ended December 31, 2016, the Company issued 63,499 shares of common stock to employees for stock-based compensation of \$153,996. Additionally, the Company had \$220,691 of stock-based compensation expense related to stock options granted to employees and vested during the year ended December 31, 2016.

In the year ended December 31, 2016, the Company issued 115,184 shares of common stock to eight third-party consultants in exchange for services rendered and trade debt totaling \$284,277.

In December 2016, the Company issued 800,000 shares of its common stock for \$1,040,000, including 800,000 warrants for common stock.

In December 2016, the Company issued 564,781 shares of its common stock for warrant exercises totaling \$734,216.

In December 2016, the Company issued 886,538 shares of its common stock upon conversion of 8% convertible promissory notes with an aggregate principal amount converted of \$1,152,499.

In December 2016, the Company issued 531,000 shares of its common stock upon conversion of 672 shares of preferred stock.

In July 2016, the Company issued 12,802 shares of its common stock in consideration of \$17,759 in accrued and unpaid dividends due at June 30, 2016 for its outstanding Series A Preferred.

From June 4, 2016 to June 22, 2016, the Company issued 2,000,000 shares of its common stock for \$2,000,000, including 2,000,000 warrants for common stock, net of issuance costs of \$23,762.

From April 20, 2016 to June 3, 2016, the Company issued 343,873 shares of its common stock upon conversion of a 14% convertible promissory note. The aggregate principal amount of this note that was converted was \$196,503.

**Issuance of Convertible Preferred Stock**

From April 4, 2016 to June 17, 2016, the Company sold 972 shares of its series A convertible preferred stock ("Series A Preferred") for an aggregate purchase price of \$972,000, of which (i) 499 Units were purchased for \$499,000 in cash (ii) 423 Units were purchased by certain of our officers in consideration of \$423,000 accrued and unpaid salary and (iii) 50 Units were purchased in consideration of cancellation of \$50,000 of outstanding indebtedness net of issuance costs of \$69,528.



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Each share of Series A Convertible Preferred has a stated value of \$1,000, which is convertible into shares of the Company's common stock (the "Common Stock") at a fixed conversion price equal to \$1.50 per share. The Series A Convertible Preferred accrue dividends at a rate of 8% per annum, cumulative. Dividends are payable quarterly in arrears at the Company's option either in cash or "in kind" in shares of Common Stock; provided, however that dividends may only be paid in cash following the fiscal year in which the Company has net income (as shown in its audited financial statements contained in its Annual Report on Form 10-K for such year) of at least \$500,000, to the extent permitted under applicable law out of funds legally available therefore. For "in-kind" dividends, holders will receive that number of shares of Common Stock equal to (i) the amount of the dividend payment due such stockholder divided by (ii) 90% of the average of the per share market values during the twenty (20) trading days immediately preceding a dividend date.

In the event of any voluntary or involuntary liquidation, dissolution or winding up, or sale of the Company, each holder of Series A Preferred shall be entitled to receive its pro rata portion of an aggregate payment equal to: (i) \$1,000 multiplied by (ii) the total number of shares of Series A Preferred Stock issued under the Series A Certificate of Designation multiplied by (iii) 2.5.

For all matters submitted to a vote of the Company's stockholders, the holders of the Series A Preferred as a class shall have an aggregate number of votes equal to the product of (x) the number of shares of Common Stock (rounded to the nearest whole number) into which the total shares of Series A Preferred Stock issued under the Series A Certificate of Designation on such date of determination are convertible multiplied by (y) 2.5 (the "Total Series A Votes"), with each holder of Series A Preferred entitled to vote its pro rata portion of the Total Series A Votes. Holders of Common Stock do not have cumulative voting rights. In addition, the holders of Series A Preferred shall vote separately a class to change any of the rights, preferences and privileges of the Series A Preferred.

As of December 31, 2017, the Company has zero shares of preferred stock outstanding.

### **Stock-Based Compensation**

On September 8, 2016, the Company adopted the 2016 Equity Incentive Plan (the "2016 Plan"). The total number of shares available for the grant of either stock options or compensation stock under the 2016 Plan is 166,667 shares, subject to adjustment. On January 1, 2017, the number of shares available for grant under the 2016 Plan reset to 307,139 shares, equal to 8% of the number of outstanding shares of the Company's capital stock, calculated on an as-converted basis, on December 31 of the preceding calendar year. On October 18, 2017, the Board of Directors (the "Board") approved amendments to the 2016 Plan to (i) increase the number of shares of the common stock that may be issued under the 2016 Plan (the "Aggregate Limit") by an additional 192,861 shares of common stock, for a total of 500,000 shares of common stock, (ii) increase the number of shares of common stock that may be granted to any participant pursuant to options to purchase common stock and stock appreciation rights under the 2016 Plan in any one year period (the "Individual Option Limit") from 8,333 shares to 200,000 shares, (iii) increase the number of shares of common stock that may be granted to any participant pursuant to other awards (the "Individual Award Limit") under the 2016 Plan in any one year period from 8,333 shares to 200,000 shares and (iv) increase the number of shares of common stock that may be paid to any one participant under the 2016 Plan for a performance period pursuant to performance compensation awards under the 2016 Plan (the "Individual Performance Award Limit") from 8,333 shares to 200,000 shares, which amendments were adopted and approved at the December 2017 meeting of stockholders. The exercise price per share of each stock option shall not be less than 100 percent of the fair market value of the Company's common stock on the date of grant. At December 31, 2017, there were 354,422 options and 125,146 restricted stock units ("RSUs") issued under the 2016 Plan, with vesting schedules varying between immediate and five (5) years from the grant date.

On January 29, 2015, the Company adopted the 2015 Stock Incentive Plan (the 2015 Plan). The total number of shares available for the grant of either stock options or compensation stock under the 2015 Plan is 50,000 shares, subject to adjustment. The exercise price per share of each stock option shall not be less than 20 percent of the fair market value of the Company's common stock on the date of grant. At December 31, 2017, there were 14,584 options issued under the Plan outstanding, which options vest at the rate of at least 25 percent in the first year, starting 6-months after the grant date, and 75% in year two.

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The Company also issues, from time to time, options which are not registered under a formal option plan. At December 31, 2017, there were no options outstanding that were not issued under the Plans.

A summary of all stock option activity at and for the years ended December 31, 2017 and 2016 is presented below:

	<u># of Options</u>	<u>Weighted- Average Exercise Price</u>
<b>Outstanding at December 31, 2015</b> .....	36,667	\$ 38.59
Options granted .....	142,500	5.48
Options exercised .....	-	-
Options canceled .....	<u>(5,417)</u>	108.69
<b>Outstanding at December 31, 2016</b> .....	<u>173,750</u>	\$ 9.25
Options granted .....	243,667	4.34
Options exercised .....	(9,260)	5.40
Options canceled .....	<u>(39,151)</u>	5.39
<b>Outstanding at December 31, 2017</b> .....	<u>369,006</u>	\$ 6.47
 <b>Exercisable at December 31, 2017</b> .....	 <u>151,282</u>	 \$ 9.47

The aggregate intrinsic value of options outstanding at December 31, 2017 was \$28,962.

At December 31, 2017, there were 234,375 unvested options with an aggregate grant date fair value of \$698,943. The unvested options will vest in accordance with the vesting schedule in each respective option agreement, which varies between immediate and five (5) years from the grant date. The aggregate intrinsic value of unvested options at December 31, 2017 was \$23,910. During the year ended December 31, 2017, 100,041 options vested.

The Company uses the Black-Scholes valuation model to measure the grant-date fair value of stock options. The grant-date fair value of stock options issued to employees is recognized on a straight-line basis over the requisite service period. Stock-based awards issued to nonemployees are recorded at fair value on the measurement date and are subject to periodic market adjustments as the underlying stock-based awards vest.

To determine the fair value of stock options using the Black-Scholes valuation model, the calculation takes into consideration the effect of the following:

- Exercise price of the option
- Fair value of the Company's common stock on the date of grant
- Expected term of the option
- Expected volatility over the expected term of the option
- Risk-free interest rate for the expected term of the option

The calculation includes several assumptions that require management's judgment. The expected term of the options is calculated using the simplified method described in GAAP. The simplified method defines the expected term as the average of the contractual term and the vesting period. Estimated volatility is derived from volatility calculated using historical closing prices of common shares of similar entities whose share prices are publicly available for the expected term of the options. The risk-free interest rate is based on the U.S. Treasury constant maturities in effect at the time of grant for the expected term of the options.

The following weighted-average assumptions were used in the Black-Scholes valuation model for options granted during the year ended December 31, 2017:

Risk-free interest rate.....	1.72%
Expected term (in years).....	6.5
Dividend yield .....	-
Expected volatility .....	75%

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The weighted-average grant-date fair value per share of stock options granted during the year ended December 31, 2017 was \$2.94. The aggregate grant date fair value of the 243,667 options granted during the year ended December 31, 2017 was \$566,983.

For the twelve months ended December 31, 2017, total stock option expense related to stock options was \$445,032. At December 31, 2017, the total compensation cost related to stock options not yet recognized is approximately \$796,993, which is expected to be recognized over a weighted-average period of approximately 3.04 years.

**Warrants**

During the twelve months ended December 31, 2017, the Company issued an aggregate of 400,019 common stock warrants in connection with the purchase of 400,019 shares of common stock, 1,380,000 common stock warrants in connection with the August 2017 public offering, and 112,000 common stock warrants to six consultants. The Company has determined the warrants should be classified as equity on the condensed consolidated balance sheet as of December 31, 2017. The estimated fair value of the warrants at issuance was \$2,009,443, based on a combination of closing market trading price on the date of issuance for the public offering warrants, and the Black-Scholes option-pricing model using the weighted-average assumptions below:

Volatility.....	75%
Risk-free interest rate.....	1.47%
Expected term (in years).....	2.83
Expected dividend yield.....	-
Fair value of common stock.....	\$ 4.72

A total of 40,834 warrants were exercised during the twelve months ended December 31, 2017 for cash proceeds of \$159,250.

A summary of activity in warrants is as follows:

	<u>Warrants</u>	<u>Weighted Average Remaining Life</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2016.....	<u>846,765</u>	<u>2.77 years</u>	<u>\$ 6.48</u>	<u>\$ 0</u>
Twelve months ended December 31, 2017:				
Granted .....	1,892,019	4.24 years	\$ 5.73	\$ 54,880
Exercised.....	(40,834)	2.00 years	\$ 3.90	-
Forfeited and cancelled.....	<u>(74,873)</u>	2.00 years	<u>\$ 6.00</u>	<u>-</u>
Outstanding at December 31, 2017.....	<u>2,623,077</u>	<u>3.62 years</u>	<u>\$ 5.96</u>	<u>\$ 54,880</u>

**14. Related Party Transactions**

The following is a description of transactions since January 1, 2016 as to which the amount involved exceeds the lesser of \$120,000 or one percent (1%) of the average of our total assets at year-end for the last two completed fiscal years and in which any related person has or will have a direct or indirect material interest, other than equity, compensation, termination and other arrangements.

**Eastside Distilling, Inc. and Subsidiary**  
Notes to Consolidated Financial Statements  
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On April 4, 2016, Steven Earles, our former chief executive officer, purchased 185 units in an offering of units consisting of shares of our series A convertible preferred stock and warrants to purchase common stock (our “Series A Preferred Stock and Warrant Unit Offering”) in consideration of \$185,000 in accrued and unpaid salary. Each unit consisted of one share of series A convertible preferred stock and one warrant to purchase 223 shares of common stock at an exercise price of \$6.00 per share. Steven Shum, our chief financial officer, purchased 97 units in the Series A Preferred Stock and Warrant Unit Offering in consideration of \$97,000 in accrued and unpaid salary. Martin Kunkel, our former chief marketing officer, director and secretary, purchased 58 Units in the Series A Preferred Stock and Warrant Unit Offering in consideration of \$58,000 in accrued and unpaid salary. Carrie Earles, our chief branding officer and wife of Steven Earles, purchased 83 units in the Series A Preferred Stock and Warrant Unit Offering in consideration of \$83,000 in accrued and unpaid salary. These issuances were unanimously approved by our Board, including all disinterested directors. Effective November 4, 2016, we entered into an agreement with Mr. Earles, the Company’s former chief executive officer, pursuant to which Mr. Earles agreed to convert 185 shares of the Company’s series A convertible preferred stock into 41,111 shares of the Company’s common stock and to cancel his warrant to purchase 41,107 shares of the Company’s common stock.

On June 9, 2016, pursuant to a subscription agreement executed by the Grover T. Wickersham Employees’ Profit Sharing Plan (“PSP”) for which Mr. Wickersham serves as trustee, the PSP purchased in a private placement an aggregate of 83,334 units, each unit consisting of one share of common stock and one common stock purchase warrant (collectively with the common stock, the “Common Stock Units”) at a purchase price of \$3.00 per Common Stock Unit, for a total purchase price of \$250,000.

On June 22, 2016, pursuant to a subscription agreement executed by Grover T. Wickersham, Mr. Wickersham directly purchased in a private placement an aggregate of 38,334 Common Stock Units at a purchase price of \$3.00 per Common Stock Unit for a total purchase price of \$115,000. On December 30, Mr. Wickersham assigned 24,680 of his warrants to a related and un-related party. He also voluntarily canceled 8,334 additional warrants.

On June 22, 2016, pursuant to a subscription agreement executed by an education trust established for the benefit of an unrelated minor for which Mr. Wickersham serves as trustee (“Education Trust”), the Education Trust purchased in a private placement 16,667 Common Stock Units at a purchase price of \$3.00 per Common Stock Unit, for a total purchase price of \$50,000.

On June 22, 2016, pursuant to a subscription agreement executed by the Lindsay Anne Wickersham 1999 Irrevocable Trust for which Mr. Wickersham serves as trustee (the “Irrevocable Trust”), the Irrevocable Trust purchased in a private placement 66,667 Common Stock Units at a purchase price of \$3.00 per Common Stock Unit, for a total purchase price of \$200,000.

On June 22, 2016, pursuant to a subscription agreement, Michael Fleming, a current director, directly purchased in a private placement an aggregate of 8,334 Common Stock Units at a purchase price of \$3.00 per Common Stock Unit, each Common Stock Unit consisting of one share of common stock and a warrant to purchase one share of common stock at an exercise price of \$6.00 per share, for a total purchase price of \$25,000.

On June 30, 2016, the PSP purchased from us a promissory note bearing interest at the rate of 8% per annum (a “Promissory Note”) for aggregate consideration of \$50,000, along with a warrant to acquire 8,334 shares of common stock at a price of \$6.00 per share. On July 7, 2016, the PSP purchased an additional Promissory Note for aggregate consideration of \$120,000, along with a warrant to acquire 20,000 shares of common stock at an exercise price of \$6.00 per share. On December 30, 2016, the PSP exercised 43,590 warrants at a price of \$3.90 per share in exchange for eliminating the outstanding note principal.

On June 30, 2016, the Grover T. and Jill Z. Wickersham 2000 Charitable Remainder Trust (the “Wickersham Trust”) purchased an additional Promissory Note for aggregate consideration of \$50,000, along with a warrant to acquire 8,334 shares of common stock at an exercise price of \$6.00 per share. On November 21, 2016, the Wickersham Trust purchased an additional Promissory Note for aggregate consideration of \$75,000, along with a warrant to acquire 12,500 shares of common stock at an exercise price of \$6.00 per share. On December 31, 2016, the Wickersham Trust exercised its 20,834 warrants along with an additional 11,218 warrants assigned from Mr. Wickersham all at a price of \$3.90 in exchange for eliminating the outstanding note principal.

**Eastside Distilling, Inc. and Subsidiary**  
Notes to Consolidated Financial Statements  
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During the nine months ended September 30, 2016, the Company's chief executive officer paid expenses on behalf of the Company on his personal credit card. These related party advances do not bear interest and are payable on demand. At September 30, 2016, the balance due to the chief executive officer was approximately \$8,000. The Company also has a note payable due its chief executive officer in the amount of \$12,500 at September 30, 2016, that was repaid during fiscal year 2016.

On September 19, 2016, an entity for which Lawrence Hirson, a former director, serves as manager purchased \$150,000 of promissory notes and received 3-year warrants to purchase 25,000 shares of our common stock at an exercise price of \$6.00 per share.

On June 2, 2017, Mr. Wickersham purchased 15,189 units at \$3.90 per unit, with each unit consisting of one share of common stock and one three-year common stock purchase warrant exercisable at \$7.50 per share (subject to adjustment), for total proceeds of \$59,237 in cash.

On August 10, 2017, Mr. Wickersham and his affiliates purchased 55,555 units at \$4.50 per unit, with each unit consisting of one share of common stock and one Public Warrant, for total proceeds of approximately \$250,000 in cash.

On August 23, 2017, our Board appointed Jack Peterson to the Board to fill an existing vacancy on the Board effective immediately. Mr. Peterson is also the President of Sandstrom Partners. In late 2016, with the goal of increasing its brand value and accelerating sales, the Company retained Sandstrom and tasked them with reviewing the Company's current product portfolio, as well as its new ideas, and advising it with respect to marketing, creation of brand awareness and product positioning, locally and nationally. The Company is using Sandstrom's full range of brand development services, including research, strategy, brand identity, package design, environments, advertising as well as digital design and development. The Company paid \$140,000 in cash, issued 33,334 shares of stock valued at \$145,000 (at the time of issuance), and issued 42,000 warrants with an exercise price of \$3.50 valued at \$43,596 (using a black-scholes value at the time of issuance) to Sandstrom Partners in 2017 for services rendered by Sandstrom under its agreement with the Company. We have also issued an additional 10,025 shares valued at \$40,000 (at the time of issuance) to Sandstrom in 2018.

On December 29, 2017, the Grover T. Wickersham Employees' Profit Sharing Plan ("PSP") purchased from us a promissory note bearing interest at the rate of 8% per annum (a "Promissory Note") for aggregate consideration of \$464,750. Interest is paid monthly. The note is due on June 30, 2019 or in the event the Company completes a private or public offering of its equity or debt securities in which the gross amount raised in such financing is at least \$2.0 million (a "Future Financing"), all amount due under this Note shall become due and payable within five (5) business days of the final closing of such Future Financing. In lieu of receiving the cash repayment of amounts due under this Note in connection with a Future Financing, at the option of Payee, the principal amount due and payable may be used to purchase the securities offered in the Future Financing.

On December 29, 2017, the Grover T. and Jill Z. Wickersham 2000 Charitable Remainder Trust (the "Wickersham Trust") purchased from us a promissory note bearing interest at the rate of 8% per annum (a "Promissory Note") for aggregate consideration of \$179,300. Interest is paid monthly. The note is due on June 30, 2019 or in the event the Company completes a private or public offering of its equity or debt securities in which the gross amount raised in such financing is at least \$2.0 million (a "Future Financing"), all amount due under this Note shall become due and payable within five (5) business days of the final closing of such Future Financing. In lieu of receiving the cash repayment of amounts due under this Note in connection with a Future Financing, at the option of Payee, the principal amount due and payable may be used to purchase the securities offered in the Future Financing.

We believe that the foregoing transactions were in our best interests. Consistent with Section 78.140 of the Nevada Revised Statutes, it is our current policy that all transactions between us and our officers, directors and their affiliates will be entered into only if such transactions are approved by a majority of the disinterested directors, are approved by vote of the stockholders, or are fair to us as a corporation as of the time it is authorized, approved or ratified by the board. We will continue to conduct an appropriate review of all related party transactions and potential conflicts of interest on an ongoing basis. Our audit committee has the authority and responsibility to review, approve and oversee any transaction between the Company and any related person and any other potential conflict of interest situation on an ongoing basis, in accordance with Company policies and procedures in effect from time to time.

**Eastside Distilling, Inc. and Subsidiary**  
Notes to Consolidated Financial Statements  
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**15. Subsequent Events**

On March 15, 2018, the Company completed a private offering of promissory notes and accompanying warrants in which it raised \$1,250,000 in gross proceeds. The promissory notes bear interest at 8% per annum, payable monthly on the last day of the month. The entire amount of principal and any accrued and unpaid interest is due and payable on May 1, 2021. For every \$100,000 in principal, the Company issued to the investor 10,000 common stock purchase warrants, for a total of 125,000 warrants. The warrants, which are identical to the warrants that were issued in the Company's public offering that was consummated in August 2017, are exercisable through August 10, 2022, unless earlier redeemed, at an exercise price of \$5.40, subject to adjustment for stock splits, reverse splits and other similar recapitalization events. The Company will have the option to redeem all or a part of the outstanding warrants at any time after the closing price of the Company's common stock exceeds \$7.65 for five consecutive trading days. In electing to redeem the warrants, the Company will provide 30 days' notice of the redemption date, during which time the holders of outstanding warrants will have the opportunity to exercise their warrants at the exercise price then in effect. Any warrants remaining outstanding at the close of business on the 30th day of the notice period will be redeemed at a price of \$0.15 per warrant, after which, the warrants will be cancelled.

Between March 8, 2018 and March 25, 2018, the Company received an aggregate of \$680,400 upon exercise of a total of 126,000 common stock purchase warrants that were sold in the Company's August 2017 public offering. As of April 2, 2018, there remains outstanding 1,254,000 warrants sold in the public offering, in addition to the 125,000 identical warrants sold in the private placement noted above.

During the first quarter of 2018, we issued a total of 29,025 shares, which included 16,500 shares to multiple employees as additional compensation, 10,025 shares to our partner, Sandstrom Partners, as part of their branding work on our products, and 2,500 shares to two different service providers for services rendered.

**16. Selected Quarterly Consolidated Financial Data (unaudited)**

The following table sets forth the selected unaudited condensed consolidated statements of operations data for each of the four quarters of the years ended December 31, 2017 and 2016. The unaudited quarterly information has been prepared on the same basis as the annual information presented elsewhere herein and, in the Company's opinion, includes all adjustments (consisting only of normal recurring entries) necessary for a fair statement of the information for the quarters presented. The operating results for any quarter are not necessarily indicative of results for any future period and should be read in conjunction with the audited consolidated financial statements of the Company's and the notes thereto included elsewhere herein.

	<b>Three months ended</b>			
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>
	<b>2017</b>	<b>2017</b>	<b>2017</b>	<b>2017</b>
<b>Net sales</b> .....	\$ 612,481	\$ 605,030	\$ 618,337	\$ 775,148
<b>Gross profit</b> .....	\$ 289,568	\$ 210,405	\$ 234,072	\$ 242,882
<b>Net loss</b> .....	\$ (901,818)	\$ (1,289,126)	\$ (1,411,160)	\$ (1,675,813)
<b>Net loss available per share basic and diluted.</b>	\$ (0.12)	\$ (0.40)	\$ (0.34)	\$ (0.56)

	<b>Three months ended</b>			
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>
	<b>2016</b>	<b>2016</b>	<b>2016</b>	<b>2016</b>
<b>Net sales</b> .....	\$ 463,747	\$ 504,311	\$ 607,847	\$ 532,674
<b>Gross profit</b> .....	\$ 207,305	\$ 236,095	\$ 236,993	\$ 147,569
<b>Net loss</b> .....	\$ (1,014,679)	\$ (1,309,500)	\$ (1,436,449)	\$ (1,438,991)
<b>Net loss available per share basic and diluted.</b>	\$ (1.31)	\$ (1.38)	\$ (0.90)	\$ (0.86)

## **Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

## **Item 9A. CONTROLS AND PROCEDURES.**

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

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in alerting them in a timely manner to material information required to be disclosed in the Company's reports filed with or submitted to the SEC.

### **Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and Rule 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

The Company's management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013 framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on its assessment, the Company believes that, as of December 31, 2017, the Company's internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. We were not required to have, nor have we, engaged our independent registered public accounting firm to perform an audit of internal control over financial reporting pursuant to the rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

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

No changes in the Company's internal control over financial reporting occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **CEO and CFO Certifications**

Appearing immediately following the Signatures section of this report there are Certifications of our CEO and CFO. The Certifications are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certifications). This Item of this report is the information concerning the Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

## **Item 9B. OTHER INFORMATION**

None.

## PART III

### Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The following is a brief description of the principal occupation and recent business experience of each of our executive officers and directors and their ages as of March 31, 2018:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Grover T. Wickersham	68	Chief Executive Officer, Chairman of the Board, Director
Trent D. Davis <sup>(1)(2)(3)</sup>	49	Director
Michael M. Fleming <sup>(1)(2)(3)</sup>	68	Director
Shelly A. Saunders <sup>(1)</sup>	56	Director
Jack Peterson	53	Director
Steven Shum	47	Chief Financial Officer
Melissa Heim	33	Executive Vice President Operations and Master Distiller
Allen Barteld	51	President and Chief Executive Officer of MotherLode

- (1) Member of the audit committee.
- (2) Member of the compensation committee.
- (3) Member of the nominating and corporate governance committee.

Our board of directors currently consists of five members. All directors hold office until their successors have been elected and qualified or until their earlier death, resignation, disqualification, or removal. Board vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority vote of the directors then in office, even if less than a quorum, or by a sole remaining director. Our board may establish the authorized number of directors from time to time by resolution.

Our executive officers are each appointed by the board and serve at the board's discretion.

There are no family relationships among our officers or directors.

#### Executive Officers

**Grover Wickersham** was appointed to our Board of Directors and as our Chairman in July 2016, and as our chief executive officer in November 2016. Mr. Wickersham currently serves on the boards of directors of S&W Seed Company, a NASDAQ-traded agricultural company; Verseon Corporation, a London AIM-listed pharmaceutical development company; Arbor Vita Corporation, a private company that has developed a test for cervical cancer; and SenesTech, Inc., a private company that has developed proprietary technology for managing animal pest populations through fertility control. Mr. Wickersham has been a director and portfolio advisor of Glenbrook Capital Management, the general partner of a partnership that invests primarily in the securities of public companies, from 1996 to the present. For more than five years, Mr. Wickersham has served as the Chairman of the board of trustees of Purisima Fund, a mutual fund advised by Fisher Investments of Woodside, California, which fund has assets under management of approximately \$375 million. Between 1976 and 1981, Mr. Wickersham served as a staff attorney, and then as a branch chief, of the U.S. Securities and Exchange Commission (the "SEC"). He holds a B.A. from the University of California at Berkeley, an M.B.A. from Harvard Business School and a J.D. from University of California, Hastings College of Law. We believe that Mr. Wickersham is qualified to serve as a member of our Board of Directors because of his experience and knowledge of corporate finance and legal matters, his experience and knowledge of operational matters gained as a past and present director of other public and private companies, and his knowledge of our company.



**Steven Shum** has served as our chief financial officer since October 2015. Prior to joining us, Mr. Shum served as an officer and director of XZERES Corp from October 2008 until April 2015, a publicly-traded global renewable energy company, in various officer roles, including chief operating officer from September 2014 until April 2015, chief financial officer, principal accounting officer and secretary from April 2010 until September 2014 (under former name, Cascade Wind Corp) and chief executive officer and president from October 2008 to August 2010. Mr. Shum also serves as the managing principal of Core Fund Management, LP and the Fund Manager of Core Fund, LP. He was a founder of Revere Data LLC (now part of Factset Research Systems, Inc.) and served as its executive vice president for four years, heading up the product development efforts and contributing to operations, business development, and sales. He spent six years as an investment research analyst and portfolio manager of D.N.B. Capital Management, Inc. His previous employers include Red Chip Review and Laughlin Group of Companies. He earned a B.S. in Finance and a B.S. in General Management from Portland State University in 1992.

**Melissa Heim** has served as our master distiller since June 2012. In November 2016, she was appointed our Executive Vice President Operations. We believe Ms. Heim was one of the first female master distillers and blenders west of the Mississippi River. Prior to joining our company, she apprenticed at and then served as head distiller at Rogue Distillery and Public House in Portland's Pearl District, holding the latter position from 2008 to 2010. Also, Ms. Heim co-founded and served as president of the Clear Boots Society, an organization that supports women's leadership in the spirits industry. Ms. Heim studied Liberal Arts with emphasis on English at the University of Oregon.

**Allen Barteld** has served as President and Chief Executive Officer of MotherLode, our wholly-owned subsidiary acquired in March 2017, since June 2014. Prior to forming MotherLode in 2013, Mr. Barteld served as CEO of LawWerx, a software company, from 2009 to 2012. Mr. Barteld earned a Juris Doctor and Masters of Business Administration from Willamette University in 1997.

### **Significant Employee**

**Jarrett Catalani**, 48, has served as our Senior Vice President Sales since July 2017. Mr. Catalani brings 27 years of experience in the alcoholic beverage industry. Prior to joining us, from May 2016 to September 2016, Mr. Catalani served as Senior Vice President Sales for Fishbowl Spirits, a premium spirits company, owned by singer songwriter Kenny Chesney. From October 2010 to April 2016, Mr. Catalani worked at ROUST (Russian Standard Vodka), in various officer roles, including Western Divisional Vice President from October 2010 until November 2012, and Senior Vice President of Sales from November 2012 until April 2016. From 2003 to 2010, Mr. Catalani worked in various roles at DIAGEO, his last position being Reserve Brand Director, California. Mr. Catalani's other employers include Pilsner Urquell USA, Pete's Brewing Company, Jim Taylor Corporation and Wilhelmi Beverage. Mr. Catalani holds a B.S. in Business Management from Southern Illinois University – Carbondale. Mr. Catalani has made significant contributions to our business and we expect he will continue to do so in the future.

### **Non-Employee Directors**

**Trent Davis** was appointed to our Board of Directors in August 2016. Mr. Davis is currently President and COO of Whitestone Investment Network, Inc., which specializes in providing executive advisory services to small entrepreneurial companies, as well as restructuring, recapitalizing, and making strategic investments in small to midsize companies. Mr. Davis is also currently Lead Director, Chairman of the Nominating and Governance and Special Investments Committees and is a Member of the Audit and Compensation Committees of Dataram Corporation (Nasdaq: DRAM), which develops, manufactures, and markets memory products primarily used in enterprise servers and workstations worldwide. Previously, from December 2014 to July 2015, Mr. Davis was Chairman of the Board for Majesco Entertainment Company (Nasdaq: COOL), which is an innovative developer, marketer, publisher, and distributor of interactive entertainment for consumers around the world. From November 2013 until July 2014, Mr. Davis served as the President and a Director of Paulson Capital Corp. (Nasdaq: PLCC) until he successfully completed the reverse merger of Paulson with VBI Vaccines, (Nasdaq: VBIV). He went on to serve as a Member of its Board of Directors and Audit Committee until May 2016. Mr. Davis was also the Chief Executive Officer of Paulson Investment Company, Inc., a subsidiary of Paulson Capital Corp, from July 2005 until October 2014, where he supervised all operations and over 200 investment representatives overseeing \$1.5 billion in client assets. Prior to that, commencing in 1996, Mr. Davis served as Senior Vice President of Syndicate and National Sales of Paulson Investment Company, Inc. He has extensive experience in capital markets and brokerage operations, and is credited with overseeing the syndication of approximately \$600 million for over 50 client companies in both public and private transactions. In 2003, Mr. Davis served as a Chairman of the Board of the National Investment Banking Association. Mr. Davis holds a B.S. in Business and Economics from Linfield College and an M.B.A. from the University of Portland and held the following FINRA Licenses: Series 7, 24, 63, 66, and 79. Mr. Davis is qualified to serve on the Board because of his deep knowledge of finance and public company issues, capital market, advisory and entrepreneurial experiences, and extensive expertise in operational and executive management.

**Michael (Mick) Fleming** was appointed to our Board of Directors in August 2016. Mr. Fleming is currently an attorney with the law firm Ryan, Swanson & Cleveland, PLLC specializing in real estate, dispute resolution, securities and environmental matters. Mr. Fleming previously was an attorney with the law firm of Lane Powell PC from 2000 to 2013. Mr. Fleming is the Chairman of the Board of Directors of Jones Soda Co., a publicly traded premium beverage company. Mr. Fleming also serves on the Board of Directors of S&W Seed Co., a publicly traded agricultural products company, where he serves as, Lead Independent Director, Chairman of the Audit Committee, and as a member of the Compensation committee. Mr. Fleming has served on the Board of Directors of Big Brothers and Big Sisters of Puget Sound since 2002 and was Chairman of the Board of Directors for 2008/2009. He has also been the President and owner of Kidcentre, Inc., a company in the business of providing child-care services in downtown Seattle, Washington, since 1988. Since 1985, he has also been the President and owner of Fleming Investment Co., an investment company. Mr. Fleming holds a Bachelor of Arts degree from University of Washington and a law degree from the University of California, Hastings College of the Law. We believe Mr. Fleming is qualified to serve on our Board of Directors because of his experience serving on public company boards, as president and owner of two businesses as well as his legal expertise in matters of business and securities law.

**Shelly A. Saunders** was appointed to our Board of Directors in August 2017. Since March 2015, Ms. Saunders is a consultant for Resources Global Professionals, a consulting firm serving global corporations. From June 2013 to January 2015, Ms. Saunders served as Vice President Finance and Country CFO for Campari Canada, a wholly-owned subsidiary of Davide Campari-Milano. From July 2009 to May 2013, Ms. Saunders served as Vice President Finance for Campari America/SKYY Spirits, a wholly-owned subsidiary of Davide Campari-Milano. Prior to joining Campari America, Ms. Saunders was a consultant for Resources Global Professionals, a Director Finance for Mervyns, and a Vice President Finance and Treasurer for Organic, Inc., among other positions. Ms. Saunders received a B.A. in Economics from Stanford University and an MBA from University of California, Berkeley. Because of her prior service as a finance professional for one of the largest global spirits companies and her extensive experience and knowledge of, and contacts within, the spirits industry, we believe Ms. Saunders will be a valuable member of our board of directors and is well qualified to serve on our board and our audit committee.

**Jack Peterson** was appointed to our Board of Directors in August 2017. Since May 2007, Mr. Peterson has been the President of Sandstrom Partners, a brand development company that focuses on the creation and revitalization of thought leading brands such as Bulleit Bourbon, St-Germain, Stillhouse Whiskey, Miller Brewing, Pernod Ricard and Aviation Gin. In addition to Eastside, clients of the firm include Bacardi, Pernod Ricard, Brown Foreman and Diageo. From March 1996 to April 2007, Mr. Peterson was President of Borders, Perrin, Norrander, a full-service advertising agency in Portland, OR. Previously, Mr. Peterson served as account director and account executive at several advertising agencies including Hal Riney & Partners in San Francisco. Mr. Peterson holds a B.A. from the University of Minnesota. Because of his professional experience in brand development and establishing brand equity, and his contacts within the spirits industry, we believe Mr. Peterson will be a valuable member of our board of directors.

### **Involvement in Certain Legal Proceedings**

None of our directors or executive officers has, during the past ten years:

- has had any bankruptcy petition filed by or against any business of which he was a general partner or executive officer, either at the time of the bankruptcy or within two years prior to that time;
- been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
- been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, futures, commodities or banking activities;
- been found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;
- been subject or a party to or any other event requiring disclosure under Item 401(f) of Regulation S-K.

### **Family Relationships**

None.

## **Board Committees**

In September 2016, our Board of Directors established the following standing committees: an audit committee, a compensation committee and a nominating and corporate governance committee. The Board of Directors determined that establishing standing audit, compensation, and nominating and corporate governance committees is an important element of sound corporate governance.

### *Audit Committee*

Our audit committee oversees the engagement of our independent public accountants, reviews our audited financial statements, meets with our independent public accountants to review internal controls and reviews our financial plans. Our audit committee currently consists of Michael M. Fleming, who is the chair of the committee, Trent D. Davis and Shelly A. Saunders. Each of Messrs. Davis and Fleming and Ms. Saunders has been determined by our Board of Directors to be independent in accordance with NASDAQ and SEC standards. Our Board of Directors has also designated each of Mr. Fleming and Ms. Saunders as an “audit committee financial expert” as the term is defined under SEC regulations and has determined that each of Mr. Fleming and Ms. Saunders possesses the requisite “financial sophistication” under applicable NASDAQ rules. The audit committee operates under a written charter which is available on our website at <http://www.eastsidedistilling.com/s/ESDI-Audit-Committee-Charter-Adopted-101316.pdf>. Both our independent registered accounting firm and internal financial personnel will regularly meet with our audit committee and have unrestricted access to the audit committee. Each member of the audit committee is able to read and understand fundamental financial statements, including our consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows. Further, no member of the audit committee has participated in the preparation of our consolidated financial statements, or those of any of our current subsidiaries, at any time during the past three years.

### *Compensation Committee*

Our compensation committee reviews and recommends policies, practices and procedures relating to compensation for our directors, officers and other employees and advising and consulting with our officers regarding managerial personnel and development. Our compensation committee currently consists of Trent D. Davis, who is the chair of the committee and Michael M. Fleming, each of whom has been determined by our Board of Directors to be independent in accordance with NASDAQ standards. Each member of our compensation committee is also a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Exchange Act, and an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended. The compensation committee operates under a written charter which is available on the Company’s website at <http://www.eastsidedistilling.com/s/ESDI-Compensation-Committee-Charter-Adopted-101316.pdf>. The compensation committee has not yet established processes and procedures for the consideration and determination of executive and director compensation, except as set forth in the compensation committee charter.

### *Nominating and Corporate Governance Committee*

Our nominating and corporate governance committee (“Nominating Committee”) evaluates the composition, size and governance of our Board of Directors and its committees, evaluating and recommending candidates for election to our Board of Directors, establishing a policy for considering stockholder nominees and reviewing our corporate governance principles and providing recommendations to the Board of Directors. Our Nominating Committee currently consists of Michael M. Fleming, who is the chair of the committee, and Trent D. Davis, each of whom has been determined by our Board of Directors to be independent in accordance with NASDAQ standards. The Nominating Committee operates under a written charter which is available on the Company’s website at <http://www.eastsidedistilling.com/s/ESDI-Nominating-and-Corporate-Governance-Committee-Charter-Adopted-10.pdf>.

## **Director Nomination Process**

The Nominating Committee identifies director nominees by first considering those current members of the Board of Directors who are willing to continue in service. Current members of the Board of Directors with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board of Directors with that of obtaining a new perspective. If any member of the Board of Directors does not wish to continue in service, if the Nominating Committee or the Board of Directors decides not to re-nominate a member for reelection, if the Nominating Committee or the Board of Directors decided to fill a director position that is currently vacant or if the Nominating Committee or the Board of Directors decides to recommend that the size of the Board of Directors be increased, the Nominating Committee identifies the desired skills and experience of a new nominee in light of the criteria described above. Current members of the Board of Directors and management are polled for suggestions as to individuals meeting the Board of Directors' criteria. Research may also be performed to identify qualified individuals. Nominees for director are selected by a majority of the members of the Board of Directors, with any current directors who may be nominees themselves abstaining from any vote relating to their own nomination. All of our directors participated in the consideration of the director nominees for election at the Annual Meeting. Although the Nominating Committee and the Board of Directors do not have a formal diversity policy, the Board of Directors instructed the Nominating Committee to consider such factors as it deems appropriate to develop a Board and committees that are diverse in nature and comprised of experienced and seasoned advisors. Factors considered by the Nominating Committee include judgment, knowledge, skill, diversity (including factors such as race, gender and experience), integrity, experience with businesses and other organizations of comparable size, including experience in the spirits industry, business, finance, administration or public service, the relevance of a candidate's experience to our needs and experience of other board members, familiarity with national and international business matters, experience with accounting rules and practices, the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members, and the extent to which a candidate would be a desirable addition to the Board of Directors and any committees of the Board of Directors.

In addition, directors are expected to be able to exercise their best business judgment when acting on behalf of us and our stockholders, act ethically at all times and adhere to the applicable provisions of our code of business conduct and ethics. Other than consideration of the foregoing and applicable SEC and NASDAQ requirements, unless determined otherwise by the Nominating Committee, there are no stated minimum criteria, qualities or skills for director nominees. However, the Nominating Committee may also consider such other factors as it may deem are in the best interests of us and our stockholders. In addition, at least one member of the Board of Directors serving on the audit committee should meet the criteria for an "audit committee financial expert" having the requisite "financial sophistication" under applicable NASDAQ and SEC rules, and a majority of the members of the Board of Directors should meet the definition of "independent director" under applicable NASDAQ rules.

The Nominating Committee and the Board of Directors may consider suggestions for persons to be nominated for director that are submitted by stockholders. The Nominating Committee will evaluate stockholder suggestions for director nominees in the same manner as it evaluates suggestions for director nominees made by management, then-current directors or other appropriate sources. Stockholders suggesting persons as director nominees should send information about a proposed nominee to our Secretary at our principal executive offices as referenced above at least 90 days before the anniversary of the prior year's annual stockholder meeting. This information should be in writing and should include a signed statement by the proposed nominee that he or she is willing to serve as a director of Eastside Distilling, Inc., a description of the proposed nominee's relationship to the stockholder and any information that the stockholder feels will fully inform the Board of Directors about the proposed nominee and his or her qualifications. The Board of Directors may request further information from the proposed nominee and the stockholder making the recommendation. In addition, a stockholder may nominate one or more persons for election as a director at our annual meeting of stockholders. Please see the section above titled "Deadlines for Receipt of Stockholder Proposals" for important information regarding stockholder proposals, including director nominations.

## **General Stockholder Communications**

Stockholders can send communications to the Board of Directors by sending a certified or registered letter to the Chairman of the Board, care of the Secretary, at our main business address set forth above. Communications that are threatening, illegal, or similarly inappropriate, and advertisements, solicitations for periodical or other subscriptions, and other similar communications will generally not be forwarded to the Chairman.

## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors and persons who own more than ten percent of a registered class of our equity securities to file with the SEC reports of ownership on Form 3 and changes in ownership on Form 4 and Form 5. Officers, directors and greater-than-ten-percent stockholders are required by Commission regulations to furnish to us copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that all Section 16(a) filing requirements applicable to our officers, directors, and greater-than-10% beneficial owners were met during the fiscal year ended December 31, 2017.

### Item 11. EXECUTIVE COMPENSATION

The following table sets forth the compensation paid to our executive officers for services rendered during the fiscal years ended December 31, 2017, and 2016.

Name and Position	Year	Summary Compensation Table					Total (\$)
		Salary	Bonus	Options	All Other Compensation		
Grover T. Wickersham President, Chief Executive Officer, Director (From November 2016)	2017	\$ 20,769	\$ 50,000	\$ 156,740 <sup>(1)</sup>	\$ 188,350	\$ 415,859	
	2016	\$ —	—	\$ 31,500 <sup>(2)</sup>	—	\$ 31,500	
Steve Shum Chief Financial Officer, (Since October 1, 2015)	2017	\$ 135,000	\$ 63,461	\$ 5,095 <sup>(3)</sup>	\$ 59,390 <sup>(4)</sup>	\$ 262,946	
	2016	\$ 183,942 <sup>(5)</sup>	—	\$ 63,600 <sup>(6)</sup>	\$ —	\$ 247,542	
Melissa Heim Executive V.P. Operations and Master Distiller	2017	\$ 85,000	\$ 34,297	\$ 30,915 <sup>(7)</sup>	\$ 57,906 <sup>(8)</sup>	\$ 208,118	
	2016	\$ 62,538	—	\$ 41,610 <sup>(9)</sup>	\$ —	\$ 104,148	
Allen Barteld President and Chief Executive Officer of MotherLode	2017	\$ 84,731	—	\$ 285,250 <sup>(10)</sup>	\$ —	\$ 369,981	
	2016	\$ —	\$ —	\$ —	\$ —	\$ —	
Steven Earles President, Chief Executive Officer, Director (From October 31, 2014 to January 2017)	2017	\$ 9,231	—	\$ —	\$ —	\$ 9,231	
	2016	\$ 180,673 <sup>(11)</sup>	\$ —	—	\$ 30,000 <sup>(12)</sup>	\$ 210,673	
Martin Kunkel Chief Marketing Officer, Secretary and Director (From January 13, 2015 to November 2016)	2017	\$ —	\$ —	—	\$ —	\$ —	
	2016	\$ 70,000 <sup>(13)</sup>	\$ —	\$ —	\$ —	\$ 70,000	

- (1) Amounts reflect the aggregate grant date fair value of the 53,333 shares of common stock underlying the stock options on two separate dates of grant (\$4.80 and 3.78 per share) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest monthly over a 3-year period.
- (2) Amounts reflect the aggregate grant date fair value of the 11,667 shares of common stock underlying the stock options on the date of grant (\$5.40 per share) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest monthly over a 6-month period.
- (3) Amounts reflect the aggregate grant date fair value of the 1,667 shares of common stock underlying the stock option on the date of grant (\$4.50 per share) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest quarterly over a 3-year period.
- (4) Amounts reflect the aggregate grant date fair value of 13,000 restricted stock units on the dates of grant (\$6.00, \$3.90, and \$4.33 per share) without regards to forfeitures.
- (5) \$48,250 was converted into Preferred stock, which was subsequently converted to common stock.
- (6) Amounts reflect the aggregate grant date fair value of the 20,000 shares of common stock underlying the stock option on the date of grant (\$4.80 per share) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest quarterly over a 3-year period.

- (7) Amounts reflect the aggregate grant date fair value of the 11,667 shares of common stock underlying the stock options on two separate dates of grant (\$4.50 and 3.78 per share) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest monthly over a 3-year period.
- (8) Amounts reflect the aggregate grant date fair value of 5,548 restricted stock units on the dates of grant (\$3.78 and \$4.33 per share) without regards to forfeitures.
- (9) Amounts reflect the aggregate grant date fair value of the 13,333 shares of common stock underlying the stock options on two separate dates of grant (\$4.80 and 5.94 per share) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest monthly over a 3-year period.
- (10) Amounts reflect the aggregate grant date fair value of the 83,333 shares of common stock underlying the stock option on the date of grant (\$4.80 per share) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest quarterly over a 5-year period.
- (11) \$65,481 was converted into Preferred stock, which was subsequently converted to common stock.
- (12) Amounts reflect the aggregate grant date fair value of 5,406 restricted stock units on the date of grant (\$1.85 per share) without regards to forfeitures
- (13) \$16,000 was converted into Preferred stock, which was subsequently converted to common stock.

### All Other Compensation

None

### Grants of Plan-Based Awards

The following table sets forth information concerning the number of shares of common stock underlying restricted stock awards and stock options granted to the Named Executive Officers in the year ended December 31, 2017.

Name	Grant Date	Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards	Estimated Future Payouts Under Equity Incentive Plan Awards	All Other Stock Awards:	All Other Option Awards:	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards <sup>(1)</sup>
Grover T. Wickersham.....	04/05/2017	04/05/2017	—	—	33,334 <sup>(3)</sup>	33,333 <sup>(2)</sup>	\$ 4.80	\$ 265,100
Grover T. Wickersham.....	09/15/2017	09/15/2017	—	—	7,500 <sup>(3)</sup>	20,000 <sup>(4)</sup>	\$ 3.78	\$ 79,990
Grover T. Wickersham.....	12/14/2017	12/14/2017	—	—	10,000 <sup>(3)</sup>	—	\$ 4.33	\$ 43,000
Melissa Heim.....	03/14/2017	03/14/2017	—	—	—	1,667 <sup>(4)</sup>	\$ 4.50	\$ 5,095
Melissa Heim.....	09/15/2017	09/15/2017	—	—	5,000 <sup>(3)</sup>	10,000 <sup>(4)</sup>	\$ 3.78	\$ 44,720
Melissa Heim.....	12/14/2017	12/14/2017	—	—	3,000 <sup>(3)</sup>	—	\$ 4.33	\$ 12,990
Steve Shum.....	03/14/2017	03/14/2017	—	—	—	1,667 <sup>(4)</sup>	\$ 4.50	\$ 5,095
Steve Shum.....	06/02/2017	06/02/2017	—	—	2,500 <sup>(3)</sup>	—	\$ 6.00	\$ 15,000
Steve Shum.....	09/01/2017	09/01/2017	—	—	2,500 <sup>(3)</sup>	—	\$ 3.90	\$ 9,750
Steve Shum.....	12/14/2017	12/14/2017	—	—	10,000 <sup>(3)</sup>	—	\$ 4.33	\$ 43,000
Allen Barteld .....	3/20/2017	3/20/2017	—	—	—	83,334 <sup>(5)</sup>	\$ 4.50	\$ 285,250

- (1) Represents the grant date fair value of each equity award calculated in accordance with FAS 123R
- (2) Options vest quarterly over a 2-year period.
- (3) RSUs vested immediately
- (4) Options vest quarterly over a 3-year period.
- (5) Options vest quarterly over a 5-year period.

### Outstanding Equity Awards at Fiscal Year-End

The following table sets forth all outstanding equity awards made to each of the Named Executive Officers that are outstanding as of December 31, 2017.

Name	Grant Date	Option Awards (1)				Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested
Grover T. Wickersham.....	10/13/2016	35,000 <sup>(1)</sup>	—	\$ 5.40	10/13/2026	—	—
Grover T. Wickersham.....	04/05/2017	12,500 <sup>(2)</sup>	20,833	\$ 4.80	04/05/2027	—	—
Grover T. Wickersham.....	09/15/2017	3,333 <sup>(3)</sup>	16,667	\$ 3.78	09/15/2027	—	—
Melissa Heim.....	03/25/2015	417 <sup>(3)</sup>	—	\$ 105.00	03/25/2025	—	—
Melissa Heim.....	09/20/2016	4,167 <sup>(3)</sup>	5,833	\$ 4.80	09/20/2026	—	—
Melissa Heim.....	12/30/2016	1,111 <sup>(3)</sup>	2,222	\$ 5.94	12/30/2016	—	—
Melissa Heim.....	03/14/2017	417 <sup>(3)</sup>	1,250	\$ 4.50	03/14/2027	—	—
Melissa Heim.....	09/15/2017	1,667 <sup>(3)</sup>	8,333	\$ 3.78	09/15/2027	—	—
Steven Shum.....	10/1/2015	14,167 <sup>(4)</sup>	—	\$ 27.00	10/1/2020	—	—
Steven Shum.....	9/20/2016	8,333 <sup>(3)</sup>	11,667 <sup>(2)</sup>	\$ 4.80	10/1/2026	—	—
Steven Shum.....	03/14/2017	417 <sup>(3)</sup>	1,250 <sup>(3)</sup>	\$ 4.50	03/14/2027	—	—
Allen Barteld.....	03/20/2017	12,500 <sup>(5)</sup>	70,833 <sup>(3)</sup>	\$ 4.80	03/20/2027	—	—

- (1) Options vest monthly over a 6-month period.
- (2) Options vest quarterly over 2-year period
- (3) Options vest quarterly over 3-year period
- (4) Options vest over a 2-year period with 25% vesting in the first year following date of grant, with no options vesting during the first 6-months and 1/24th per month and 75% vesting in the second year following date of grant (3/48th/month).
- (5) Options vest quarterly over 5-year period

### Option Exercises and Stock Vested

None.

### Employment Agreements

We have agreements with certain of our named executive officers, which include provisions regarding post-termination compensation. We do not have a formal severance policy or plan applicable to our executive officers as a group. The following summaries of the employment agreements are qualified in their entirety by reference to the text of the employment agreements, as amended, which were filed as exhibits to the registration statement of which this prospectus is a part.

### *Employment Agreement with Steve Shum*

On October 5, 2015, we entered into an employment agreement with Mr. Shum. The agreement has an initial term ending on October 5, 2018 and provides for an annual base salary during the term of the agreement of \$195,000 per year. Mr. Shum is eligible to receive an annual bonus of at the discretion of the Board of Directors. In addition, Mr. Shum received an option to purchase 42,500 shares of our common stock. This option has a five-year term and vests as described above.

The agreement also contains the following material provisions: (i) reimbursement for all reasonable travel and other out-of-pocket expenses incurred in connection with his employment; (ii) two weeks paid vacation leave; (iii) medical, dental and life insurance benefits; (iv) 36-month non-compete/non-solicitation terms; and (v) a severance payment equal to six months of base salary upon termination without cause (as defined in the agreement).

Effective November 4, 2016, the Company entered into a First Amendment to Employment Agreement (the “Shum Amendment”) with Steven Shum, the Company’s Chief Financial Officer. Under the Shum Amendment, Mr. Shum’s base salary was decreased to \$135,000 per annum. In addition, Mr. Shum is entitled to quarterly bonuses based on individual and Company performance at the discretion of the Company’s Board of Directors as well as quarterly bonuses based on the achievement by the Company of certain quarterly EBITDA targets. The Company agreed to pay Mr. Shum \$4,250 for accrued and unpaid salary, which shall be paid on the earlier of a qualified equity financing by the Company or six months from the effective date of the Shum Amendment. The Company also agreed to indemnify Mr. Shum to the fullest extent allowed by the Articles, the Bylaws, and applicable law, and notwithstanding Section 7.14 of the Company’s Bylaws, to the extent permitted by applicable law, the rights granted pursuant to the Shum Amendment shall apply to acts and actions occurring since October 31, 2014.

### *Employment Agreement with Melissa Heim*

On February 27, 2015, we entered into an employment agreement with Melissa Heim to serve as Master Distiller. The agreement is for an initial term ending on February 27, 2020 and provided for an annual base salary during the term of the agreement of \$40,000 per year, Ms. Heim is eligible to receive a bonus of at the discretion of the board of directors. In addition, Ms. Heim received an option to purchase 25,000 shares of our common stock. This option has a 5 year term and the securities issued thereunder will be vest over 2-years with 25% vesting in the first year and 75% vesting in the second year provided, however, that the options will not begin vesting until 6-months after the date of grant

The agreement also contains the following material provisions: (i) reimbursement for all reasonable travel and other out-of-pocket expenses incurred in connection with his employment; (ii) two (2) weeks paid vacation leave; (iii) medical, dental and life insurance benefits and (iii) 36-month non-compete/non-solicitation terms.

On November 8, 2016, the Board of Directors of the Company appointed Melissa Heim as the Company’s Executive Vice President of Operations and agreed to increase her base salary to \$85,000 per year. Ms. Heim will continue to also serve as the Company’s Master Distiller.

### *Employment Agreement with Allen Barteld*

In connection with our acquisition of MotherLode, on March 8, 2017, we entered into a three-year employment agreement with Mr. Barteld. Under the terms of Mr. Barteld’s employment agreement, Mr. Barteld will be employed as the President and Chief Executive Officer of MotherLode, and will continue to serve as its manager, for a three-year term. Mr. Barteld will initially be paid an annual base salary of \$85,000, subject to review from time to time by the compensation committee. Upon the earlier of December 31, 2017 or the closing of a registered public offering of our common stock that results in net proceeds to us of at least \$3,000,000, Mr. Barteld’s base salary will be increased to \$120,000 per year, subject to review from time to time by the compensation committee. Mr. Barteld’s employment agreement further provides that Mr. Barteld is eligible to participate in our annual bonus plan, the actual payment of which will be determined based upon a combination of our results and individual performance against applicable performance goals fixed by the compensation committee.

In addition to salary and bonuses as summarized above, Mr. Barteld’s employment agreement provides that Mr. Barteld is eligible to participate in employee benefits plans as we may institute from time to time at the discretion of the compensation committee. Initially, at the next meeting of the compensation committee, upon recommendation of management, he will be granted 83,334 options under the 2016 Plan, which options will vest quarterly over a five-year period, at an exercise price equal to the closing price of our common stock on the date of grant.



In the event Mr. Barteld’s employment is terminated “without cause” (as defined in Mr. Barteld’s employment agreement) after his failure to take corrective action during any applicable cure period, or if he resigns for “good reason” (as defined in Mr. Barteld’s employment agreement), then he will receive, in addition to any compensation otherwise due to him, payment of his then base salary and continuation of his benefits for six months following the termination. Mr. Barteld may not resign for good reason without first providing us with written notice of the acts or omissions constituting the grounds for good reason within 90 days of the initial existence of such grounds, and a reasonable cure period of at least 30 days. If his employment is terminated voluntarily, due to death or disability or is terminated for “cause” (as defined in Mr. Barteld’s employment agreement), all vesting of equity grants and awards will immediately cease and only routine compensation provided in Mr. Barteld’s employment agreement will be due.

Any amounts payable under Mr. Barteld’s employment agreement are subject to any policy (whether currently in existence or later adopted) established by us providing for clawback or recovery of amounts that were paid to Mr. Barteld. We will make any determination for such clawback or recovery in our sole discretion and in accordance with any applicable law or regulation.

Finally, Mr. Barteld is subject to confidentiality, non-compete and non-solicitation restrictions.

**Potential Payments upon Termination**

Under the terms of the employment agreements for Mr. Shum and Mr. Barteld, they are each entitled to a severance payment of six (6) month’s salary at the then-applicable base salary rate in the event that we terminate their employment without cause.

The following table sets forth quantitative information with respect to potential payments to be made to Mr. Shum and Mr. Barteld upon termination without cause. The potential payments are based on the terms of Mr. Shum’s and Mr. Barteld’s employment agreements discussed above. For a more detailed description of the employment agreements for Mr. Shum and Mr. Barteld, see the “Employment Agreements” section above.

<b>Name</b>	<b>Potential Payment upon Termination Without Cause<sup>(1)</sup></b>
Steven Shum.....	\$ 67,500 <sup>(2)</sup>
Allen Barteld.....	\$ 42,500 <sup>(3)</sup>

- (1) Employee entitled to six months’ severance at the then applicable base salary rate.
- (2) Based on Mr. Shum’s current annual base salary of \$135,000.
- (3) Based on Mr. Barteld’s current annual base salary of \$85,000.

**Compensation of Directors**

On October 13, 2016, the Company’s Board of Directors approved the grant of non-qualified stock options under the 2016 Plan of 11,667 shares of common stock with an exercise price of \$5.40 (each on a post-reverse split basis) to each of our non-employee directors as of that date, Messrs. Davis, Fleming, Hirson and Wickersham. During 2017, the Company’s Board of Directors approved the grant on non-qualified stock options under the 2016 Plan of 7,500 shares of common stock with an exercise price of \$3.78 and \$3.40 to each of our newly appointed directors, Messrs. Peterson and Saunders. On January 11, 2018, all the current directors were granted an additional 7,500 non-qualified stock options under the 2016 Plan with an exercise price of \$3.99. All directors will be reimbursed for their reasonable out-of-pocket expenses incurred in connection with attending board of director and any committee meetings, provided that we have the resources to pay these expenses. Currently, directors receive no other compensation for their services on our Board.

**Code of Ethics**

We have adopted a code of business conduct and ethics that applies to all of our employees, officers and directors. We will provide to any person without charge, upon request, a copy of our code of business conduct and ethics. Requests may be directed to our principal executive offices at 1001 SE Water Avenue, Suite 390, Portland, Oregon 97214. Also, a copy of our code of business conduct and ethics is available on our website. We will disclose, on our website, any amendment to, or a waiver from, a provision of our Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and that relates to any element of the Code of Business Conduct and Ethics enumerated in applicable rules of the SEC.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth information as of April 2, 2018 as to each person or group who is known to us to be the beneficial owner of more than 5% of our outstanding voting securities and as to the security and percentage ownership of each of our executive officers and directors and of all of our officers and directors as a group. As of April 2, 2018, we had 5,044,770 shares of common stock outstanding.

Beneficial ownership is determined under the rules of the Securities and Exchange Commission and generally includes voting or investment power over securities. Except in cases where community property laws apply or as indicated in the footnotes to this table, we believe that each stockholder identified in the table possesses sole voting and investment power over all shares of common stock shown as beneficially owned by the stockholder.

Shares of common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of the date of this Statement are considered outstanding and beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Name And Address <sup>(1)</sup>	Number of Common Shares Beneficially Owned	Percentage Owned
<i>5% Stockholders:</i>		
Glenbrook Capital <sup>(2)</sup> .....	715,844	13.68%
<b><i>Officers and Directors:</i></b>		
Grover T. Wickersham <sup>(3)</sup> .....	666,006 <sup>(4)</sup>	12.58%
Michael Fleming .....	33,210 <sup>(5)</sup>	0.66%
Trent Davis .....	25,543 <sup>(6)</sup>	0.50%
Jack Peterson .....	97,884 <sup>(7)</sup>	1.92%
Shelly A. Saunders.....	3,125 <sup>(8)</sup>	*
Melissa Heim .....	26,049 <sup>(9)</sup>	0.52%
Allen Barteld.....	103,334 <sup>(10)</sup>	2.04%
Steven Shum .....	61,556 <sup>(11)</sup>	1.21%
All directors and officers as a group (8 persons) .....	<u>1,016,707</u>	<u>19.50%</u>

(1) Unless otherwise noted, the address is c/o Eastside Distilling, Inc., 1002 SE Water Avenue, Suite 390., Portland, Oregon 97214.

(2) The address is 430 Cambridge Avenue, Suite #100, Palo Alto, CA 94306. Glenbrook Capital, L.P. (“Glenbrook”) is a Nevada limited partnership, the general partner of which is Glenbrook Capital Management, a Nevada corporation (“GCM”). Glenbrook is overseen by its executive officers and a board of directors consisting of four directors. Grover T. Wickersham, the corporation’s Chairman and Chief Executive Officer, is the owner of GCM. However, he does not direct the voting or disposition of the shares owned by Glenbrook. GCM disclaims beneficial ownership of the securities owned by Glenbrook Limited Partnership except to the extent of its pecuniary interest in the limited partnership.

(3) The shares of common stock include (i) 97,114 shares held directly; (ii) 178,531 shares owned by the employee profit sharing plan of Mr. Wickersham’s company, for which he serves as trustee; (iii) 42,440 shares owned by a charitable remainder trust, for which he serves as co-trustee and a beneficiary; and (iv) 87,745 shares owned by his minor daughter’s irrevocable trust, for which he serves as trustee.

(4) Includes (i) 205,808 shares of common stock issuable upon exercise of currently-exercisable warrants and (ii) 41,667 shares of common stock issuable upon exercise of stock options exercisable on or before May 30, 2018.

(5) Includes (i) 9,334 shares of common stock issuable upon exercise of currently-exercisable warrants and (ii) 8,913 shares issuable upon exercise of stock options exercisable on or before May 30, 2018.

(6) Includes (i) 5,000 shares of common stock issuable upon exercise of currently-exercisable warrants and (ii) 8,913 shares issuable upon exercise of stock options exercisable on or before May 30, 2018.

- (7) Includes (i) 9,400 shares of common stock held directly or indirectly by Mr. Peterson and (ii) 33,334 shares of common stock owned by Sandstrom Partners, of which Mr. Peterson is the current CEO (i) 42,000 shares of common stock issuable upon exercise of currently-exercisable warrants held by Sandstrom Partners, and (ii) 3,125 shares of common stock issuable upon exercise of stock options exercisable on or before May 30, 2018.
- (8) Includes 3,125 shares issuable upon exercise of stock options exercisable on or before May 30, 2018.
- (9) Includes 11,945 shares issuable upon exercise of stock options exercisable on or before May 30, 2018.
- (10) Includes 16,667 shares issuable upon exercise of stock options exercisable on or before May 30, 2018.
- (11) Includes 33,056 shares issuable upon exercise of stock options exercisable on or before May 30, 2018.

### **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The following is a description of transactions since January 1, 2017 as to which the amount involved exceeds the lesser of \$120,000 or one percent (1%) of the average of our total assets at year-end for the last two completed fiscal years and in which any related person has or will have a direct or indirect material interest, other than equity and other compensation, termination and other arrangements which are described above under the headings “Compensation of Directors” and “Executive Compensation.” As of the date of this Annual Report on Form 10-K, there are no proposed transactions as described in the foregoing sentence.

On June 2, 2017, Mr. Wickersham purchased 15,189 units at \$3.90 per unit, with each unit consisting of one share of common stock and one three-year common stock purchase warrant exercisable at \$7.50 per share (subject to adjustment), for total proceeds of \$59,237 in cash.

On August 10, 2017, Mr. Wickersham and his affiliates purchased 55,555 units at \$4.50 per unit, with each unit consisting of one share of common stock and one Public Warrant, for total proceeds of approximately \$250,000 in cash.

On August 23, 2017, our Board appointed Jack Peterson to the Board to fill an existing vacancy on the Board effective immediately. Mr. Peterson is also the President of Sandstrom Partners. In late 2016, with the goal of increasing its brand value and accelerating sales, the Company retained Sandstrom and tasked them with reviewing the Company’s current product portfolio, as well as its new ideas, and advising it with respect to marketing, creation of brand awareness and product positioning, locally and nationally. The Company is using Sandstrom’s full range of brand development services, including research, strategy, brand identity, package design, environments, advertising as well as digital design and development. The Company paid \$140,000 in cash, issued 33,334 shares of stock valued at \$145,000 (at the time of issuance), and issued 42,000 warrants with an exercise price of \$3.50 valued at \$43,596 (using a black-scholes value at the time of issuance) to Sandstrom Partners in 2017 for services rendered by Sandstrom under its agreement with the Company. We have also issued an additional 10,025 shares valued at \$40,000 (at the time of issuance) to Sandstrom in 2018.

On December 29, 2017, the Grover T. Wickersham Employees’ Profit Sharing Plan (“PSP”) purchased from us a promissory note bearing interest at the rate of 8% per annum (a “Promissory Note”) for aggregate consideration of \$464,750. Interest is paid monthly. The note is due on June 30, 2019 or in the event the Company completes a private or public offering of its equity or debt securities in which the gross amount raised in such financing is at least \$2.0 million (a “Future Financing”), all amount due under this Note shall become due and payable within five (5) business days of the final closing of such Future Financing. In lieu of receiving the cash repayment of amounts due under this Note in connection with a Future Financing, at the option of Payee, the principal amount due and payable may be used to purchase the securities offered in the Future Financing.

On December 29, 2017, the Grover T. and Jill Z. Wickersham 2000 Charitable Remainder Trust (the “Wickersham Trust”) purchased from us a promissory note bearing interest at the rate of 8% per annum (a “Promissory Note”) for aggregate consideration of \$179,300. Interest is paid monthly. The note is due on June 30, 2019 or in the event the Company completes a private or public offering of its equity or debt securities in which the gross amount raised in such financing is at least \$2.0 million (a “Future Financing”), all amount due under this Note shall become due and payable within five (5) business days of the final closing of such Future Financing. In lieu of receiving the cash repayment of amounts due under this Note in connection with a Future Financing, at the option of Payee, the principal amount due and payable may be used to purchase the securities offered in the Future Financing.

We believe that the foregoing transactions were in our best interests. Consistent with Section 78.140 of the Nevada Revised Statutes, it is our current policy that all transactions between us and our officers, directors and their affiliates will be entered into only if such transactions are approved by a majority of the disinterested directors, are approved by vote of the stockholders, or are fair to us as a corporation as of the time it is authorized, approved or ratified by the board. We will conduct an appropriate review of all related party transactions on an ongoing basis, and, where appropriate, we will utilize our audit committee for the review of potential conflicts of interest.

## Director Independence

Generally, under the listing requirements and rules of NASDAQ, independent directors must comprise a majority of a listed company's board of directors. Our Board of Directors has undertaken a review of its composition, the composition of its committees and the independence of each director. Our Board of Directors has determined that Trent Davis, Michael Fleming, and Shelly Saunders are independent within the meaning of NASDAQ listing standards. Accordingly, a majority of our directors is independent, as required under applicable NASDAQ rules. In making this determination, our Board of Directors considered the current and prior relationships that each non-employee director has with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director. In making this determination, the Board of Directors considered all transactions set forth under "Certain Relationships and Related Transactions" above.

## Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

### Audit Fees

M&K billed us \$9,000 in progress fees for our 2017 annual audit and \$6,000 in fees for the review of our quarterly financial statements in 2017. BPM LLP billed us \$24,000 in fees for our 2017 quarterly financial statements, \$60,000 in fees for our 2016 annual audit and \$37,800 in fees for the review of our quarterly financial statements in 2016.

### Audit Related Fees

We paid fees to BPM LLP for assurance and related services of \$26,400 and \$0 related to other SEC filings in 2017 and 2016, respectively.

### Tax Fees

For the years ended each of December 31, 2017 and 2016, the aggregate fees billed for tax compliance, by BPM LLP and M&K were \$0.

### Pre-Approval Policies and Procedures

We have implemented pre-approval policies and procedures related to the provision of audit and non-audit services. Under these procedures, our audit committee pre-approves all services to be provided by M&K LLP and the estimated fees related to these services.

All audit, audit related, and tax services were pre-approved by the audit committee, which concluded that the provision of such services by M&K LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing functions. Our pre-approval policies and procedures provide for the audit committee's pre-approval of specifically described audit, audit-related, and tax services on an annual basis, but individual engagements anticipated to exceed pre-established thresholds must be separately approved. The policies and procedures also require specific approval by the audit committee if total fees for audit-related and tax services would exceed total fees for audit services in any fiscal year. The policies and procedures authorize the audit committee to delegate to one or more of its members pre-approval authority with respect to permitted services.

## Item 15. EXHIBITS.

(a) Exhibits

### EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description of Document</b>
3.1	Amended and Restated Articles of Incorporation of the Registrant, as presently in effect, filed as Exhibit 3.1 to the Registration Statement on Form S-1 filed on November 14, 2011 (File No. 333-177918) and incorporated by reference herein.
3.2	Certificate of Designation – Series A Preferred Stock, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated March 9, 2016 and filed on March 11, 2016 and incorporated by reference herein.

- 3.3 Amendment to Certificate of Designation After Issuance of Class or Series, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated June 1, 2016 and filed on June 9, 2016 and incorporated by reference herein.
- 3.4 Certificate of Change, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated October 6, 2016 and filed on October 11, 2016 and incorporated by reference herein.
- 3.5 Certificate of Change, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated June 14, 2017 and filed on June 15, 2017 and incorporated by reference herein.
- 3.6 Amended and Restated Bylaws of the Registrant, as presently in effect, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated October 13, 2016 and filed on October 19, 2016 and incorporated by reference herein.
- 4.1 Form of the Registrant's common stock certificate, filed as Exhibit 4.1 to Amendment No. 2 to Registrant's Registration Statement on Form S-1 (SEC File No. 333-215848) (the "2017 S-1 Registration Statement") filed on July 7, 2017 and incorporated by reference herein.
- 4.2 Warrant Agreement between the Registrant and Pacific Stock Transfer Company dated August 10, 2017, filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on August 10, 2017 and incorporated by reference herein.
- 4.3 Form of Warrant to purchase common stock (included as Exhibit A to Exhibit 4.2), filed as Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on August 10, 2016 and incorporated by reference herein.
- 4.4 Common Stock Purchase Warrant, filed as Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed on August 10, 2017 and incorporated by reference herein.
- 10.1+ Eastside Distilling, Inc. 2016 Equity Incentive Plan and forms of agreement thereunder, filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2016 and incorporated by reference herein.
- 10.2+ Employment Agreement dated February 6, 2015 between Steven Earles and Eastside Distilling, Inc., filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated February 6, 2015 and filed on February 10, 2015 and incorporated by reference herein.
- 10.3+ First Amendment to Employment Agreement (Steven Earles), filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2015 filed on August 14, 2015 and incorporated by reference herein.
- 10.4+ Second Amendment to Employment Agreement dated November 4, 2016 between Steven Earles and the Registrant, filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated November 4, 2016 and filed on November 10, 2016 and incorporated by reference herein.
- 10.5+ Employment Agreement dated October 5, 2015 between Steven Shum and the Registrant, filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 5, 2015 and filed on October 6, 2015 and incorporated by reference herein.
- 10.6+ First Amendment to Employment Agreement, filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated November 4, 2016 and filed on November 10, 2016 and incorporated by reference herein.
- 10.7+ Employment Agreement dated February 27, 2015 between Melissa Heim and the Registrant, filed as Exhibit 10.7 to the Registrant's 2017 Registration Statement, filed on February 1, 2017 and incorporated by reference herein.
- 10.8 Lease Agreement dated July 17, 2014 between PJM Bldg. II LLC and Eastside Distilling LLC, filed as Exhibit 10.3 to the Registration Statement on Form S-1 (File No. 333-202033) filed on February 11, 2015 and incorporated by reference herein.
- 10.9 Lease Agreement with Oregon City Building Limited Partnership, filed as Exhibit 10.8 to the Registration Statement on Form S-1 (File No. 333-202033) filed on February 11, 2015 and incorporated by reference herein.
- 10.10 Specialty Lease Agreement dated January 20, 2015 between RPR Washington Square LLC and the Registrant, filed as Exhibit 10.9 to the Registration Statement on Form S-1 (File No. 333-202033) filed on February 11, 2015 and incorporated by reference herein.
- 10.11 License Agreement dated October 10, 2014 between Clackamas Town Center and the Registrant, filed as Exhibit 10.10 to the Registration Statement on Form S-1 (File No. 333-202033) filed on February 11, 2015 and incorporated by reference herein.
- 10.12 Non-Exclusive Consulting Agreement with Rinvest Securities, Inc., filed as Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2014 and filed on March 31, 2015 and incorporated by reference herein.
- 10.13 Registration Rights Agreement, filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated December 30, 2016 and filed on January 6, 2017 and incorporated by reference herein.

- 10.14 Purchase and Assignment of Membership Interests, Assumption of Obligations, Agreement to be Bound by Limited Liability Company Agreement and Admission of Substituted Member among the Registrant, Allen Barteld and MotherLode, LLC, dated as of March 8, 2017, filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and filed on March 14, 2017 and incorporated by reference herein.
- 10.15 Employment Agreement between the Company and Allen Barteld dated as of March 1, 2017 and executed on March 8, 2017, filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K dated March 8, 2017, filed on March 14, 2017 and incorporated by reference herein.
- 10.16 Employment Agreement between the Company and Jarrett Catalani dated as of July 1, 2017, filed as Exhibit 10.16 to Amendment No. 3 to the Registrant's 2017 Registration Statement, filed on July 20, 2017 and incorporated by reference herein.
- 10.17 Underwriting Agreement between the Registrant and Roth Capital Partners, as representative of the several underwriters, dated August 10, 2017, filed as Exhibit 1.1 to the Registrant's Current Report on Form 8-K, filed on August 10, 2017 and incorporated by reference herein.
- 10.18 Redneck Riviera License Agreement dated October 20, 2017\*\*
- 10.19 Form of Eastside Distilling, Inc. 8% Promissory Note dated December, 2017\*
- 14 Code of Ethics, filed as Exhibit 14 to the Registration Statement on Form S-1 (File No. 333-202033), filed on February 11, 2015 and incorporated by reference herein.
- 23.1 Consent of BPM LLP, independent registered public accounting firm.
- 23.2 Consent of M&K CPAS, PLLC, independent registered public accounting firm.
- 31.1 Certification of Grover Wickersham pursuant to Rule 13a-14(a).\*
- 31.2 Certification of Grover Wickersham pursuant to Rule 13a-14(a).\*
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Schema Linkbase Document
- 101.CAL\* XBRL Taxonomy Calculation Linkbase Document
- 101.DEF\* XBRL Taxonomy Definition Linkbase Document
- 101.LAB\* XBRL Taxonomy Labels Linkbase Document
- 101.PRE\* XBRL Taxonomy Presentation Linkbase Document

\* Filed herewith.

\*\* Filed herewith; confidential status has been requested for certain portions of this exhibit pursuant to a Confidential Treatment Request filed April 2, 2017. Such provisions have been separately filed with the Commission.

+ Indicates a management contract or compensatory plan.

## SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

### EASTSIDE DISTILLING, INC.

By: /s/ Grover Wickersham

Grover Wickersham  
Chief Executive Officer, Director  
(Principal Executive Officer)

By: /s/ Steve Shum

Steve Shum  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this amended report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Grover Wickersham</u> Grover Wickersham	Chief Executive Officer, and Director (Principal Executive Officer)	April 2, 2018
<u>/s/ Steve Shum</u> Steve Shum	Chief Financial Officer (Principal Financial and Accounting Officer)	April 2, 2018
<u>/s/ Mick Fleming</u> Mick Fleming	Director	April 2, 2018
<u>/s/ Trent Davis</u> Trent Davis	Director	April 2, 2018
<u>/s/ Shelly Saunders</u> Shelly Saunders	Director	April 2, 2018
<u>/s/ Jack Peterson</u> Jack Peterson	Director	April 2, 2018

## LICENSE AGREEMENT

This **LICENSE AGREEMENT** (this “Agreement”), dated as of this 20<sup>th</sup> day of October, 2017 (“Effective Date”), is entered into by and between **RICH MARKS, LLC**, a Delaware limited liability company (“Licensor”), and **EASTSIDE DISTILLING, INC.**, a corporation organized under the laws of the State of Nevada (“Licensee”).

**WHEREAS**, Licensee desires to use the Authorized Trademark (as defined below) during the Term (as defined below) and within the Territory (as defined below) in order to produce, manufacture, distribute and promote the Authorized Products (as defined below); and

**WHEREAS**, Licensor is willing to grant to Licensee a license to use the Authorized Trademark during the Term and within the Territory solely in order to produce, manufacture, distribute and promote the Authorized Products, subject to the terms and conditions contained herein.

**NOW, THEREFORE**, in consideration of the mutual promises, covenants and conditions contained herein, it is hereby agreed as follows:

**1. Definitions.** Capitalized terms used herein that are not otherwise defined in context shall have the following meaning:

“Artist” or “JR” means country music singer-songwriter John Rich.

“Authorized Products” means, collectively, the Distilled Spirits Products, the Promotional Materials and the Promotional Items (each as defined below).

“Authorized Property” means, collectively, the Authorized Trademark and the Brand Intellectual Property (as defined below).

“Authorized Trademark” means that trademark registration identified on Exhibit D attached hereto and made a part hereof.

“Brand Intellectual Property” means any and all Authorized Trademark-related (i) product names, product packaging, slogans, designs, bottle designs, logos, trade dress, (ii) any and all copyrights and copyrightable works, (iii) any and all product formulas, recipes, formulations and blends (collectively, the “Product Formulations”), and (iv) all intellectual property rights and goodwill associated with (i) through (iii) above in any form throughout the world, including any registrations or applications relating to the foregoing and any extensions, modifications, renewals, reissuance, continuation or continuation in part, reexamination and improvements thereof.

“Case” means a package containing [\*\*\*\*] equivalent of alcoholic beverages.

“Control Group” means those individuals and entities holding in the aggregate, as of the Effective Date, at least fifty percent (50%), directly or indirectly, of the aggregate issued and outstanding capital stock of Licensee on a fully diluted basis.

“Contract Date” means January 1, 2018.

“Contract Year” means each successive sequential period of twelve (12) months occurring during the Term, with the first of such period commencing on the Contract Date and expiring twelve (12) months thereafter.

“Distilled Spirits Products” means distilled spirits products produced by Licensee, and those other alcoholic beverage products agreed to in a Product Extension Amendment (as defined below), as provided for below, bearing some form of the Authorized Trademark on the label of each such Authorized Product (as permitted herein), and consisting solely of distilled spirits intended for human consumption; provided, however, notwithstanding the foregoing, “Distilled Spirits Products” shall not mean and shall not be deemed to include, for any purpose hereunder, unless a Product Extension Amendment is agreed in advance and in writing with respect thereto in each instance: (i) wine (regardless of alcohol by content); (ii) any cider or malt beverage products (including, without limitation, beer, sake, hard lemonade, etc.); (iii) any beverage that has distilled spirits as a non-primary ingredient, including any cordial, aperitif or other similar distilled spirits beverage; (iv) any mixed or hybrid alcoholic beverages consisting of, based upon, flavored with, or derived from, any of the foregoing items (i) – (iii), however marketed or branded; or (v) any condiment, food or non-alcoholic beverage products intended or marketed for consumption in connection with the consumption of distilled spirits products, including, without limitation, mixers, mixes, juices and/or salts. Licensee currently intends to launch the following initial products within the first [\*\*\*\*] of the Effective Date: [\*\*\*\*]. For the avoidance of doubt, until such time as a Product Extension Agreement is fully executed by the parties hereto with respect to a particularly defined item of Distilled Spirits Products, Licensor and Artist shall be under no restriction whatsoever respecting entering into any transaction or arrangement regarding any item set forth in (i) – (iv) of this definition of Distilled Spirits Products.



“Distribution Channels” shall mean the distribution channel(s) set forth on Exhibit A attached hereto and made a part hereof.

“Licensee Disposition” means the first to occur of any of the following events:

(a) Licensee assigns this Agreement to a wholly or partially owned subsidiary (by operation of law, change of control or otherwise) without the prior written permission of Licensor, which shall not be unreasonably withheld;

(b) Licensee sells, assigns or otherwise disposes, whether in a single sale or series of related transactions, all or substantially all of its assets;

(c) the acquisition, directly or indirectly, in any transaction or any number of transactions, by an individual or Group (as defined by SEC rules), who is not an owner of at least five percent (5%) of the total voting power of Licensee as of the Effective Date, of at least fifty-one percent (51%) of the total voting power of Licensee; or

(d) the consummation of any merger, consolidation or business combination or similar transaction involving Licensee in which Licensee is not the continuing or surviving corporation, without the prior written permission of Licensor, which shall not be unreasonably withheld.

“Licensee Know-How” means any trade secrets, know-how, methods, processes, technical information, directions, instructions, protocols, procedures, techniques, raw material sources, concepts and ideas owned, as of the Effective Date, by Licensee and used for the manufacture, bottling and labeling of distilled spirits products; provided, however, that any of the foregoing shall only constitute “Licensee Know-How” to the extent not known to Licensor as of the Effective Date or not otherwise generally known in the distilled spirits industry.

“Product Extension Amendment” means respecting each new possible, proposed distilled spirit alcoholic beverage product not constituting an Initial Product, a written amendment to this Agreement fully executed by the parties hereto that, at a minimum, contains the following: (a) business case for market need; (b) sales plans; (c) marketing spend allotment (including an increase in the Minimum JR Promotional Allowance therefor); and (d) proposed packaging, design and flavor profile.

“Promotional Items” means merchandise, bearing one or more items of the Authorized Property, used for advertising and promotion solely the Distilled Spirits Products (e.g. hats, t-shirts, glassware and similar items). All Promotional Items will either be given away as free, promotional, premium items or sold solely in tasting rooms or online webstores wholly owned by Licensee provided the parties agree in writing upon a royalty to be paid to Licensor therefor prior to any such sales, unless otherwise agreed to by the parties hereto pursuant to a separate written license agreement. In the event Licensee engages any third party to create Promotional Items, Licensee shall enter into a work-for-hire (in a form approved by Licensor) assigning all rights to any Promotional Items to Licensee.

“Promotional Materials” means print advertisements, online, television, radio spots and point of sale materials (at both on and off premise retail locations) including, without limitation, in connection with any personal appearances which Artist, in his individual capacity, may make, and with respect to any and all other promotional materials relating to the Authorized Products occurring during the Term. In the event Licensee engages any third party to create Promotional Materials, Licensee shall enter into a work-for-hire (in a form approved by Licensor) assigning all rights to any Promotional Materials to Licensee.

“Territory” shall be the United States of America.

## **2. License Grant.**

a. License. Subject to the terms, conditions and obligations hereof (including the exclusivity provisions set forth below), Licensor hereby grants to Licensee, and Licensee hereby accepts, upon the terms and conditions set forth herein, during the Term (as defined below) and within the Territory, a non-transferable and non-sublicenseable license to use and exploit the Authorized Property solely in order to produce, manufacture, distribute, advertise and promote the Authorized Products (the “License”).

b. No Denigration. Neither Licensee nor any distributor, wholesaler or any other third party engaged by Licensee shall denigrate or permit or allow the denigration of the Authorized Property in connection with the performance of its obligations and rights under this Agreement, and Licensee shall take any other action not approved by Licensor as provided herein that is harmful or potentially harmful to or which disparages, ridicules or demeans the goodwill, honor and reputation of Licensor, Artist, or the Authorized Property.

c. Price Point Consultation. To further protect the value and integrity of the Authorized Trademark and shield it against denigration resulting from inappropriate pricing of Authorized Products bearing the Authorized Trademark, Licensee agrees to meaningfully consult with Licensor respecting price points of each of the Distilled Spirits Products hereunder.

d. Limitations. Licensee agrees, during the Term of this Agreement and thereafter, never to challenge or attack the rights of Licensor in and to the Authorized Trademark or the validity of the License being granted herein. Licensee agrees that it shall at no time during the Term or thereafter, use or authorize the use of any trademark, trade name or other designation identical with or confusingly or substantially similar to the Authorized Trademark.

e. Benefit. Licensee agrees, during the Term of this Agreement and thereafter, that its use of the Authorized Trademark is solely and entirely governed by this Agreement, and that Licensee shall not acquire any rights whatsoever in or to the Authorized Trademark other than the rights expressly provided in this Agreement. Licensee agrees and acknowledges that following the expiration or earlier termination of this Agreement for any reason, Licensee shall not have any right to use for itself in any manner, or sublicense, the Authorized Trademark to any third party for any purpose, except as specifically provided for in this Agreement (e.g., during the Sell-Off Period provided in Section 12(b)).

f. No Registration. Licensee agrees that it shall not (and shall insure that no sublicense shall) at anytime, anywhere in the world, apply for any registration of any element of the Authorized Trademark or any copyright, trademark or other designation which would adversely affect the ownership of the Authorized Trademark by Licensor or file any document with any governmental authority to take any action which would affect the ownership of the Authorized Trademark by Licensor.

g. Cooperation. Licensee agrees to cooperate with Licensor in protecting the Authorized Trademark (at Licensor's cost and expense) and, for that purpose, Licensee will supply to Licensor from time to time, and at no charge, such samples and information regarding sales of the Authorized Trademark sold or distributed by Licensee, as reasonably may be requested by Licensor.

h. Sound Recordings/ Musical Compositions. Licensee acknowledges and agrees that no rights are granted herein to use either any sound recordings containing the performance of Artist or any musical compositions written in whole or in part by Artist).

i. Exclusion. Notwithstanding anything contained herein to the contrary, in no event shall the License granted hereunder be deemed to include or contain a reference to "Big & Rich" on or in connection with any Authorized Product.

j. Exclusivity.

i. Licensor. Subject to the terms and conditions of this Agreement, except with respect to the Permitted Activities (as defined below) and provided License is not in breach of this Agreement, Licensor and Artist covenant that within the Territory and commencing upon the Effective Date and ending upon the expiration or earlier termination of this Agreement, Licensor shall not market or promote any Distilled Spirits Products under the Authorized Trademark, and Licensor shall not issue a license or authorize any third party to use or sell, except as specifically provided in this Agreement and otherwise without Licensee's permission, any Distilled Spirits Product under the Authorized Trademark. Notwithstanding the foregoing, it is understood and agreed that (a) Artist may attend and perform at events (e.g., private events, festivals, tours, etc.) that are sponsored by one or more distilled spirits product brands (and/or their owners and/or distributors), including appearing in public and being photographed at such sponsored public events, (b) Artist may appear in music videos and/or perform on records produced by other recording artists in a "featured" capacity, which videos and/or records may include references to and/or depictions of any distilled spirits product brands as Artist has no control over the content of such videos or records in his capacity as a "featured" Artist, (c) Artist may own and endorse, in any capacity, directly or indirectly, any entertainment venue, restaurant, bar, spa, hotel, beach club, grill, nightclub, and/or casino business anywhere where all distilled spirits products receive comparatively similar prominence, (d) Artist may produce and/or co-write compositions of or with other third party recording artists which productions or musical compositions may include reference to other distilled spirits products brands; (e) Artist shall not be precluded from making de-minimis investments in publicly traded competitors of Licensee; and (f) Artist, in his capacity as a Member of "Big & Rich", may be sponsored or endorsed by any distilled spirits brand without limitation including respecting tours, album releases, etc. ((a) – (f), collectively, the "Permitted Activities"). Licensee and Artist shall be free to engage in whatever business enterprise they desire respecting any of the foregoing.

ii. Licensee. Licensee agrees that it shall not launch, market or promote any other distilled spirits products bearing the name, likeness or image of any another male country music artist during the Term of this Agreement, either directly or indirectly, without the prior express written consent of Licensor.

k. Warrant. The effectiveness of this Agreement (including, without limitation, the grant of the License contained herein) shall be contingent upon Licensee's delivery of the following warrants (in a form acceptable to Licensor): (a) to Artist or his designee, a warrant for 25,000 shares of Licensee's common stock; and (b) to T.J. McDaniel or his designee, a warrant for 5,000 shares of Licensee's common stock (collectively, the "Warrants").

3. Term. Unless terminated pursuant to the terms and conditions hereof, the initial period of this Agreement shall commence as of the Effective Date and shall continue for an initial period of ten (10) years therefrom (the "Initial Period"). Upon the conclusion of the Initial Period, this Agreement shall automatically renew for one additional ten (10) year period (the "Automatic Renewal Period"). Thereafter (and only in the event that the Automatic Renewal Period has occurred, for avoidance of doubt), Licensee shall have the right to renew this Agreement upon written notice given to Licensor no later than ninety (90) days prior to the expiration of the Automatic Renewal Period for on-going additional periods of ten (10) years each (each, a "Renewal Period," and together with the Initial Period and the Automatic Renewal Period, collectively, the "Term"); provided, however, notwithstanding the foregoing, any and all such renewals (including, without limitation, the Automatic Renewal Period) shall be subject to, as of the commencement of each Renewal Period, all of the following: (i) Licensee not then being in breach of this Agreement and (ii) the Annual Case Objective and the Minimum JR Promotional Allowance having been timely paid in full in each instance.

#### 4. Royalty Upon Licensee Disposition.

a. [\*\*\*\*]. Upon and from and after a Licensee Disposition, in consideration of the License granted herein, Licensee shall, without offset or deduction of any kind or nature and in accordance with the terms and conditions hereof, pay to Licensor, per bottle of Distilled Spirit Product produced for commercialization hereunder, an amount equal to the "[\*\*\*\*]" (in accordance with the amounts and escalating price points) set forth on Exhibit E attached hereto and hereby incorporated herein by this reference. For the avoidance of doubt, in the event of a Licensee Disposition, Licensee shall not owe Licensor a [\*\*\*\*] for any Distilled Spirit Product invoiced for sale before such Licensee Disposition. Upon and from and after a Licensee Disposition, Licensor in its sole discretion, may terminate the Term immediately upon written notice to Licensee in the event that Licensee fails to meet any Annual Case Objective (as defined below). If Licensor sends Licensee notice of its intent to so terminate the Agreement, Licensee shall have an opportunity to cure by, within thirty (30) days of receipt of Licensor's notice of such intent to terminate, paying, in full and in immediately available sums, to Licensor the difference between the [\*\*\*\*] that would have been paid if Licensee had met the Annual Case Objective (assuming all such items were sold by Licensee during the applicable period) in the relevant Contract Year and the actual [\*\*\*\*] paid to Licensor during the relevant Contract Year.

b. Accounting and Payment. Upon and from and after a Licensee Disposition, the [\*\*\*\*] shall be paid to Licensor on a quarterly basis in arrears, within thirty (45) days after the end of each calendar quarter during the Term. The [\*\*\*\*] shall be accompanied by a detailed accounting statement and back-up production documentation showing the number of Products produced and the precise manner in which the [\*\*\*\*] was calculated during such calendar quarter.

c. Books and Records. Licensee and any successor or assignee including without limitation, in respect of a Licensee Disposition, shall maintain invoices and books of account for the production, sale, advertising and promotion of the Authorized Products throughout the Term and for a period of at least three (3) years thereafter. Such books of account shall be complete and accurate and in accordance with generally-accepted accounting practices. Licensor or its designee shall have the right to enter Licensee's premises, inspect and photocopy all books and records of Licensee relating to the production, sale, advertising and promotion of the Authorized Products within five (5) business days after notice to Licensee during the Term and for three (3) years after the termination or expiration of the Agreement. In the event that underpayments are discovered, Licensee shall immediately render payment thereof. If the underpayments are more than five percent (5%), then Licensee shall also reimburse Licensor for the costs of the audit. Licensee shall pay interest at the average prime rate regarding any underpayment from the time period commencing when the payment should have been made until the date of payment.

#### 5. Annual Case Objective.

##### a. Annual Case Objective.

i. Annual Case Objective. Notwithstanding Section 3 above or anything else contained herein to the contrary, the parties hereby set a requirement to produce, per Contract Year, and measured beginning on the first Authorized Product shipping date, and every anniversary thereafter, Cases of Authorized Product equal to or exceeding the Annual Case Objective set forth in Section 5(a)(ii) below (each, an "Annual Case Objective").

ii. **Informational Requirement and Termination Right.** In addition to the other informational requirements set forth herein, Licensee shall provide to Licensor a production report for Case production and sales occurring in each Contract Year within forty-five (45) days following the applicable Contract Year (the “**Annual Production Report**”). The Annual Production Report shall be sent in accordance with Section 16, below. Notwithstanding anything contained herein to the contrary, in the event that Licensee fails to produce at least as many of the total Authorized Products in a year than as provided below in an Annual Case Objective, Licensor in its sole discretion, may terminate the Term immediately upon written notice to Licensee within sixty (60) days from Licensor’s receipt of the applicable Annual Production Report.

**Annual Case Objectives:**

(a) [\*\*\*\*]

b. **Promotional Expenditures.** Licensee shall provide to Licensor a report for promotional expenditures (“**Promotional Expenditures**”) occurring in each Contract Year of the Term within forty-five (45) days following the applicable Contract Year (the “**Promotional Expenditure Report**”). The Promotional Expenditure Report shall be sent in accordance with Section 16, below.

**6. Ownership; Goodwill; Authorized Trademark-Related Whiskey Recipes.**

a. **Ownership; Goodwill.** Licensee agrees that it shall not contest, deny or dispute the validity of the Authorized Property, Brand Intellectual Property, or the title of Licensor therein; and shall not in any way, either directly or indirectly, encourage or assist others in doing so or take any action of any kind inconsistent with the ownership and/or control of all such intellectual property rights by Licensor. Nothing in this Agreement shall confer upon Licensee a proprietary interest of any kind in and to the Authorized Property or the Brand Intellectual Property other than the right to use the Authorized Property strictly in accordance with this Agreement. As between the parties hereto, all goodwill and any rights arising from Licensee’s use of the Authorized Property hereunder shall inure solely to the benefit of Licensor.

b. **Distilled Spirits Products Formulas.** Notwithstanding anything contained herein to the contrary and not in limitation of any other rights or remedies available to Licensor hereunder, at law or equity, in the event that production and sale of Authorized Products does not meet any Annual Case Objective described in Section 5(a) above, Licensee shall immediately deliver to Licensor all cards for all Product Formulations for all Distilled Spirits Products produced or then in production hereunder.

7. [Intentionally Left Blank.]

**8. Quality, Notices, Approvals and Samples.**

a. **Licensor’s Right of Approval.** Licensee acknowledges that the loyalty of Artist’s fans and customers is an asset of tremendous value to Artist and Licensor. Licensee agrees that all Authorized Products shall be of a quality that is at least as high as the quality typical of similarly priced alcoholic beverage products in the same product class (i.e., a \$[\*\*\*\*] authorized whiskey product will be of a similar quality as a competing \$[\*\*\*\*] whiskey product). Licensee shall maintain the high professional standard currently associated with the Authorized Property and do nothing to bring ridicule or scorn on the Authorized Property or on the Authorized Products. As an essential element and as a material inducement for Licensor’s grant of the License granted to Licensee herein, Licensee covenants and agrees that the Authorized Products must at all times meet or exceed such standards, as determined by Licensor.

b. **Submission of Proposed Uses for Approval.** Licensee shall submit to Licensor for approval samples of each Authorized Product prior to the manufacture or dissemination thereof. Each Authorized Product shall be submitted with its proposed labeling and/or packaging, if possible, but no Authorized Product shall be deemed approved unless and until its labeling and packaging are also approved, if they are submitted separately.

c. **Licensor’s Approval of Authorized Products.** Licensor shall use its commercially reasonable efforts to send a written notice of approval or disapproval of each submission as outlined in Section 8.b. promptly following Licensor’s receipt of the submitted item. Notwithstanding anything to the contrary in this Agreement, failure of Licensee to receive written approval of any such submitted item, within fifteen (15) days shall constitute **disapproval** of the Authorized Product. For the avoidance of doubt, Licensee shall not have the right to use the Authorized Product or any element thereof unless the particular use by Licensee has been approved by Licensor as provided in this Section 8.c. Licensor acknowledges that time is of the essence and that these submissions are integral to Licensee’s performing under this Agreement and Licensor shall not unreasonably withhold or delay approval of, any submission of an Authorized Product reasonably requested by Licensee.

d. Conformity of Authorized Products to Approved Samples. All Authorized Products hereunder shall conform in all respects, including style, appearance, materials, contents, workmanship and overall quality, to the samples that Licensor has approved in writing.

e. Withdrawal of Approval. If any Authorized Product fails to conform to the approved sample, then, within seven (7) calendar days after Licensee's receipt of written notice to that effect from Licensor, Licensor shall have the right to withdraw its approval of the Authorized Product(s) by delivery of a further written notice if the failure identified in the initial notice has not been cured within a further ten (10) calendar days. Licensee shall then, upon receipt of such further notice, cease use of the particular Authorized Product(s) identified in the notice.

f. Samples. Upon Licensor's request, Licensee will furnish to Licensor, without charge, a reasonable number of samples of each type of Authorized Product, with its usual packaging and labeling, if applicable, to permit Licensor to confirm that Licensor's standards are being observed. Licensor or its representatives shall also have the right to visit the plant(s) where the Authorized Products are made at any time during normal business hours for purposes of quality inspection.

g. Approval Not a Warranty. Licensor's approval of an Authorized Product does not mean that Licensor has determined that the item conforms to applicable laws, that the item is safe or fit for its intended purpose or that the item does not infringe the intellectual property or contractual rights of others. Licensor may also revoke an approval if the item subsequently proves to be unsafe, to be deficient in quality, to violate any law or to violate the rights of others that are subsequently learned to have existed at the time approval was granted.

h. Distributors, Manufacturers and Recalls. All Authorized Products will be manufactured, offered for sale, sold, labeled, packaged and distributed, and advertised, promoted, publicized and otherwise exploited, in accordance with all applicable laws and regulations. To further safeguard the integrity and value of Licensor's Authorized Trademark, Licensee will monitor the performance of its distributors and manufacturers to assure compliance with these laws and regulations in accordance with the laws of the United States and of all other countries, as applicable. Licensee will terminate any manufacturer and/or distributor which fails to comply therewith. If any Authorized Product poses a danger or health threat, Licensee shall immediately notify the appropriate governmental agency and commence any appropriate or necessary product recall, to be paid for solely by Licensee. In addition, Licensee shall defend, indemnify and hold harmless Licensor and Artist, from and against any action solely brought against Licensor and/or Artist based upon or seeking such product recall.

**9. Required Markings**. Licensee will display on all Authorized Products any and all legends, markings or notices that are required by law or that Licensor may reasonably request from time to time. Notwithstanding the foregoing, Licensee shall not make any reference to the trademarks comprising the Authorized Trademark without including the ® or ™ symbol, as appropriate. Licensee may only eliminate any or all legends, markings, notices or references with the express prior written approval of Licensor in each instance. Upon receipt of written notice from Licensor, Licensee shall have thirty (30) days to cure any omissions of such legends, markings or notices.

**10. Personal Services**. The parties acknowledge that certain reasonable personal services may be requested of Licensor, its principals, officers or affiliates, including Artist (each, a "Licensor Principal"). Artist agrees to use commercially reasonable efforts to attend critical distributor meetings and/or participate in bus routing during non-"Big & Rich" touring times or during the Artist's so-called "off season"; provided, however, in the event of any of the foregoing or in the event that Licensee requests that Artist travel for any other meeting or other specific purpose related to this Agreement, and such request is approved in writing by Artist, on a case-by-case basis, in each instance (to be given or withheld in his sole discretion and subject in all instances to Artist's prior professional commitments (including, without limitation, touring, performing, recording and composing)), Licensee agrees to pay for such Licensor Principal's travel and lodging all on a first class basis (which shall be subject to pre-approval by Licensee in each instance). Subject to the limitations of this section, Artist agrees to use commercially reasonable efforts to attend mutually agreed upon in writing in each instance media and customer events, and visit with distributors, chain stores, and selected liquor stores and bars for promotional events. Additionally, the parties shall use commercially reasonable efforts to conduct meetings or distributor parties at the location commonly referred to as "Mt. Richmond."

In addition to the [\*\*\*\*], Licensee shall provide to Licensor, without off-set or deduction of any kind of nature, those amounts set forth on Exhibit B under the designation "Minimum JR Promotional Allowance" (for purposes of Artist using same solely to promote the Distilled Spirits Products hereunder):

## **11. Termination; Cure of Breach.**

a. In addition to all other remedies available at law or in equity, Licensor may terminate this Agreement and all rights granted to Licensee hereunder upon thirty (30) days' written notice: (a) should Licensee fail to cure any material breach of this Agreement within thirty (30) days' written notice from Licensor of such breach; (b) if Licensee is dissolved; or (c) if Licensee files a petition in bankruptcy or is adjudicated as bankrupt or insolvent, makes a general assignment for the benefit of creditors, discontinues its business or if a receiver, trustee or custodian is appointed for Licensee, which receiver, trustee or custodian is not discharged within thirty (30) days of appointment.

b. Termination by Licensor. In addition to the other termination rights contained herein, Licensor may terminate this Agreement without prejudice to any rights it may have, whether at law or at equity, upon the occurrence of any one or more of the following events (each, a "Default"):

i. Licensee breaches Sections 2(a), 2(j)(ii), 8 or 19 and has not cured the breach within thirty (30) days after receipt of written notice from Licensor of such breach;

ii. Licensee fails to maintain in full force and effect, the insurance referred to herein below and such failure is not cured within thirty (30) days after receipt of written notice from Licensor of such failure;

iii. Licensee fails to make any payments due hereunder on the date due two or more times in any one calendar year and such failure is not cured within thirty (30) days after receipt of written notice from Licensor of such failure;

iv. Licensee fails to promptly, fully and timely deliver any of the accounting statements required herein, or fails to give access to the books and records pursuant to the provisions hereof and such failure is not cured within thirty (30) days after receipt of written notice from Licensor of such failure;

v. immediately upon written notice, if any governmental agency or other administrative body, office or official vested with appropriate authority obtains or issues a final, non-appealable judgment or ruling which determines that the Authorized Products are harmful or defective in any material way, manner or form, or are being manufactured, sold or distributed in contravention of applicable laws or regulations, or in a manner likely to cause harm;

vi. immediately upon written notice, if Licensee does any act or conducts itself in any manner that, in Licensor's reasonable opinion, is offensive to standards of decency of the predominance of the applicable public, morality or social propriety resulting in public scandal or ridicule, or is disparaging to Licensor, Artist, the Authorized Trademark or Licensor's or Artist's products or services including, without limitation, the Authorized Products;

vii. immediately upon written notice, if Licensee or any parent entity of Licensee is unable to pay its respective debts as they become due or Licensee or any parent entity of Licensee defaults on any indebtedness and does not cure such default within thirty (30) days of Licensor's written notice of same; or

viii. immediately upon written notice, if Licensee pledges, encumbers, grants a security interest in, or permits any lien (whether arising by operation of law or otherwise) to exist with respect to all or any part of the Authorized Trademark or this Agreement (or any revenue stream attributable to any of the foregoing) in connection with, or as a part of, any obligation (contractual or otherwise), or as collateral or security for, any liability or indebtedness (public or private), in any case of Licensee, any affiliate or related party of Licensee or any other person.

c. Termination by Licensee. Licensee shall have the right to terminate this Agreement during the Initial Period in the event Licensee determines that, in its reasonable business judgment, the business relationship created hereby is not a viable business upon six (6) months prior written notice (the "Special Termination Notice") to Licensor (the "Six Month Termination Window"). For avoidance of doubt, all amounts, including without limitation, the Minimum JR Promotional Allowance, shall continue to be due and owing during such Six Month Termination Window.

d. Termination by Licensor. In addition to the other termination rights contained herein, Licensor shall have the right to terminate this Agreement upon Licensor's receipt of a Rejected Offer (as defined below) or upon the consummation of an IP Sale (as defined below), after payment in full by Licensor of any then due Sales Bonus to Licensee.

## **12. Effect of Expiration/Termination.**

a. **Post-Term Rights.** Upon the effective date of any termination (except as set forth in Section 12.b., below) or expiration of this Agreement, Licensee will immediately discontinue all use of the Authorized Property and Brand Intellectual Property, whether in connection with the sale, distribution, advertisement or manufacture of Authorized Products or otherwise, and will promptly turn over, at no charge, all Product Formulation Cards, materials, items, equipment, bottle, design materials and the like used to make or reproduce the Authorized Property and Brand Intellectual Property to Licensor, and all items affixed with the Authorized Property and Brand Intellectual Property to Licensor whether signage, labels, posters, bags, boxes, tags or otherwise, and, hereby assigns to Licensor, at no cost to Licensor all such rights.

b. **Sell-Off Period.** Following the termination or expiration of this Agreement, Licensor shall, at its option, be entitled to designate a person duly licensed to receive distilled spirits from Licensee to purchase from Licensee all existing Authorized Products within thirty (30) business days after receipt of such inventory following Licensee's termination at Licensee's hard cost; **provided, however,** if this Agreement was terminated by Licensor due to Licensee's breach hereof in accordance herewith, then Licensee shall deliver the foregoing items at no charge to Licensor's duly-licensed designee, notwithstanding the foregoing. Provided this Agreement has not been terminated by Licensor for a breach hereof by Licensee in accordance herewith, and if Licensor's duly-licensed designee does not acquire the inventory pursuant to the previous sentence, Licensee may sell-off any existing Authorized Products ("**Sell-Off Products**") for a period of six (6) months (the "**Sell-Off Period**"). Such Sell-Off Products may be discounted to no lower than [\*\*\*\*] of original wholesale price to allow Licensee to sell through the Sell-Off Products. However, retailers shall be encouraged to sell within the original MSRP and not drop pricing below the original MSRP for any reason, including that it denigrates the overall perception of the brand. If, during the Sell-Off Period, Licensee breaches any obligation under the Agreement, Licensor shall be entitled to terminate all sell-off rights immediately on written notice to Licensee upon the breach of this Agreement by Licensee (i) if such breach is specified herein as a breach for which no cure is permitted, or (ii) for any other breach, the breach is not cured within ten (10) days after Licensee's receipt of notice of breach. In the event (x) Licensor's duly-licensed designee does not purchase all of the aforesaid Authorized Products, or (y) all sell-off rights provided have expired, Licensor shall be entitled to cause all Products in the possession of Licensee to be destroyed on an agreed date, time and place, with Licensor and/or its representative entitled to be present at such destruction.

c. **Termination.** In the event that Licensee delivers to Licensor a Special Termination Notice, Licensor terminates this Agreement, this Agreement expires, or a Non-Renewal Event occurs, Licensee shall make best efforts to promptly (but no later than ten (10) business days of such event) deliver to Licensor all cards for all Product Formulations, all Promotional Materials, all Promotional Items and a full, accurate and complete list of all distributor contacts, all at no charge to Licensor.

d. **Distribution Agreements.** All distribution arrangements, agreements, contracts, and the like which Licensee enters into (or are binding on Licensee) with respect to the sale and distribution of the Authorized Products shall provide for, an automatic termination (without a break-up, termination or other charge or fee of any kind or nature) in the event this Agreement expires or is terminated for any reason; **provided, however,** in the event such termination rights are not permitted by applicable law, Licensee shall advise Licensor of same in writing, and prior to entering into such agreement or arrangement, Licensee shall obtain Licensor's prior written approval therefor in each instance.

**13. Third-Party Use.** In the event that Licensee becomes aware of any unauthorized third-party use of a mark or name that infringes any of the Authorized Trademarks, Licensee agrees to promptly notify Licensor of such unauthorized use. It is understood and agreed that Licensor may, at any time, at Licensor's sole cost and expense, object, pursue or otherwise take action against such third party in Licensor's sole discretion. Licensee shall cooperate with and provide commercially reasonably requested information to Licensor in any such proceeding at Licensee's sole cost and expense.

## **14. Representations and Warranties.**

a. Each party represents and warrants that it has full power and authority to enter into and perform this Agreement, and that the person signing this Agreement on behalf of each has been properly authorized and empowered to enter into this Agreement. Each party further acknowledges that it has read this Agreement, understands it, and agrees to be bound by it.

b. Other than as expressly set forth in the foregoing clause or elsewhere in this Agreement, all rights granted by Licensor to Licensee under this Agreement are granted on an "AS IS" basis with no representations or warranties of any kind whatsoever. NO EXPRESS WARRANTIES AND NO IMPLIED WARRANTIES AS TO MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE OR USE OR OTHERWISE WITH RESPECT TO THE AUTHORIZED PROPERTY OR THE PRODUCTS SHALL APPLY, NOR HAVE ANY BEEN MADE BY LICENSOR. LICENSEE HEREBY WAIVES ALL SUCH WARRANTIES OR GUARANTIES, EXPRESS OR IMPLIED, ARISING BY LAW OR OTHERWISE.

## **15. Indemnification.**

a. Licensee agrees to indemnify and hold harmless Licensor and its parents, subsidiaries and affiliates, and each of their respective principals, officers, directors, employees, managers and other representatives (including, without limitation, Artist) (collectively, "Licensor Indemnitees"), from and against any and all liabilities, damages, claims, demands, causes of action, judgments, costs and expenses (including, without limitation, attorneys' fees and costs) based upon, arising out of or related to:

- i. Licensee's manufacture, distribution, shipment, labeling, advertising, promotion, offering for sale and/or sale of Authorized Products and/or the promotional and packaging material therefor;
- ii. any use of the Authorized Products by any third party;
- iii. any claims based upon any defect or health hazard in any Authorized Product, including, without limitation, claims for death, personal injury or other bodily injury;
- iv. any product liability claims;
- v. any actual or alleged violation of law (including, without limitation, pertaining to charitable sales, promotions and contributions, false and unfair advertising, trade label, tortious interference with contract, breach of contract, misappropriation of third party proprietary information and unfair trade practices) arising out of or related to the manufacturing, distributing, sale, marketing, promotion and/or advertising of the Authorized Products and/or the payment and/or calculation of the [\*\*\*\*] and/or Minimum Jr Promotional Allowance;
- vi. any breach by Licensee of this Agreement, including, without limitation, any of Licensee's representations, warranties or covenants set forth in this Agreement; and
- vii. any infringement by the Authorized Products (or any aspect or component thereof) upon the intellectual property or proprietary rights of any third party (or any misappropriation of such rights), except to the extent that such claim is based upon the use of the Authorized Trademark strictly in accordance with this Agreement.

b. Licensee shall promptly notify Licensor of any action, suit, claim, demand, inquiry or investigation to which the foregoing indemnification applies. If any Licensor Indemnitee is or may be named in any such action, suit, claim, demand, inquiry or investigation, such Licensor Indemnitee shall be permitted (but under no circumstances will such Licensor Indemnitee be obligated) to undertake the defense or settlement thereof at Licensee's sole cost and expense. Each Licensor Indemnitee may, at any time and without notice, agree to any settlement or take any remedial or corrective action it deems to be in its best interests. Each Licensor Indemnitee shall have the right to require Licensee to defend any such claims and, in the event that such Licensor Indemnitee chooses to have Licensee undertake the defense of any claim hereunder, Licensee shall not settle such claim without Licensor's prior written consent.

c. Licensor agrees to indemnify and hold harmless Licensee and its parents, subsidiaries and affiliates, and each of their respective principals, officers, directors, employees, managers and other representatives (collectively, "Licensee Indemnitees"), from and against any and all third-party liabilities, damages, claims, demands, causes of action, judgments, costs and expenses (including, without limitation, attorneys' fees and costs) based upon, arising out of, or related to any claim that the Authorized Trademark when used in strict accordance herewith and used as approved by Licensor as provided herein infringes the United States trademark right of any third party.

d. EXCEPT WITH RESPECT TO LICENSEE'S INDEMNITY OBLIGATIONS PURSUANT TO SECTION 15.a. AND LICENSOR'S INDEMNITY OBLIGATIONS PURSUANT TO SECTION 15.c ABOVE, NEITHER PARTY HERETO WILL BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, INCIDENTAL, CONSEQUENTIAL, PUNITIVE OR SPECIAL DAMAGES, ARISING OUT OF OR RELATED TO THIS AGREEMENT, INCLUDING DAMAGES FOR LOSS OF BUSINESS PROFITS, BUSINESS INTERRUPTION, LOSS OF BUSINESS INFORMATION AND THE LIKE, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. IN NO EVENT SHALL LICENSOR'S MAXIMUM LIABILITY, IF ANY, UNDER THIS AGREEMENT EXCEED THE AMOUNT OF THE MINIMUM JR PROMOTIONAL ALLOWANCE THEN ACTUALLY PAID TO LICENSOR UNDER THIS AGREEMENT.



**16. Notices.** Any notice, payment or other form of communication, including any modification of this Agreement, will be duly made when personally delivered to the party to be notified, or when sent by facsimile, overnight courier (e.g., FedEx), or mailed, return receipt requested, to the address set forth below or to such other addresses a party may designate by notice pursuant hereto. Notices, payments and other forms of communication shall be sent to:

To Licensor: RICH MARKS, LLC  
c/o Tri Star Sports and Entertainment Group  
11 Music Circle South  
Nashville, TN 37203

with a copy to: Greenberg Traurig LLP  
Terminus 200  
3333 Piedmont Road, NE  
Suite 2500  
Atlanta, Georgia 30305  
Attn: Jess L. Rosen, Esq.

If to Licensee: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**17. Dispute Resolution; Choice of Laws.** THIS AGREEMENT HAS BEEN ENTERED INTO IN THE STATE OF TENNESSEE, AND THE VALIDITY, INTERPRETATION AND LEGAL EFFECT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF TENNESSEE APPLICABLE TO CONTRACTS ENTERED INTO AND PERFORMED ENTIRELY WITHIN THE STATE OF TENNESSEE (WITHOUT GIVING EFFECT TO ANY CONFLICT OF LAW PRINCIPLES UNDER TENNESSEE LAW). THE TENNESSEE COURTS (STATE AND FEDERAL), SHALL HAVE SOLE EXCLUSIVE JURISDICTION OF ANY CONTROVERSIES REGARDING THIS AGREEMENT; ANY ACTION OR OTHER PROCEEDING WHICH INVOLVES SUCH A CONTROVERSY SHALL BE BROUGHT IN THOSE COURTS IN NASHVILLE, TENNESSEE AND NOT ELSEWHERE. THE PARTIES WAIVE ANY AND ALL OBJECTIONS TO VENUE IN THOSE COURTS AND HEREBY SUBMIT TO THE JURISDICTION OF THOSE COURTS. ANY PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY, AMONG OTHER METHODS, BE SERVED UPON A PARTY BY DELIVERING IT OR MAILING IT, BY REGISTERED OR CERTIFIED MAIL OR BY OVERNIGHT COURIER OBTAINING PROOF OF DELIVERY, DIRECTED TO THE ADDRESS DESCRIBED IN SECTION 16 ABOVE OR SUCH OTHER ADDRESS AS A PARTY MAY DESIGNATE PURSUANT TO SECTION 16 ABOVE. ANY SUCH DELIVERY OR MAIL SERVICE SHALL BE DEEMED TO HAVE THE SAME FORCE AND EFFECT AS PERSONAL SERVICE WITHIN THE STATE OF TENNESSEE.

**18. Miscellaneous.** This Agreement is the complete and exclusive statement of the agreement between the parties as to the subject matter hereof and supersedes all proposals or agreements, oral or written, and all other communications between the parties related to the subject matter of this Agreement. This Agreement can be modified only by a written agreement duly signed by the persons authorized to sign agreements on behalf of Licensee and Licensor, respectively. Neither party shall have the right to assign (by operation of law, merger, change of control or otherwise), transfer or license or sublicense any of its rights hereunder without the consent of the other party, which such party may withhold at its sole discretion. If any provision of this Agreement is adjudged by any court to be void, illegal or unenforceable, in whole or in part, this adjudication shall not affect the remainder of such provision or the validity and continuation of the remainder of this Agreement. If as a result of such adjudication, continuation of this Agreement would be inconsistent with the fundamental intentions of the parties, the parties shall use reasonable business efforts to agree on substitute provision(s), which, while valid, will achieve as closely as possible the same effects as the invalid provision(s). Neither party shall be deemed the drafter of this Agreement. The relationship between Licensor and Licensee hereunder shall at all times be that of independent contractors, and nothing contained in this Agreement shall render or constitute Licensor and Licensee joint venturers, partners, or agents of each other or allow a party to legally bind the other party with respect to any third party. Captions contained in this Agreement are for reference purposes only and do not constitute part of this Agreement. This Agreement may be executed in one or more counterparts, each of which is deemed an original, but all of which together will constitute one and the same instrument.

**19. Non-Disparagement.** Excepting any truthful statements made by a party pursuant to a court order, legal proceeding, or otherwise required by law, neither party shall disparage or denigrate the other party or its representatives.

**20. Buy-Out.**

a. If, during the Term of this Agreement, Licensor enters into material discussions with a third party respecting a potential sale of solely the Authorized Property from Licensor, Licensor shall inform Licensee of such discussions within ten (10) days of such discussion. Licensor is not required to disclose the identity of the potential purchaser during these preliminary discussions. Except for those termination rights contained herein, Licensor may not terminate this Agreement while it is negotiating a sale of the Authorized Property with a potential purchaser.

b. In the event that Licensor shall at any time during the Term of this Agreement receive a bona-fide, signed, written offer (a “Purchase Offer”) from a potential purchaser to acquire the Authorized Property with respect to the Authorized Products, Licensor shall submit a redacted copy of such Purchase Offer to Licensee within [\*\*\*\*] from the date Licensor receives the Purchase Offer. Licensee shall have the right, exercisable by written notice to Licensor within [\*\*\*\*] from the date of delivery of the Purchase Offer to Licensee, to purchase such rights and interests for the same price and on the same terms and conditions as are contained in the Purchase Offer. If Licensee does not exercise the above-described right of first refusal by delivering written notice and an offer to purchase in the same form and upon the same terms and conditions as are contained in the Purchase Offer within such [\*\*\*\*] period (a “Rejected Offer”), Licensor may complete the sale to such potential purchaser pursuant in substantial occurrence with the terms of the Purchase Offer, provided that if the sale to the potential purchaser is not completed in substantial accordance with the terms and conditions of the Purchase Offer, or if there is a material change to the terms of the Purchaser Offer, Licensee shall again have the right of first refusal provided herein under the new terms of the offer.

c. In the event of a sale of the Authorized Property by Licensor during the Term (an “IP Sale”):

i. to remit to Licensee, upon the consummation of such IP Sale, fifty percent (50%) of those out-of-pocket marketing expenses (and, for avoidance of doubt, not in respect of payments of [\*\*\*\*]s) approved by Licensor in each case in writing which were expended by Licensee solely in promoting the Distilled Spirits Products hereunder as of the consummation of such IP Sale (collectively, the “Marketing Reimbursement”).

ii. to remit to Licensee, upon the consummation of such IP Sale (or in the event that not all compensation is paid upon the closing of such IP Sale, when and as such compensation is actually received by Licensor), a sales bonus (the “Sales Bonus”) based on a percentage set forth on Exhibit C attached hereto and hereby incorporated herein by this reference (the “Applicable Percentage”) of the Net Purchase Price (as defined below), actually received by Licensor in such IP Sale. The Applicable Percentage shall only apply to that amount actually received by Licensor respecting the IP Sale and shall not include amounts respecting holdbacks, escrows, Reimbursements and costs, expenses, taxes and the like paid or owing to any unaffiliated third party as part of, or in connection with, or paid to a third-party respecting indemnification claims made by the purchaser, as of any such IP Sale (the “Net Purchase Price”). Further, in the event that the foregoing purchase and sale also contemplates the sale of any other intellectual property owned and/or held by Licensor and/or Artist, directly or indirectly (e.g., “REDNECK RIVIERA” in IC 25), then only that part of the Net Purchase Price applicable to the Authorized Property actively under license hereunder (e.g., the Initial Products only if Licensee is manufacturing and causing the active distribution of same at the time of such purchase and sale) shall be considered in computing the Sales Bonus hereunder. Subject to the foregoing, the Sales Bonus will be calculated by applying the Applicable Percentage on a percentage basis, and adding all of the relevant tiers together. For instance, below are examples of possible Sales Bonus amounts:

<u>Net Purchase Price</u>	<u>Sales Bonus</u>	<u>Calculation</u>
[****]	[****]	[****]
[****]	[****]	[****]

iii. Six Month Termination Window. Notwithstanding anything contained herein to the contrary, in the event that an IP Sale is consummated during the Six Month Termination Window, Licensee shall only and solely be entitled to the Marketing Reimbursement (and not for avoidance of doubt, Licensee shall not be entitled to any Sales Bonus or other amount).

## **21. Ownership.**

a. **Materials.** Any and all designs, logos, depictions, graphic representations and/or other creative renderings incorporating, depicting and/or embodying any one or more elements of the Authorized Property, in any and all media now known or hereafter invented, including modifications to the Authorized Property in any media now or hereafter invented (including, specifically all elements of the Brand Intellectual Property) (collectively, "**Materials**"), and all rights, including all copyrights and trademark rights in and to the Materials, shall be solely and exclusively owned by Licensor. Without limiting the foregoing, Licensor acknowledges and confirms that all of its services in connection with the creation of the Materials are and shall be rendered for, at the instigation and under the overall direction and supervision of Licensor, and the Materials is and at all times shall be regarded as a "work made for hire" (as that term is used in the U.S. Copyright Act, 17 U.S.C. § 101, *et seq.* (the "**Act**")) by Licensee for Licensor. Without limiting the acknowledgment contained in the previous sentence, Licensor hereby assigns, grants and delivers (and hereby further agrees to assign, grant and deliver) exclusively unto Licensor all rights, title and interests of every kind and nature whatsoever in and to the Materials and all copies and versions thereof, including all copyrights therein and thereto and all renewals thereof. Licensee further agrees to execute and deliver to Licensor, its successors and assigns, such other and further instruments and documents as Licensor reasonably may request for the purpose of establishing, evidencing and enforcing or defending its complete, exclusive, perpetual and worldwide ownership of all rights, title and interests of every kind and nature whatsoever, including all copyrights, in and to the Materials, and Licensee hereby constitutes and appoints Licensor as their respective agent and attorney-in-fact, with full power of substitution, to execute and deliver such documents or instruments as they may respectively fail or refuse to execute and deliver within ten (10) days (or such shorter period as designated by Licensor if reasonably necessary), this power and agency being coupled with an interest and being irrevocable. Licensee covenants, warrants and represents that the Materials will not violate or infringe any copyright of any person, firm or corporation, and each has and will order, commission or otherwise obtain or receive from any other person (other than an "employee" working "within the scope of employment" (as those terms are understood under the Act)) any work on or contribution to the Materials without obtaining a valid and binding work-for-hire and/or assignment agreement in a form approved in advance by Licensor.

b. **Delivery Upon Termination.** Any and all Materials shall be sent to Licensor at no cost and prepaid at Licensor's request not later than thirty (30) days following the expiration or earlier termination of this Agreement for any reason.

c. **Clarity.** For avoidance of doubt, as between the parties hereto, Licensor shall own all modifications, adjustments, changes, variations, revisions, adaptations and/or alterations to any element of the Authorized Property and any/and all derivations and derivative works thereof (collectively, "**Modifications**") and any act or action by or for Licensee shall not convert such Authorized Property and/or Modifications into Licensee property.

## **22. Insurance.**

a. **Liability.** Licensee shall throughout the Term of this Agreement and for a period of three (3) years thereafter, obtain and maintain at its own cost and expense that general liability and product liability insurance acceptable to Licensor. Such policy must be written with a licensed insurance company with a Best's rating of not less than A-VIII and, with respect to each policy name Licensor and Artist as an additional named insured. Each policy shall provide for ten (10) days' notice to Licensor from the insurer by registered or certified mail, return receipt requested, in the event of any modification, cancellation or termination of such insurance. Licensee agrees to furnish Licensor certificates of insurance evidencing same within thirty (30) days after execution of this Agreement.

b. **Errors and Omissions.** Licensee shall throughout the Term of this Agreement obtain and maintain at its own cost and expense that errors and omissions insurance acceptable to Licensor. Such policy must be written with a licensed insurance company with a Best's rating of not less than A-VIII and shall specifically name by endorsement to the policy Licensor and Artist as an additional named insured. The amount of coverage shall be for a minimum mutually agreed upon commercially reasonable amount. The policy shall provide for ten (10) days' notice to Licensor from the insurer by registered or certified mail, return receipt requested, in the event of any modification, cancellation or termination of the insurance. Licensee agrees to furnish Licensor certificates of insurance evidencing same within thirty (30) days after execution of this Agreement.

**23. Injunctive Relief/General.** Licensee acknowledges that a breach of any of the covenants contained in this Agreement (including Licensee's failure to cease utilizing the Authorized Property and/or Brand Intellectual Property upon the expiration or earlier termination of the Term) will cause irreparable injury to Licensor for which the remedy at law may be inadequate and would be difficult to ascertain. Therefore, in the event of the breach of threatened breach of any such covenants by Licensee, Licensor shall be entitled, in addition to any other rights and remedies it may have at law or in equity, to an injunction to restrain Licensee from any threatened or actual activities in violation of any such covenants. Licensee hereby consents and agrees that temporary and permanent injunctive relief may be granted in any proceedings which might be brought to enforce any such covenants without the necessity of proving of actual damages or posting a bond, and in the event Licensor does apply for such an injunction, Licensee shall not raise as a defense thereto that the Licensor has an adequate remedy at law.

24. [Intentionally Left Blank.]

**25. Quality Standards.** To further protect the integrity and value of the Authorized Property, Licensee (i) agrees that the Distilled Spirits Products shall be manufactured, bottled and produced at production facilities approved by Licensor ("Approved Production Facilities") and conform in each case in all material organoleptic respects (taste, color, and bouquet) to the specifications and quality standards as mutually agreed upon by the parties hereto, and (ii) represents, warrants and covenants that the Distilled Spirits Products shall be merchantable and fit for human consumption. Additionally, Licensee represents, warrants and covenants at all times during the Term that the Distilled Spirits Products manufactured, bottled and shipped by Licensee hereunder will be free from defects and will not be adulterated or misbranded within the meaning of the United States Federal Food, Drug and Cosmetic Act, (any federal alcohol regulation promulgated by the U.S. Alcohol and Tobacco Tax and Trade Bureau or its predecessor agency (collectively the "TTB"), or state alcohol commission regulation, or within the meaning of any state or other food, alcohol or drug law) and that such Distilled Spirits Products will be processed, bottled, packaged, labeled, stored, transported, packed and shipped in compliance with all other applicable U.S. federal, state, and local laws, rules, and regulation. Licensee shall obtain all necessary permits, approvals and licenses necessary or appropriate to perform its obligations hereunder (including, without limitation the bottling, labeling, distribution and sale of the Authorized Products) and shall at all times comply with the terms and conditions of such permits, approvals and licenses. Moreover, Licensee represents, warrants and covenants at all time during the Term, it will not use any ingredients in the Distilled Spirits Products that are not in compliance with any food, health and safety laws or regulations. Licensee shall permit inspection of the Distilled Spirits Products and the Approved Production Facilities upon reasonable notice solely for determination of compliance with the terms hereof. Notwithstanding anything contained herein to the contrary, if Licensor determines that any Distilled Spirit Product is not in strict compliance with the provisions of this Section 25, it shall send written notice of same to Licensee and Licensee shall have thirty (30) days from the date of receipt of such notice to cure such failure and any failure to fully do so within such thirty day period shall give Licensor the right to immediately terminate this Agreement upon written notice to Licensee.

[Signature on Next Page.]

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

**RICH MARKS, LLC**

**EASTSIDE DISTILLING, INC.**

By: \_\_\_\_\_  
(authorized signatory)

By: \_\_\_\_\_  
(authorized signatory)

Print name: \_\_\_\_\_

Print name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

## Exhibit A

### Distribution Channels

1. Online – solely in the Territory
2. Distributors – solely in the Territory
3. Retail stores – solely in the Territory
4. State liquor stores (e.g. ABC Stores) – solely in the Territory
5. Direct-to-Consumer (where permitted) – solely in the Territory







**Exhibit D**

U.S. Federal Registration for REDNECK RIVIERA, International Class 33, Serial Number 86976840.

**Exhibit E**

[[\*\*\*\*]] Per Case (12x 750 mL bottles / 24x 375 mL bottles, or equivalent) Invoiced

<b>Retail Price Points</b>	[****]	[****]	[****]
[[****]] Per Case	[****]	[****]	[****]

\$ \_\_\_\_\_

No. \_\_\_\_\_

**EASTSIDE DISTILLING, INC.  
8% PROMISSORY NOTE**

December 29, 2017

Portland, Oregon

1. **General.** For value received, and subject to the terms hereof, EASTSIDE DISTILLING, INC., a Nevada corporation, whose address is 1001 SE Water Avenue, Suite 390, Portland, OR 97214 (“Borrower”), hereby promises to pay to the order of \_\_\_\_\_, whose address is \_\_\_\_\_ (“Payee”), the principal amount of \_\_\_\_\_ (\$\_\_\_\_\_.00) under the terms and conditions set forth in this Note. The loan represented by this Note (the “Loan”) was incurred in connection with the purchase from MGP Ingredients, Inc. by Borrower of the whiskey barrels, the purchase price for which was paid by Payee either directly to the supplier on behalf of Borrower or to Borrower for the exclusive purpose of purchasing barrels.

2. **Term; Payments.** The principal amount of this Note shall be repaid in full, together with any and all accrued and unpaid interest on June 30, 2019 or (the “Maturity Date”).

3. **Interest; Premium.** Interest shall accrue from the date hereof on any unpaid principal balance of this Note at the rate of eight percent (8%) per annum. All interest will be paid monthly in arrears and shall be paid on the last business day of each month.

4. **Possible Early Payment Due; Application of Note Proceeds to Future Financing.** Notwithstanding the provisions of paragraphs 2 and 3 hereof, in the event Borrower closes a private or public offering of the its equity or debt securities in which the gross amount raised in such financing is at least \$2.0 million (a “Future Financing”), all amount due under this Note shall become due and payable within five (5) business days of the final closing of such Future Financing. In lieu of receiving the cash repayment of amounts due under this Note in connection with a Future Financing, at the option of Payee, the principal amount due and payable may be used to purchase the securities offered in the Future Financing.

5. **Place of Payment.** Any and all amounts payable by Borrower to Payee hereunder shall be made in immediately available funds and shall be paid at the address for such Payee as set forth in the Agreement, or at such other address of which Payee shall give written notice to Borrower.

6. **Events of Default.** The occurrence of any one or more of the following events shall constitute an event of default hereunder (“Event of Default”):

(a) Failure of Borrower to pay the principal of or interest on this Note, when and as the same shall become due and payable and such failure continues unremedied for fifteen (15) days;

(b) The material default, breach or violation of Borrower in the performance or observance of any of the other covenants, agreements or conditions of Borrower contained in this Note and such material default, breach or violation continues unremedied for a period of fifteen (15) days following written notice from Payee to Borrower; or

(c) Any representation or warranty of the Borrower made herein or in any agreement, statement or certificate given in writing pursuant hereto or in connection herewith, shall be false or misleading in any material respect when made and the breach of which has (or with the passage of time will have) a material adverse effect on the rights of the Payee with respect to this Note or its security interest in the whiskey barrels.

6. **Remedies.** Upon the occurrence of an Event of Default hereunder, in addition to all other rights, remedies and powers of Payee under this Note or otherwise available at law or in equity, Payee may, at its option, without notice, declare the outstanding principal balance and interest immediately due and payable in full without further notice to or demand on Borrower of any kind, including without limitation, presentment, demand or notice of demand, protest or notice of protest, notice of nonpayment or dishonor and all other notices or communications in connection with the delivery, acceptance, performance, default or enforcement of payment of this Note, all of which are hereby waived by Borrower. Borrower also hereby waives all notice or right of approval of any extensions, renewals, modifications or forbearances which may be allowed.

7. **Notices.** Any notices or communications required or permitted to be given by this Note must be (i) given in writing and (ii) personally delivered or mailed, by prepaid, certified mail or overnight courier, or transmitted by facsimile or electronic mail transmission (including PDF), to the party to whom such notice or communication is directed, to the mailing address or regularly-monitored electronic mail address of such party as follows:

If to Borrower:

Eastside Distilling, Inc.  
1001 SE Water Avenue, Suite 390  
Portland, OR 97214  
Attn: Chief Financial Officer  
Telephone: (971) 888-4264  
Fax: (866) 554-0271  
Email: sshum@east-sidedistilling.com

If to Payee:

The Grover T. Wickersham, P.C. Employee Profit Sharing Plan  
430 Cambridge Avenue, Suite 100  
Palo Alto, CA 94306  
Attn: Ann McCoid  
Telephone: (650) 323-6400  
Fax: (650) 323-1108  
Email: ann@wickersham.com

Any such notice or communication shall be deemed to have been given on (i) the day such notice or communication is personally delivered, (ii) three (3) days after such notice or communication is mailed by prepaid certified or registered mail, (iii) one (1) working day after such notice or communication is sent by overnight courier, or (iv) the day such notice or communication is faxed or sent electronically, provided that the sender has received a confirmation of such fax or electronic transmission. A party may, for purposes of this Note, change its address, fax number, email address or the person to whom a notice or other communication is marked to the attention of, by giving notice of such change to the other party pursuant to this Section 7.

**8. Interest Savings Clause.** If any interest payment due hereunder is determined to be in excess of the then legal maximum rate, then that portion of each interest payment representing an amount in excess of the then legal maximum rate shall instead be deemed a payment of principal and applied against the principal of the obligations evidenced by this Note.

**9. Amendments and Waivers.** This Note may be amended, modified or supplemented by the parties hereto, provided that any such amendment, modification or supplement shall be in writing and signed by both Borrower and Payee. No waiver with respect to this Note shall be enforceable against Payee unless in writing and signed by Payee. Except as otherwise expressly provided herein, no failure to exercise, delay in exercising, or single or partial exercise of any right, power or remedy by Payee, and no course of dealing between the parties, shall constitute a waiver of, or shall preclude any other or further exercise of the same or any other right, power or remedy.

**10. Successors and Assigns.** This Note shall be binding upon the parties and their respective successors and assigns. Borrower shall not in any manner assign any of its rights or obligations under this Note without the express prior written consent of the holder of this Note.

**11. Severability.** If any provision of this Note is construed to be invalid, illegal or unenforceable, then the remaining provisions hereof shall not be affected thereby and shall be enforceable without regard thereto.

**12. Section Headings.** The section and subsections headings in this Note are for convenience of reference only, do not constitute a part of this Note and shall not affect its interpretation.

**13. Controlling Law.** This Note is made under, and shall be construed and enforced in accordance with, the laws of the State of Oregon applicable to agreements made and to be performed solely therein, without giving effect to principles of conflicts of law. EACH OF THE PARTIES (A) IRREVOCABLY CONSENTS TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF OREGON, IN ANY AND ALL ACTIONS BETWEEN OR AMONG ANY OF THE PARTIES, WHETHER ARISING HEREUNDER OR OTHERWISE, (B) IRREVOCABLY WAIVES ITS RIGHT TO TRIAL BY JURY IN ANY SUCH ACTION, AND (C) IRREVOCABLY CONSENTS TO SERVICE OF PROCESS BY FIRST CLASS CERTIFIED MAIL, RETURN RECEIPT REQUESTED, POSTAGE PREPAID, TO THE ADDRESS AT WHICH SUCH PARTY IS TO RECEIVE NOTICE PURSUANT TO THE PROVISIONS OF THE AGREEMENT.

**14. Reimbursement of Expenses.** Borrower agrees to reimburse Payee for its out-of-pocket expenses, including the fees and expenses of its counsel, in connection with the enforcement of this Note.

IN WITNESS WHEREOF, and intending to be legally bound hereby, Borrower has caused this Note to be executed by its duly authorized officer as of the day and year first above written.

BORROWER:

EASTSIDE DISTILLING, INC.

By: \_\_\_\_\_  
Steven M. Shum  
Chief Financial Officer

**CONSENT OF INDEPENDENT REGISTERED ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement No. 333-214782 on Form S-8 of our report dated March 31, 2017 except for Note 12 “Reverse Stock Split”, for which the date is June 15, 2017, relating to the consolidated financial statements of Eastside Distilling, Inc. and Subsidiary, for the year ended December 31, 2016, which appear in this Annual Report on Form 10-K.

*/s/ BPM LLP*

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San Francisco, California

April 2, 2018

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference of our report dated April 2, 2018 relating to our audits of the consolidated financial statements of Eastside Distilling, Inc. that appear in this Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

*/s/ M&K CPAS, PLLC*

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www.mkacpas.com

Houston, Texas

April 2, 2018

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Grover Wickersham, certify that:

1. I have reviewed this Annual Report on Form 10-K of Eastside Distilling, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: April 2, 2018

/s/ Grover Wickersham

Grover Wickersham  
Chief Executive Officer and Director



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven Shum, certify that:

1. I have reviewed this Annual Report on Form 10-K of Eastside Distilling, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: April 2, 2018

/s/ Steven Shum

Steven Shum  
Chief Financial Officer

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

I, Grover Wickersham, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Eastside Distilling, Inc. on Form 10-K for the period ended December 31, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Eastside Distilling, Inc.

Date: April 2, 2018

By: /s/ Grover Wickersham

Name: Grover Wickersham

Title: Chief Executive Officer and Director

I, Steven Shum, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Eastside Distilling, Inc. on Form 10-K for the period ended December 31, 2016 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Eastside Distilling, Inc.

Date: April 2, 2018

By: /s/ Steven Shum

Name: Steven Shum

Title: Chief Financial Officer

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## OFFICERS & EXECUTIVE MANAGEMENT

Grover T. Wickersham  
*Chief Executive Officer and Chairman of the Board*

Steve Shum  
*Chief Financial Officer*

Melissa Heim  
*Executive Vice President Operations and Master Distiller*

Jarrett Catalani  
*Senior VP of Sales and Chief Growth Officer*

Tom Wood  
*Vice President of Production*

Kim Davis  
*Controller*

## CORPORATE HEADQUARTERS

Eastside Distilling, Inc.  
1001 SE Water Ave., Suite 390  
Portland, Oregon 97214  
[www.eastsidedistilling.com](http://www.eastsidedistilling.com)

## INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

M&K CPAS, PLLC  
Houston, Texas

## BOARD MEMBERS

Grover T. Wickersham  
*Chief Executive Officer and Chairman of the Board*

Trent D. Davis  
*President and Chief Operating Officer, Whitestone Investment Network, Inc.*

Michael M. Fleming  
*Partner, Ryan, Swanson & Cleveland, PLLC*

Jack Peterson  
*President, Sandstrom Partners*

Shelly A. Saunders  
*Consultant, Resources Global Professionals*

## CORPORATE COUNSEL

Murphy & Weiner, P.C.  
Palo Alto, California

Dickinson Wright, P.L.L.C.  
Troy, Michigan

## TRANSFER AGENT AND REGISTRAR

Pacific Stock Transfer Company  
Las Vegas, Nevada

## COVER PHOTO CREDITS

Front: Photo by Nick Hubbard/Hubbard Visuals  
Back: Photo by Kelsey Ayres/Nasdaq, Inc.

## ANNUAL MEETING

Our annual meeting of stockholders will be held on June 18, 2018 at 2:00 p.m. local time at our offices at 1001 SE Water Avenue, Suite 390, Portland, Oregon, 97214.

## FORM 10-K

We file an Annual Report on Form 10-K with the Securities and Exchange Commission. Copies are available without charge upon request. Requests should be sent to: [east@lythampartners.com](mailto:east@lythampartners.com).

## STOCK EXCHANGE LISTING

Our common stock is traded on the NASDAQ Capital Market under the symbol EAST.

## DIVIDENDS

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings to support our operations and finance the growth and development of our business. We do not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to our dividend policy will be made at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements, contractual restrictions, business prospects and other factors our board of directors may deem relevant.

CISCO / Nasdaq Listed 1990 -1.63% PRICE \$41.56 / CHANGE -0.69

Starbucks SBUX / Nasdaq Listed 1992 -0.50% PRICE \$56.90 / CHANGE -0.28

amazon AMZN / Nasdaq Listed 1997 +1.46% PRICE \$1,458.82 / CHANGE +21.00

PRICE \$8

**EASTSIDE**  
DISTILLING

**REDNECK**  
VIERA  
WHISKEY



**Nasdaq**

**EAST**  
NasdaqListed

**EASTSIDE DISTILLING, INC.**  
1001 SE Water Ave.  
Suite 390  
Portland, Oregon 97214

971.888.4264  
[www.east-sidedistilling.com](http://www.east-sidedistilling.com)