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, 2023

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

For the transition period from ___________ to _____________

Commission File Number 001-38182

EASTSIDE DISTILLING, INC.
(Name of small business issuer as specified in its charter)

Nevada	**20-3937596**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2321 NE Argyle Street, Unit D
Portland, Oregon 97211
(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:

Common Stock, $0.0001 par value	**EAST**	**The Nasdaq Stock Market LLC**
(Title of Each Class)	(Trading Symbol)	(Name of Each Exchange on Which Registered)

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

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 website, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). **Yes** ☒ **No** ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 if the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☒
Emerging growth company ☐	

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262 (b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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, 2023, the last business day of the registrant's most recently completed second fiscal quarter was $4,351,325 based on the last reported sales price of the registrant's common stock as reported by the Nasdaq Stock Market on that date.

As of April 1, 2024, 1,705,987 shares of our common stock were outstanding.

Documents Incorporated by Reference: None.

EASTSIDE DISTILLING, INC.

FORM 10-K

December 31, 2023

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PART I

Cautionary Note Regarding Forward-Looking Statements

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. Examples include, among others, statements about any of the following:

- Our ability to secure additional financing, refinance debt, and achieve positive working capital;
- General industry, market and economic conditions (including consumer spending patterns and preferences) and our expectations regarding growth in the markets in which we operate;
- Our ability to introduce competitive new products on a timely basis and continue to make investments in product development and our expectations regarding the effect of new products on our operating results;
- Our realizing the results of our competitive strengths and ability to compete with other producers and distributors of alcoholic beverage products;
- Our expectation regarding product pricing and our ability to market to premium and super-premium segments of the market;
- Our ability to retain, market and grow our existing brands, the effect that may have on other brands, and our ability to profitably sell our brands;
- Our ability to financially support the brands in the market;
- Our ability to protect our intellectual property, including trademarks and tradenames related to our brands;
- The effects of competition and consolidation in the markets in which we operate;
- The ability of our production capabilities to support our business and operations and production strategy, including our ability to continue to expand our production capacity to meet demand or outsource production to lower cost of goods sold;
- Our expectations regarding our supply chain, including our ongoing relationships with certain key suppliers and/or any potential supply chain disruption;
- Our ability to cultivate our distribution network and maintain relationships with our major distributors;
- Our ability to utilize our existing distribution pipelines and channels to grow other brands in our portfolio;
- Changes in applicable laws, policies and the application of regulations and taxes in jurisdictions in which we operate and the impact of newly enacted laws;
- Tax rate changes (including excise tax, VAT, tariffs, duties, corporate, individual income, or capital gains), changes in related reserves, or changes in tax rules or accounting standards;
- Our ability to expand our business and brand offerings by acquisitions, including our ability to identify, complete, and finance acquisitions, and our ability to integrate and realize the benefits of our acquisitions;
- Negative publicity related to our company, brands, marketing, personnel, operations, business performance, or prospects;
- Our ability to attract and retain key board, executive or employee talent;
- Our liquidity and capital needs and ability to meet our liquidity needs and going concern requirements; and
- Our ability to position our brands as attractive acquisition candidates.

Forward-looking statements are based on assumptions and 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 United States Securities and Exchange Commission (“SEC”) on Form 10-Q or Form 8-K.

You should review the “Risk Factors” set forth elsewhere in this Annual Report for a cautionary discussion of certain risks, uncertainties and assumptions that we believe are significant to our business and may effect forward looking statements.

Item 1. BUSINESS

Overview

Eastside Distilling, Inc. (the "Company," "Eastside Distilling," "we," "us," or "our," below) was incorporated under the laws of Nevada in 2004 under the name of Eurocan Holdings, Ltd. In December 2014, we changed our corporate name to Eastside Distilling, Inc. to reflect our acquisition of Eastside Distilling, LLC. We operate in two segments. Our Craft Canning + Printing ("Craft C+P") segment provides digital can printing to customers in the craft beverage industry operating throughout the Pacific Northwest as well as other states. We also provide mobile canning services to the craft beverage industry in Oregon. In addition to these services we offer co-packing services from a single fixed site in Portland, Oregon. Our Spirits segment manufactures, blends, bottles, markets and sells a wide variety of alcoholic beverages under recognized brands in 23 U.S. states. Across both businesses we employ 47 people in the United States.

Mission and Strategy

Our mission is to offer great products and services in the craft beverage space.

This includes advanced digital can printing decoration with custom graphics and co-packing services with distinct capability and craftsmanship serving the craft beer, cider, and kombucha among other beverage segments. Craft C+P offers digital can printing to customers and co-packing services.

Our spirits brands span several alcoholic beverage categories, including whiskey, vodka, rum and tequila. We sell our products on a wholesale basis to distributors through open states, and brokers in control states.

Our strategy is to expand our two distinct businesses – Craft C+P and Spirits in our regional market where our brand equity and concentration of investment will have the greatest return. Our spirits portfolio is to be positioned as a leading regional craft spirits provider that develops brands, expands geographic presence growing revenue and cash flow. These two segments are detailed below.

Segments

Craft Canning + Printing

Digital Can Printing

In April 2022, we initiated operations of an innovative digital can printing facility that allows us to digitally print high quality graphics on aluminum beverage cans. This technology offers greater flexibility than traditional decoration methods and initially was directed toward smaller craft beverage manufacturers seeking custom graphics of limited releases, vintages, partnerships, and special events. This investment in digital printing at Craft C+P allows the Company the ability to offer unparalleled customization and flexibility to craft beverage producers seeking direct printing for canning projects of all sizes, while having an annual production capacity of over 20 million cans. One of Craft C+P's many goals for 2024 is to significantly increase its production capacity.

Co-packing Facility

We offer co-packing services for non-alcoholic canned beverages including CBD soda waters in Portland, Oregon through a mobile co-packing network and one fixed co-packing location.

Mobile Canning

Our mobile canning business is located in Portland, Oregon. We use extensive proprietary and data-driven quality control measures and a robust clean-in-place procedure in order to provide the best packaging service for our customers. We take great pride in helping local beverage producers expand their distribution reach by using our service to offer industry-top quality and branding.

Spirits

Since 2014 we have developed or acquired award-winning spirits while evolving to meet the growing demand for quality products and services associated within the burgeoning craft and premium beverage trade. Our portfolio includes originals like the *Quercus garryana* barrel-finished Burnside Whiskey family, Portland Potato Vodka, Hue-Hue Coffee Rum, and Azuñia Tequilas.

- *Burnside Whiskey Family* – Our Burnside Whiskey Family celebrates the unique attributes of the native Oregon Oak tree (*Quercus garryana*). The unique complexity of each distinct whiskey comes from blending Oregon Oak barrels of differing sizes, char levels, and ages.

- *Portland Potato Vodka* – Our award-winning premium craft vodka is distilled four times to ensure a smooth finish. While most vodka is made from grain, we source award winning premium potato ethanol and blend it with pristine water sourced from Oregon.

- *Hue-Hue (pronounced "way-way") Coffee Rum* – Premium silver rum is blended with concentrated cold-brewed coffee and a small amount of Demerara sugar. We source fair-trade, single-origin Arabica coffee beans from the Finca El Paternal Estate in Huehuetenango, Guatemala that are lightly roasted for us by Portland Coffee Roasters.

- *Azuñia Tequilas* – Smooth, clean, additive-free tequilas crafted by Rancho Miravalle, a second generation, family-owned-and-operated estate, bursting with authentic flavor from the local terroir of Tequila Valley, Mexico. 100% pure Weber Blue Agave is harvested by hand, roasted in traditional clay hornos, and finished with a natural, open-air fermentation process. It is bottled on-site in small batches using a consistent process to deliver consistent field-to-bottle quality and exclusively exported by Agaveros Unidos de Amatitán.

- *Eastside Brands* – Craft inspired high-quality limited-edition products, which focus on innovation, craftsmanship and curiosity, and creativity.

Production and Supply

Digital printing customers must make a significant investment and bear substantial risks when converting their supply chain to digital printed cans. Customers rely on our ability to produce and supply critical components on a timely basis. Likewise, Craft C+P has made significant investments in technology, processes and its supply chain to deliver digitally printed cans ready for co-packing. We have a limited number of contracts with both equipment and material suppliers as well as logistics providers that form the core of our supply chain.

Our Spirits business production and supply chain involves several important stages, including bottle and label design, raw materials procurement, filling the bottles, and packaging the bottles in various configurations for shipment. To achieve a unique flavor profile for each brand, we use one or more of the following techniques: infusion of fruit, addition of natural flavorings, blending of products, and aging in selected casks. Once the final profile is approved and quality control standards are met, we filter the liquid as needed and bottle the product.

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. and Mexico. One key supplier is Agaveros Unidos de Amatitan, SA. de CV., which supplies tequila to us. We do not have long-term, written agreements with any of our other suppliers for the production of raw materials. However, we believe that we have consistent and reliable third-party sources for the needed materials.

Distribution Network

U.S. Distribution

Producers and importers of beverage alcohol in the U.S. must sell their products through a three-tier distribution system.

In the 33 open states, the distributors are generally large, privately held companies. 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. We primarily focus our distribution efforts in six open states; California, Arizona, Colorado, Texas, Washington and Florida.

In the 17 control states, the states themselves function as the distributor, and regulate suppliers, including our Company. In control states, producers and 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. Our largest distribution channel is in the state of Oregon through the Oregon Liquor Control Commission.

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 in which we conduct business.

Our inventory is maintained in offsite bonded warehouses at our producers, our bonded warehouse in Milwaukie, Oregon, and at bonded warehouses managed by Park Street, our fulfillment and logistics partner. We also typically have inventory in transit that we ship nationally through our network of licensed and bonded carriers.

Wholesalers and Distributors

In the United States, 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, product placement and retail store penetration. All of the distributors with whom we currently work 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 states where 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.

Significant Customers

Sales to one customer, the Oregon Liquor Control Commission, accounted for approximately 19% and 18% of our consolidated sales for the years ended December 31, 2023 and 2022, respectively.

Intellectual Property

Trademarks are an important aspect of our business. We sell our products under a number of trademarks which we own. Our brands are protected by trademark registrations or are the subject of pending applications for trademark registration in the U.S. where we distribute our brands. The trademarks may be registered in the names of our subsidiaries. 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 Craft C+P business typically has peak sales mid to late summer. Our spirits business has historically followed the spirits industry seasonality trends with peak sales generally occurring in the fourth calendar quarter in spirits, primarily due to seasonal holiday buying.

Competition

We are the only digital can printing business in the United States operating in the Pacific Northwest. However, we compete with other digital can decorating companies in other regional markets and other can decorating companies that offer different decorating technologies. These alternative suppliers can produce can decorations at lower costs than our technology as well as at greater volumes.

The mobile canning and bottling industry is highly fragmented and very competitive. The threat of new entrants is high. Moreover, we compete at the hyper-local scale, where we have a customer base concentrated in the craft beer segment. One of our greatest threats associated with losing customers is the customer's own growth and success. As new brewers grow, they are able to afford the investment in their own canning line. Recently, the growth of craft beer startups has slowed and this has affected the competition in our market and our ability to achieve adequate pricing.

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, we believe seven major companies dominate the market: Diageo PLC, Pernod Ricard S.A., Bacardi Limited, Brown-Forman Corporation, Beam Suntory Inc., Davide Campari-Milano S.p.A., and Rémy Cointreau S.A. These competitors have substantially greater resources than we do due to their scale and ability to more effectively leverage the three-tier distribution system. Our spirits business has been repositioned to compete regionally in key markets where we have the greatest competitive advantage.

Government Regulation

We are subject to the jurisdiction of the Federal Alcohol Administration Act, U.S. Customs laws, and the Alcoholic Beverage Control laws of the states where our products are distributed, among many other regulations.

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 spirits, marketing, and advertising, such as style, media and messages. 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. If 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.

Employees

As of April 1, 2024, we have 47 employees, 7 of whom are in sales and marketing, 33 in printing/production/canning/bottling, and 7 of whom are in administration. We will continue to monitor our staffing while streamlining our operations for working capital needs.

Geographic Information

Craft C+P operates in one state. Spirits currently sells its products in 23 states.

Item 1A. RISK FACTORS

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 Annual Report on Form 10-K, as well as our other disclosures in this Annual Report. We may have other risks that we have not yet identified or that we currently believe are immaterial but may become material.

RISKS RELATING TO OUR BUSINESS

We expect to continue to produce net operating losses in 2024.

We believe that we will continue to incur net losses in 2024. We also anticipate that our operating and investing cash needs may exceed our income from sales in 2024. Results of operations will depend upon numerous factors, some of which are beyond our control, including but not limited to new entrants, competitive activity, government regulations and increase in tax. We also incur substantial operating expenses at the corporate level, including costs directly related to being a reporting company with the SEC.

We may be unsuccessful monetizing spirits assets in 2024.

On December 14, 2022, we announced the intent to pursue the sale of one or more of our spirits assets. Although the process is ongoing, there is a possibility that we may not successfully sell a spirit asset and generate significant cash from the sale. Completion of a sale on favorable terms, including the modification of certain debt provisions to allocate a portion of the proceeds for purposes other than debt repayment, may also prove challenging.

We may fail to secure additional capital and achieve adequate liquidity to grow and compete.

Historically, we have not generated sufficient cash from operations to finance additional capital needs, and thus we have used external sources of capital to fund operations. The source of these funds has included both private and public equity and/or debt financing. We have also raised cash from the bulk sale of whiskey. We cannot assure that additional financing will be available to us on acceptable terms or at all. If additional capital is either unavailable or cost prohibitive, our operations and growth may be limited, and we may need to change our business strategy to slow the rate of, or eliminate, our expansion or to reduce or curtail our operations. Also, any additional financing we undertake could impose covenants upon us that restrict our operating flexibility. If we issue equity securities to raise capital, our existing shareholders may experience dilution and the new securities may have rights, preferences and privileges senior to those of our common stock.

We may be unable to effectively service and refinance debt.

We have incurred significant debt under promissory notes and rely on payment terms from key customers. Much of our debt is secured by our bulk spirits inventory and other assets, including assets in Craft C+P. Our ability to meet our debt service obligations depends upon our operating and financial performance, which is subject to general economic and competitive conditions and to financial, business, and other factors affecting our operations, many of which are beyond our control. If we are unable to service our debt, we may need to sell inventory and other material assets, restructure or refinance our debt, or seek additional equity capital. Prevailing economic conditions and global credit markets could adversely impact our ability to do so.

Our debt agreements contain limits on our ability to, among other things, incur additional debt, grant liens, undergo certain fundamental changes, make investments, and dispose of inventory. In 2023, we refinanced debt, which include substantial restrictions that could have important consequences, including the following:

- We may be more limited in our ability to execute on our strategy and have flexibility to operate or restructure our business;
- Our cash flow from operations may be allocated to the payment of outstanding debt and not to developing and growing our brands;
- We might not generate sufficient cash flow from operations or other sources to enable us to meet our payment obligations under the facility and to fund other liquidity needs;
- We may be more vulnerable to economic downturns, less able to withstand competitive pressures, and less flexible in responding to changing business and economic conditions; or
- We may be unable to incur additional debt, including for working capital, acquisitions, or other needs.

If we breach a loan covenant or miss a payment, the lenders could accelerate the repayment of debt and foreclose on our inventory and other assets. We might not have sufficient assets to repay our debt upon acceleration. If we are unable to repay or refinance the debt upon acceleration or at maturity, the lenders could initiate a bankruptcy proceeding against us or collection proceedings with respect to our assets securing the facility, which could materially decrease the value of our common stock.

In 2023, we issued preferred equity to satisfy a significant amount of debt, which included interest expense. Our secured creditors also granted the Company exemptions on paying certain interest and fees and lengthened the maturities of some debt. There are no assurances we will be able to secure additional debt exchanges or that they may be offered at terms that enable us to sustain operations.

Failure to retain and recruit executive management and to build morale and improve performance could negatively impact our business.

Eastside Distilling's success depends upon the efforts and abilities of our executive management team, key senior management, 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 critical senior management terminates his or her employment, we may not be able to replace their expertise, fully integrate new personnel or replicate the prior working relationships. The loss of critical employees 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. Difficulties in hiring or retaining key executive or employee talent, or the unexpected loss of experienced employees could have an adverse impact on 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.

Currently, Eastside has one executive employee, Mr. Gwin who functions as both Chief Executive Officer and Chief Financial Officer. Mr. Gwin has no employment contract with the Company.

Failure of our brands to achieve anticipated consumer acceptance would impact sales and profitability.

Most of our brands are relatively new and have not achieved national brand recognition. In addition, financial constraints facing the Company has resulted in underinvestment in the Company's spirits brands, which has had a negative impact on sales. We have not yet had success growing a brand to a sufficient level to realize corporate wide profitability. 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 at scale, our sales will be limited, and we will not be able to penetrate our markets. Our profitability depends in part on achieving scale. We will need to achieve wider market acceptance of our brands and materially increase sales to achieve profitability.

We must maintain adequate terms from our supply partner Agaveros Unidos de Amatitan, SA. de CV, which if not done, will likely result in deteriorating performance of our Azuñia brand.

We have a long-term exclusive agreement with Agaveros Unidos de Amatitan, SA. de CV ("Agaveros Unidos") for the Azuñia Tequila brand. The termination of our relationship or an adverse change in the terms of our arrangement with Agaveros Unidos could have a negative impact on our business. If Agaveros Unidos increases its 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, its failure to perform satisfactorily or handle increased orders, or delays in shipping 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, financial condition or results of operations could be negatively impacted.

Failure of our distributors to distribute our products adequately within their territories or "under-invest" in our brands could result in deteriorating operating performance.

We are required by law to use state-licensed distributors or, in 17 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 United States. We have established relationships for our brands with a limited number of wholesale distributors. In the past two years at least one distribution has significantly reduced its investment in our spirits brands which has had an adverse effect our business, sales and growth. This could continue into the future. We have engaged new distributors, however they do not have the same scale as the former distributor. We currently distribute our spirits in 23 states.

Over the past decade there has been increasing consolidation in production, distribution, and retail (the three tiers of the current system) that challenges the growth of small businesses in the marketplace. Our distributors also distribute competitive brands for much larger companies with significant pricing power. The ultimate success of our products depends in large part on our distributors' ability and desire to distribute our products, as we rely significantly on them for product placement and retail store penetration. In many key states, we have signed contracts that greatly limit our ability to replace and pursue recourse with distributor partners that fail to meet their obligations. We cannot assure you that our U.S. distributors will commit sufficient time and resources to promote and market our brands and product lines. If they do not, our sales will be harmed, resulting in a decline in our results of operations.

Failure of our products to secure and maintain listings in the control states would result in a decline in revenue.

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 sales 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.

Failure to maintain adequate inventory levels would negatively impact operational profitability.

We maintain inventories of our product aging in barrels, as well as, to meet customer delivery requirements. We have used our barreled spirits inventory at market value as collateral in our financing. If we do not make timely payments on our financing obligations, or we breach our covenants in any financing document, including maintaining loan-to-value ratios, the lenders may foreclose and take possession of our inventory. In addition, this inventory is always at risk of loss due to theft, fire, evaporation, spoilage, 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.

We have been unsuccessful in launching new products and recent launches have negatively impacted the rate of loss.

A component of our growth strategy has been the addition of other brands that are complementary to our existing portfolio. In addition, we have launched new services and acquired new assets. Future growth requires we continue to invest in the newly acquired businesses or our growth will be limited. In addition, our entry into and expansion of our contract bottling, canning, and packaging services may not be successful, and we may not realize the benefits of these co-packing operations and may face certain risks, including safety concerns, product contamination, and equipment malfunctions or breakdowns, among other things associated with our manufacturing operations.

If we are successful in acquiring additional brands or related service businesses, we may still fail to achieve our target margins or maintain profitability levels that would justify our investment in those additional brands or services or fail to realize operating and economic efficiencies or other planned benefits with respect to those additional brands or services.

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, the following:

- difficulties in assimilating acquired operations or products, including failure to realize synergies;
- failure to realize or anticipate benefits or to execute on our planned strategy for the acquired brand or business;
- 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 is also dependent upon identifying acceptable acquisition targets and opportunities, our ability to consummate prospective transactions on favorable terms, or at all, and 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.

Failure to protect our customer relationships, trademarks and trade secrets from competitors would result in increased competition.

Our business and prospects depend in part on our ability to develop and retain customers as well as cultivate 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.

Failure to manage our relationships with suppliers.

Our business depends on our ability to manage our relationships with suppliers and at times we have disputes on contracts, terms and conditions, required payments and our suppliers' recourse. These disputes have been material at various periods. If we are unable to resolve disputes on a timely basis we could be subject to protracted litigation that would be costly to us. In addition, we, at times, have requested extended payment terms from customers due to cash flow limitations. A number of suppliers have restricted our purchasing ability to cash paid in advance, which negatively impacts us.

We are susceptible to cybersecurity breaches and cyber-related fraud.

We depend on information technology ("IT") systems, networks, and services, encompassing internet sites, data hosting and processing facilities, as well as hardware (including laptops and mobile devices), along with software and technical applications and platforms. Some of these are overseen, hosted, supplied, and/or utilized by third parties or their vendors, supporting us in the administration of our business.

The escalation of IT security threats and the increasing sophistication of cyber-crime pose a potential hazard to the security of our IT systems, networks, and services, as well as to the confidentiality, availability, and integrity of our data. Should the IT systems, networks, or service providers we rely on encounter malfunctions or if we experience a loss or disclosure of sensitive information due to various causes such as catastrophic events, power outages, or security breaches, and our business continuity plans fail to address these issues promptly, we could face disruptions in managing operations. This may result in reputational, competitive, and/or business harm, potentially adversely impacting our business operations and financial condition. Furthermore, such incidents could lead to the unauthorized disclosure of critical confidential information, causing financial and reputational damage due to the loss or misappropriation of confidential information belonging to us, our partners, employees, customers, suppliers, or consumers. In such scenarios, significant financial and other resources might be required to rectify the damage caused by a security breach or to repair and replace networks and IT systems.

RISKS RELATED TO OUR INDUSTRY

Demand for our products may be adversely affected by consumer taste changes affecting category 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, any or all of which may reduce consumers' willingness to purchase distilled spirits or cause a shift in consumer preferences toward beer, wine or non-alcoholic beverages or other products. 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.

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. As a result, marijuana sales may adversely affect our sales and profitability.

We face substantial competition in our industry and have limited financial resources compared to other competitors.

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 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.

We face unique risks relating to class actions or other litigation relating to alcohol abuse or the misuse of alcohol.

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 that we failed to adequately warn consumers of the risks of alcohol consumption. It is also possible that governments could assert that the use of alcohol has significantly increased government-funded healthcare 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.

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.

We face substantial regulatory risks including compliance with local and national laws, legal, regulatory and tax changes.

Our business is subject to extensive government regulation. This includes 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.

We were subject to a tax investigation of the operations by the Alcohol and Tobacco Tax and Trade Bureau ("TTB") for the period October 15, 2018 to September 30, 2021. In March of 2022, we received notices of violations citing ten violations at our Motherlode distilled spirits plant, six violations at our Big Bottom Distilling distilled spirits plant and eight violations at our Eastside Distilling distilled spirits plant. As a result of these violations, we are required to pay $0.3 million to the TTB and correct the violating conditions.

We are exposed to product liability or other related liabilities which could have significant negative financial repercussions on the Company's solvency.

Although we maintain liability insurance and will attempt to limit contractually our liability for damages arising from consumer, stakeholder and other lawsuits, these measures may not be sufficient for us to successfully avoid or limit product liability or other related liabilities. Our general liability insurance coverage is limited to $1 million per occurrence and $3 million in the aggregate and $2 million products/completed operations aggregate, and our general liability umbrella policy is limited to $5 million per occurrence and $5 million in the aggregate and $5 million products/completed operations aggregate. We do not have insurance covering employee lawsuits. 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 or business.

We could face issues including the risk of contamination of our products and/or counterfeit or confusingly similar products.

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 and potentially serious damage to our reputation for product quality, as well as product liability claims. 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.

In addition, we also provide contract bottling, canning, and packaging services for existing and emerging beer, wine and spirits producers. Beer and wine products produced by third parties may be more susceptible to contamination than the distilled products that we produce, due to the lower alcohol content.

We have incurred substantial turnover in employees over the past few years, which has negatively affected operating performance.

Over the past two years, we have embarked on a restructuring of operations to improve our financial performance. As a result, management has experienced a significant amount of employee turnover. In addition, we have reduced the total number of employees of the firm. This reduced headcount has negatively impacted performance in a number of ways. If this level of turnover continues, we could face operational challenges that would negatively impact financial performance.

We operate with one person as a CEO and CFO, which could have a negative impact on financial performance.

In February 2022, Eastside's CEO resigned and Eastside's CFO assumed both roles. Operating with a single person as both CEO and CFO adds risk to the Company's operating performance, given the complexity of our business.

RISKS RELATED TO OUR COMMON STOCK

We have fallen out of compliance with the requirements for continued listing on Nasdaq.

We had fallen out of compliance with the requirements for continued listing of our common stock on Nasdaq. Specifically, Nasdaq Listing Rule 5550(b)(1) requires that the stockholders' equity of a listed company must exceed $2.5 million. As of December 31, 2023, we had stockholders' equity of $0.9 million. We are currently reviewing potential transactions that, if implemented, could remedy the shortfall in our stockholders' equity. We do not know at this time, however, whether we will be able to remedy the non-compliance. Moreover, even if we are able to remedy the current non-compliance, if we continue to be unprofitable, stockholders' equity may again fall below the requirement for continued listing, which could result in our common stock being removed from NASDAQ to the facilities of OTC Markets. Losing our NASDAQ listing will make it more challenging to secure growth capital critical to executing our business plan.

In 2023, the Company reduced its debt burden by issuing Series C Preferred Stock that can be converted over time into 1,838,000 shares of common stock, which substantially increased the number of potential shares outstanding.

On September 29, 2023, we issued 296,722 shares of common stock and 200,000 shares of Series C Preferred Stock to The B.A.D. Company, LLC (the "SPV") in exchange for cancellation by the four members of the SPV of $6.5 million in debt. The 200,000 shares of Series C Preferred Stock can be converted into a total of 1,838,000 shares of our common stock; provided, however, that Series C Preferred Stock can only be converted if, upon completion of the conversion, the common stock owned by the SPV and its affiliates would be less than 9.9% of the total outstanding common stock. Therefore, since the SPV and its affiliates presently own 19.9% of the outstanding common stock, the SPV cannot convert any of the Series C shares. If in the future, however, the SPV sells common stock and reduces its ownership of the outstanding common stock below 9.9%, it will be able to convert its Series C Preferred shares from time to time and offer the common shares for sale. This transaction reduced debt. However it increased the potential amount of common stock that could be sold which over time could increase the amount of stock sold to the public.

Sales of our stock or use of our common stock to satisfy obligations such as the exchange transaction completed in 2023, may impact the market price of our common stock and cause substantial dilution to existing shareholders.

We will need to raise additional capital, which might be in the form of an equity offering. Future sales of substantial amounts of our common or preferred stock, including shares that we may issue upon exercise of warrants or conversion of preferred stock, could adversely affect the market price of our common stock. Further, if we raise additional funds through the issuance of equity, the percentage ownership of our stockholders will be reduced and cause substantial dilution to current stockholders.

We pay certain of our directors, consultants and business partners in our common stock or other securities linked to our common stock, and sometimes settle debts with common stock. Continued use of our stock in this manner, especially if our stock price is trading at a historic low price, may cause dilution to our shareholders and could adversely affect the market price of our common stock.

A decline in the price of our common stock could affect our ability to raise working capital and finance our operations.

A further 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 further 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. In addition, we have entered into certain agreements associated with the 2023 debt for preferred C exchange that will cause further dilution to our equity owners if we issue our common stock at a price below $3.05 per share.

If we are unable to continue as a going concern, our securities will have little or no value.

We have incurred operating losses since our inception, and we expect to continue to incur significant expenses and operating losses for the foreseeable future. Our financial statements have been prepared under the assumption that we will continue as a going concern. Our independent registered public accounting firm included in its audit report for the year ended December 31, 2023 an explanatory paragraph referring to our net loss from operations and accumulated deficit and expressing substantial doubt in our ability to continue as a going concern without additional capital becoming available. If we are unable to generate sufficient cash from operations or obtain additional financing in the future, we might not be able to continue as a going concern. There are no assurances that such financing will be available to us at all or will be available in sufficient amounts or on reasonable terms. Our financial statements do not include any adjustments that may result from the outcome of this uncertainty. If we are unable to generate additional funds in the future through financings, sales of our products or from other sources or transactions, we will exhaust our resources and will be unable to continue operations. If we cannot continue as a going concern, our stockholders would likely lose most or all of their investment in us.

While our derivatives are outstanding, it may be more difficult to raise additional equity capital to fund operations.

There are currently outstanding non-trading, privately issued common stock warrants to purchase shares of our common stock as well as certain debt and preferred shares that are convertible into common stock. If the market price of our common stock rises above the exercise price of the warrants or the conversion price of the convertible instruments during the terms that these derivative securities are outstanding, the holders are likely to take advantage of the opportunity to profit by exercising their warrants or converting their convertibles and then selling the common stock into the market. For that reason, we may find it more difficult to raise additional equity capital while we have these derivatives outstanding.

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.

By issuing preferred stock, we may adversely affect the market price and voting rights of common shareholders.

Our Articles of Incorporation permit us to issue, without approval from our stockholders, a total of 100 million shares of preferred stock. Our Board 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, 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.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 1C. CYBERSECURITY

We have developed and implemented a cybersecurity risk management program that is designed to protect the confidentiality, integrity, and availability of the Company's data and systems. Our cybersecurity risk management program includes a cybersecurity incident response plan.

Our cybersecurity risk management program is integrated into our overall enterprise risk management program, and shares common methodologies, reporting channels and governance processes that apply across the enterprise risk management program to other legal, compliance, strategic, operational, and financial risk areas.

Our cybersecurity risk management program includes:

- A risk assessment process designed to help identify material cybersecurity risks to our critical systems, information, services, and our broader enterprise IT environment;

- A security team principally responsible for managing (1) our cybersecurity risk assessment processes, (2) our security controls, and (3) our response to cybersecurity incidents;

- The use of external service providers, where appropriate, to assess, test or otherwise assist with aspects of our security controls;

- Cybersecurity awareness training of our employees, incident response personnel, and senior management; and

- A cybersecurity incident response plan that includes procedures for responding to cybersecurity incidents.

Additionally, the Company assesses and manages cybersecurity threats associated with its third-party service providers' information technology systems that could compromise the Company's information security or data. Identified cybersecurity threats are communicated to management for review, response and mitigation as appropriate.

As of the date of this filing, we have not identified risks from known cybersecurity threats, including as a result of any prior cybersecurity incidents, that have materially affected us, including our operations, business strategy, results of operations, or financial condition. We face risks from cybersecurity threats that, if realized, are likely to materially affect us, including our operations, business strategy, results of operations, or financial condition. For additional information, see Part I, Item 1A: *Risk Factors— Risks Relating to our Business: We are susceptible to cybersecurity breaches and cyber-related fraud.*

Cybersecurity: Governance

Our Board of Directors considers cybersecurity risk within the Board's risk oversight function. The Board of Directors has charged management with the responsibility for oversight of cybersecurity risks and incidents and any other risks and incidents relevant to the Company's computerized information system controls and security. The Board and its Audit Committee oversee management's implementation of our cybersecurity risk management program.

Implementation and maintenance of our IT systems has been outsourced to a third-party contractor: Tyler Melton Technologies, LLC ("TMT"), which has over ten years of experience in support of cybersecurity for business enterprises. Supervision of the services provided by TMT for the Company is the responsibility of our Corporate Controller, who is charged with the role of assessing and managing our material risks from cybersecurity threats. Our Corporate Controller reviews the efficacy of our cybersecurity program from time to time as circumstances make it appropriate and annually in connection with the annual audit of the Company's financial statements. Our Corporate Controller renders to the auditor a written report regarding IT general controls, including cybersecurity systems, risk assessment and monitoring practices. The auditor reviews the report in connection with its assessment of the Company's internal controls over financial reporting, and advises Company management if the report reveals flaws in the Company's internal controls. Copies of the Corporate Controller's report are also given to the CEO/CFO and made available to members of the Board of Directors. Copies of the auditor's report are delivered to the members of the Board of Directors, which reviews and is responsible to cause a remediation of any material inadequacies in the controls environment.

Our Corporate Controller reports to our CEO/CFO on matters of cybersecurity, and together they carry responsibility for our overall cybersecurity risk management program. Our CEO/CFO provides prompt reports to the Board regarding cybersecurity risks and incidents as they are revealed, as well as periodic reports, as appropriate, regarding the Company's cybersecurity program.

Item 2. PROPERTIES

We leased the following properties as of December 31, 2023:

Location	Principal Activities	Sq Ft	Lease Termination
1601 South 92nd Place, Suite A, Seattle, WA 98108	Craft C+P Operation	9,300	10/01/2025
10100 SE Main St., Milwaukie, OR 97222	Distilling, Blending, Bottling, Warehousing	17,971	10/01/2026
4736 SE 24th Street, Portland, OR 97202	CBD Co-packing Operations	9,000	05/31/2026
2321 NE Argyle, Unit D, Portland, OR 97211	Craft C+P Operation / Corporate Headquarters	50,380	03/01/2027

Item 3. LEGAL PROCEEDINGS

On March 1, 2023, Sandstrom Partners, Inc. filed a complaint in the Circuit Court of the State of Oregon for the County of Multnomah alleging the Company failed to pay for its services pursuant to an agreement entered into on October 16, 2019. The complaint seeks damages of $285,000, plus a judicial declaration, due to the Company's failure to pay for the services. The Company believes that it paid for services rendered, and if any balance is outstanding it is minimal. The Company intends to defend the case vigorously.

On December 15, 2020, Grover Wickersham filed a complaint in the United States District Court for the District of Oregon against the Company. Mr. Wickersham, the former CEO and Chairman of the Board of the Company, has asserted causes of action for fraud in the inducement, breach of contract, breach of the implied covenant of good faith and fair dealing, defamation, interference with economic advantage, elder financial abuse, and dissemination of false and misleading proxy materials The Company disputes the allegations and intends to defend the case vigorously.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the Nasdaq Capital Market ("Nasdaq") under the symbol "EAST."

Shareholders

Our shares of common stock are issued in registered form. The registrar and transfer agent for our shares of common stock is Transfer Online, Inc. 512 SE Salmon Street, Portland, Oregon 97214 (Telephone: (503) 227-2950).

As of April 1, 2024, there were 1,705,987 shares of our common stock outstanding, which were held by 76 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.

Recent Sales of Unregistered Securities

None.

Repurchase of Securities

None.

Item 6. SELECTED FINANCIAL DATA

Not applicable.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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. Examples include those statements set forth above prior to "Item 1. Business - Cautionary Note Regarding Forward-Looking Statements." 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 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 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.

Recent Developments

During 2023, we grew sales at Craft C+P and printed over 14 million cans. Digital can printing represents the majority of our revenue as our customer base and excitement grows. Mobile canning sales continue to decrease as we focus on our digital can printing opportunity. We have undertaken a restructuring of our spirits business decreasing overhead costs and unproductive sales activities.

During 2023, we supplemented cash flow with bulk spirit sales, as we have in other periods. The decline in spirits sales was partially offset by direct sales of 300 barrels for $0.8 million during 2023 and nearly 1,500 barrels for $4.4 million during 2022.

At the beginning of 2023, we started a restructuring plan to lower costs and prepare the brands for reinvestment. While a substantial amount of our raw materials, such as our whiskey, is owned and not susceptible to price inflation, the inflated prices of shipping and other materials, such as glass, are expected to continue through 2024.

Results of Operations

Overview

Year Ended December 31, 2023 Compared to the Year Ended December 31, 2022

(Dollars in thousands)	2023	2022	Variance
Sales	$ 10,798	$ 14,327	$ (3,529)
Less customer programs and excise taxes	299	444	(145)
Net sales	10,499	13,883	(3,384)
Cost of sales	9,438	11,442	(2,004)
Gross profit	1,061	2,441	(1,380)
Sales and marketing expenses	1,599	2,625	(1,026)
General and administrative expenses	4,646	6,407	(1,761)
(Gain) loss on disposal of property and equipment	(364)	58	(422)
Total operating expenses	5,881	9,090	(3,209)
Loss from operations	(4,820)	(6,649)	1,829
Interest expense	(1,108)	(2,216)	1,108
Impairment loss	(364)	(7,453)	7,089
Loss on debt to equity conversion	(1,321)	-	(1,321)
Other income	78	52	26
Net loss	(7,535)	(16,266)	8,731
Preferred stock dividends	(150)	(150)	-
Net loss attributable to common shareholders	$ (7,685)	$ (16,416)	$ 8,731
Gross margin	10%	18%	-8%

Segment information is as follows for the years ended December 31, 2023 and 2022:

(Dollars in thousands)	2023	2022	Variance
Craft C+P			
Sales	$ 6,817	$ 5,626	$ 1,191
Net sales	6,712	5,526	1,186
Cost of sales	6,829	6,341	488
Gross profit	(117)	(815)	698
Total operating expenses	2,637	3,494	(857)
Net loss	$ (2,749)	$ (4,249)	$ 1,500
Spirits			
Sales	$ 3,981	$ 8,701	$ (4,720)
Net sales	3,787	8,357	(4,570)
Cost of sales	2,609	5,101	2,492
Gross profit	1,178	3,256	(2,078)
Total operating expenses	1,476	2,532	1,056
Impairment loss	364	7,453	(7,089)
Net loss	$ (601)	$ (6,781)	$ 6,180
Corporate			
Total operating expenses	$ 1,768	$ 3,064	$ 1,296
Loss on debt to equity conversion	1,321	-	1,321
Net loss	$ (4,185)	$ (5,236)	$ 1,051

Corporate consists of key executive and accounting personnel and corporate expenses such as public company and board costs, as well as interest on debt.

Sales

Sales were $10.8 million and $14.3 million for the years ended December 31, 2023 and 2022, respectively.

Craft C+P

Sales increased for the year ended December 31, 2023 attributable to growth in digital can printing sales. Craft C+P has made substantial investments in digital printing de-emphasizing legacy businesses, including mobile canning. During the year, lower mobile canning sales reduced mobile service revenues and the sales of undecorated cans were replaced with digital printing sales.

Spirits

Spirits sales decreased for the year ended December 31, 2023. The primary reason for the reduction was significant bulk spirits sales that we completed during 2022. For the year ended December 31, 2023, we sold 300 barrels for gross proceeds of $0.8 million. For the year ended December 31, 2022, we sold nearly 1,500 barrels for gross proceeds of $4.4 million.

Sales of tequila decreased during 2023, as we redirected investment into our higher margin Oregon brands. Lower, but more profitable tequila sales substantially reduced revenue in the spirits segment.

Customer programs and excise taxes

Customer programs and excise taxes were $0.3 million and $0.4 million for the years ended December 31, 2023 and 2022, respectively. Spirits discounts were lower for the year ended December 31, 2023 due to lower sales volumes. During the second quarter of 2022, as part of Craft's asset acquisition, we offered a discount of $0.1 million to the beverage maker for our printing and canning services.

Cost of Sales

Cost of sales consists of all direct costs related to both spirits and canning for raw materials, service, labor, overhead, packaging, and in-bound freight charges. Cost of sales were $9.4 million and $11.4 million for the years ended December 31, 2023 and 2022, respectively.

Craft C+P

Cost of sales increased for the year ended December 31, 2023 due to growth in printing sales volumes and related inventory costs and scrap related to the printer, partially offset by decreased labor costs. Cost of sales decreased for the year ended December 31, 2023 due to reduced labor costs and an adjustment to depreciation based on the digital can printer's hours of production, offset by increased scrap related to the printer.

Spirits

Cost of sales decreased for the year ended December 31, 2023 due to lower bulk spirits and distributor sales, in addition to lower tequila volumes and a shift to a higher mix of vodka sales.

Gross Profit

Gross profit is calculated by subtracting the cost of products sold and services rendered from net sales. Gross profit was $1.1 million and $2.4 million for the years ended December 31, 2023 and 2022, respectively. Bulk sales gross profit was $0.6 million and $2.4 million for the years ended December 31, 2023 and 2022, respectively.

Gross margin is gross profit stated as a percentage of net sales. Our gross margin was 10% and 18% for the years ended December 31, 2023 and 2022, respectively.

Craft C+P

Craft C+P's gross margin increased for the year ended December 31, 2023 primarily due to continued growth in can printing activities.

Spirits

Gross margin decreased for the year ended December 31, 2023 primarily due to lower sales of bulk spirits in 2023 compared to the prior year and a greater mix of lower margin products such as vodka.

Sales and Marketing Expenses

Sales and marketing expenses were $1.6 million and $2.6 million for the years ended December 31, 2023 and 2022, respectively, due to lower sponsorship costs and reduced headcount as part of spirits restructuring.

General and Administrative Expenses

General and administrative expenses were $4.6 million and $6.4 million for the years ended December 31, 2023 and 2022, respectively, primarily due to decreased professional fees and reduced headcount.

Interest Expense

Interest expense was $1.1 million and $2.2 million for the years ended December 31, 2023 and 2022, respectively. The decrease was primarily due to the amortization of debt issuance costs on agreements that matured during 2022.

Loss on Debt to Equity Conversion

On September 29, 2023, as part of the debt to equity transaction referred to below, we issued 296,722 shares of common stock and 200,000 shares of Series C Preferred Stock. In exchange for that equity, our debts to the members of the SPV were reduced by a total of $6.5 million. During the year ended December 31, 2023, we recognized a loss on the debt to equity conversion of $1.3 million.

Net Income (Loss)

Net loss was $7.5 million and $16.3 million for the years ended December 31, 2023 and 2022, respectively, and included $0.4 million and $7.5 million for an impairment charge related to the Azuñia assets for the years ended December 31, 2023 and 2022, respectively.

Preferred Stock Dividends

Preferred stock dividends were $0.2 million for both years ended December 31, 2023 and 2022, respectively, representing the Series B preferred stock dividend of 6% per annum.

Liquidity and Capital Resources

Our primary capital requirements are for cash used in operating activities and the repayment of debt. Funds for our cash and liquidity needs have historically not been generated from operations but rather from short-term credit in the form of extended payment terms from suppliers as well as proceeds from loans and the sale of convertible debt and equity. We have been dependent on raising capital from debt and equity financing to meet our operating needs.

We had an accumulated deficit of $82.7 million as of December 31, 2023, having incurred a net loss of $7.5 million during the year ended December 31, 2023.

On September 29, 2023 we entered into a Debt Satisfaction Agreement with our four principal creditors (the “DSA”). Pursuant to the DSA, $6.5 million of secured debt classified as current liabilities was cancelled in exchange for the issuance of 296,722 shares of common stock and 200,000 shares of Series C Preferred Stock. As a result, as of December 31, 2023, we had $0.4 million of cash on hand with working capital of $0.3 million, an increase of $6.7 million from negative working capital of $(6.4) million as of December 31, 2022.

Our ability to meet our ongoing operating cash needs over the next 12 months depends on asset sales, external financing and improving operating results. The availability of external financing will be largely dependent on improvement in performance, including higher digital can printing revenues and improved gross margins at Craft C+P as well as operational improvements in our Spirits segment.

Our cash flow results for the year ended December 31, 2023 and 2022 were as follows:

(Dollars in thousands)	2023		2022	
Net cash flows provided by (used in):				
Operating activities	$	(1.8)	$	(0.9)
Investing activities	$	0.1	$	(2.3)
Financing activities	$	1.4	$	0.6

Operating Activities

Total cash used in operating activities was $1.8 million during the year ended December 31, 2023 compared to cash used of $0.9 million during the year ended December 31, 2022. The increase in cash used was primarily attributable to our continued net losses and decreased accrued interest.

Investing Activities

Total cash provided by investing activities was $0.1 million during the year ended December 31, 2023 representing net proceeds from purchases and sales of fixed assets. Total cash used in investing activities was $2.3 million during the year ended December 31, 2022 representing our investment in digital can printing equipment.

Financing Activities

Total cash provided by financing activities was $1.4 million during the year ended December 31, 2023 primarily consisted of proceeds from the issuance of stock. Total cash provided by financing activities was $0.6 million during the year ended December 31, 2022 primarily consisted of net proceeds from sale of a note payable to a related party of $4.5 million and the issuance of common stock of $0.2 million, offset by $2.8 million of principal payments to our secured credit facilities and $1.2 million of payments on principal of notes payable.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. The preparation of these financial statements requires us 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. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if past experience or other assumptions do not turn out to be substantially accurate.

In connection with the preparation of our financial statements for the year ended December 31, 2023, there was one accounting estimate we made that was subject to a high degree of uncertainty and was critical to our results, as follows:

Intangible Assets

On September 12, 2019, we purchased the Azuñia brand, the direct sales team, existing product inventory, supply chain relationships and contractual agreements from Intersect Beverage, LLC, an importer and distributor of tequila and related products. The Azuñia brand has been determined to have an indefinite life and will not be amortized. We do, however, on an annual basis, test the indefinite life assets for impairment. If the carrying value of the indefinite life assets are found to be impaired, then we will record an impairment loss and reduce the carrying value of the asset's estimate the useful life of the brand and amortize the asset over the remainder of its useful life.

We estimate the brand's fair value using market information to estimate future cash flows and will impair it when its carrying amount exceeds its estimated fair value, in which case we will write it down to its estimated fair value. We consider market values for similar assets when available. Considerable management judgment is necessary to estimate fair value, including making assumptions about future cash flows, net sales and discount rates.

We have the option, before quantifying the fair value, to evaluate qualitative factors to assess whether it is more likely than not that our brand is impaired. If we determine that is not the case, then we are not required to quantify the fair value. That assessment also takes considerable management judgment.

As of December 31, 2023, as a result of the review described above, we found the Azuñia brand to be impaired and reduced its carrying cost by $0.4 million.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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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 consolidated balance sheets of Eastside Distilling, Inc. (the Company) as of December 31, 2023 and 2022, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2023, and the related consolidated notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company suffered a net loss from operations and used cash in operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 audits, 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 audits included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of Intangible Assets

As discussed in Note 3 and 8 to the consolidated financial statements, the Company acquired two entities during 2019 accounted for as business combinations, which required assets and liabilities assumed to be measured at their acquisition date fair values. At each reporting period, certain intangible assets are required to be assessed annually for impairment based on the facts and circumstances at that time. Auditing management's evaluation of intangible assets can be a significant judgment given the fact that the Company uses management estimates on future revenues and expenses which are not easily able to be substantiated.

Given these factors and due to significant judgements made by management, the related audit effort in evaluating management's judgments in evaluation of intangible assets required a high degree of auditor judgment.

The procedures performed included evaluation of the methods and assumptions used by the Company, tests of the data used and an evaluation of the findings. We evaluated and tested the Company's significant judgments that determine the impairment evaluation of intangible assets.

/s/ M&K CPAS, PLLC

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

The Woodlands, TX

April 1, 2024

Eastside Distilling, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2023 and 2022
(Dollars in thousands, except share and per share)

	2023	2022
Assets		
Current assets:		
Cash	$ 403	$ 723
Trade receivables, net	559	836
Inventories	3,212	4,442
Prepaid expenses and other current assets	363	619
Total current assets	4,537	6,620
Property and equipment, net	4,768	5,741
Right-of-use assets	2,602	2,988
Intangible assets, net	5,005	5,758
Other assets, net	568	369
Total Assets	$ 17,480	$ 21,476
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 2,076	$ 1,728
Accrued liabilities	575	1,509
Deferred revenue	88	18
Current portion of secured credit facilities, net of debt issuance costs	-	3,442
Current portion of note payable, related party	92	4,598
Current portion of notes payable	486	-
Current portion of lease liabilities	888	991
Other current liability, related party	-	725
Total current liabilities	4,205	13,011
Lease liabilities, net of current portion	1,824	2,140
Secured credit facilities, related party	2,700	-
Secured credit facilities, net of debt issuance costs	342	-
Note payable, related party	-	92
Notes payable, net of current portion	7,556	7,749
Total liabilities	16,627	22,992
Commitments and contingencies (Note 14)		
Stockholders' equity (deficit):		
Common stock, $0.0001 par value; 6,000,000 shares and 1,750,000 shares authorized as of December 31, 2023 and 2022, respectively; 1,705,987 and 809,963 shares issued and outstanding as of December 31, 2023 and 2022, respectively	-	-
Preferred stock, $0.0001 par value; 100,000,000 shares authorized; 2,500,000 Series B shares issued and outstanding as of both December 31, 2023 and 2022	-	-
Preferred stock, $0.0001 par value; 240,000 shares authorized; 200,000 Series C shares issued and outstanding as of December 31, 2023 and 0 shares issued and outstanding as of December 31, 2022	-	-
Additional paid-in capital	83,559	73,505
Accumulated deficit	(82,706)	(75,021)
Total stockholders' equity (deficit)	853	(1,516)
Total Liabilities and Stockholders' Equity (Deficit)	$ 17,480	$ 21,476

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

Eastside Distilling, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2023 and 2022
(Dollars and shares in thousands, except per share)

	2023	2022
Sales	$ 10,798	$ 14,327
Less customer programs and excise taxes	299	444
Net sales	10,499	13,883
Cost of sales	9,438	11,442
Gross profit	1,061	2,441
Operating expenses:		
Sales and marketing expenses	1,599	2,625
General and administrative expenses	4,646	6,407
(Gain) loss on disposal of property and equipment	(364)	58
Total operating expenses	5,881	9,090
Loss from operations	(4,820)	(6,649)
Other income (expense), net		
Interest expense	(1,108)	(2,216)
Impairment loss	(364)	(7,453)
Loss on debt to equity conversion	(1,321)	-
Other income	78	52
Total other income (expense), net	(2,715)	(9,617)
Loss before income taxes	(7,535)	(16,266)
Provision for income taxes	-	-
Net loss	(7,535)	(16,266)
Preferred stock dividends	(150)	(150)
Net loss attributable to common shareholders	$ (7,685)	$ (16,416)
Basic and diluted net loss per common share	$ (7.04)	$ (21.40)
Basic and diluted weighted average common shares outstanding	1,091	767

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

Eastside Distilling, Inc. and Subsidiaries
Consolidated Statements of Stockholder's Equity (Deficit)
Years Ended December 31, 2023 and 2022
(Dollars and shares in thousands)

(Shares and dollars in thousands)	Series B Preferred Stock Shares	Series B Preferred Stock Amount	Series C Preferred Stock Shares	Series C Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance, December 31, 2021	2,500	$ -	-	$ -	740	$ -	$72,003	$ (58,605)	$ 13,398
Stock-based compensation	-	-	-	-	-	-	3	-	3
Issuance of common stock for services by third parties	-	-	-	-	28	-	315	-	315
Issuance of common stock for services by employees	-	-	-	-	9	-	205	-	205
Issuance of detachable warrants on notes payable	-	-	-	-	-	-	630	-	630
Shares issued for cash	-	-	-	-	10	-	199	-	199
Preferred stock dividends	-	-	-	-	23	-	150	(150)	-
Net loss	-	-	-	-	-	-	-	(16,266)	(16,266)
Balance, December 31, 2022	2,500	$ -	-	$ -	810	$ -	$73,505	$ (75,021)	$ (1,516)
Issuance of common stock for services by third parties	-	-	-	-	139	-	568	-	568
Issuance of common stock for services by employees	-	-	-	-	24	-	109	-	109
Shares issued for cash	-	-	-	-	343	-	1,396	-	1,396
Debt to equity conversion	-	-	200	-	297	-	7,831	-	7,831
Preferred stock dividends	-	-	-	-	93	-	150	(150)	-
Net loss	-	-	-	-	-	-	-	(7,535)	(7,535)
Balance, December 31, 2023	2,500	$ -	200	$ -	1,706	$ -	$83,559	$ (82,706)	$ 853

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

Eastside Distilling, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022
(Dollars in thousands)

	2023	2022
Cash Flows From Operating Activities:		
Net loss	$ (7,535)	$ (16,266)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,356	1,520
Bad debt expense	92	87
Other income	(25)	-
Impairment loss	364	7,453
(Gain) loss on disposal of assets	(364)	58
Write off of obsolete fixed assets	25	5
Inventory reserve	42	(47)
Loss on debt to equity conversion	1,321	-
Amortization of debt issuance costs	13	1,155
Interest accrued to secured credit facilities	118	142
Payment of accrued interest on secured credit facilities	(142)	(149)
Write off of debt issuance costs	-	39
Interest accrued to notes payable, related party	-	98
Interest accrued to secured credit facilities, related party	424	-
Payment of accrued interest on secured credit facilities, related party	(348)	-
Issuance of common stock in exchange for services for related parties	109	205
Issuance of common stock in exchange for services for third parties	568	315
Stock-based compensation	-	3
Changes in operating assets and liabilities:		
Trade receivables, net	135	483
Inventories	1,219	2,114
Prepaid expenses and other assets	364	(50)
Right-of-use assets	1,085	992
Accounts payable	592	465
Accrued liabilities	(756)	676
Other liabilities, related party	556	725
Deferred revenue	70	18
Net lease liabilities	(1,119)	(918)
Net cash used in operating activities	(1,836)	(877)
Cash Flows From Investing Activities:		
Proceeds from sale of fixed assets	298	180
Purchases of property and equipment	(194)	(2,497)
Net cash provided by (used in) investing activities	104	(2,317)
Cash Flows From Financing Activities:		
Proceeds from issuance of stock	1,396	198
Proceeds from secured credit facilities	56	-
Proceeds from note payable, related party	-	8,000
Payments of principal on notes payable, related party	-	(3,500)
Payments of principal on secured credit facilities	(40)	(2,838)
Payments of principal on notes payable	-	(1,219)
Net cash provided by financing activities	1,412	641
Net increase (decrease) in cash	(320)	(2,553)
Cash at the beginning of the period	723	3,276
Cash at the end of the period	$ 403	$ 723
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	$ 758	$ 959
Cash paid for amounts included in measurement of lease liabilities	1,308	951
Supplemental Disclosure of Non-Cash Financing Activity		
Dividends issued	$ 150	$ 150
Issuance of detachable warrants on notes payable	$ -	$ 630
Right-of-use assets obtained in exchange for lease obligations	$ 700	$ 770
Debt exchanged for equity	$ 6,510	$ -
Accrued interest rolled into notes payable	$ 241	$ -
Exchange of assets for services	$ 77	$ -
Future proceeds related to installment sales of equipment	$ 365	$ -

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

Eastside Distilling, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

1. Description of Business

Eastside Distilling (the "Company" or "Eastside Distilling") was incorporated under the laws of Nevada in 2004 under the name of Eurocan Holdings, Ltd. In December 2014, the Company changed its corporate name to Eastside Distilling, Inc. to reflect the acquisition of Eastside Distilling, LLC. The Company manufactures, acquires, blends, bottles, imports, markets and sells a wide variety of alcoholic beverages under recognized brands. The Company currently employs 47 people in the United States.

The Company operates a beverage packaging and services business that operates in the beverage segment. During 2022, the Company made substantial investments to expand its product offerings to include digital can printing in the Pacific Northwest (together Craft Canning + Printing, "Craft C+P"). Craft C+P operates mobile filling lines and offers co-packing services with end-to-end production capabilities in Portland, Oregon.

The Company's spirits' brands span several alcoholic beverage categories, including whiskey, vodka, rum, and tequila. The Company sells products on a wholesale basis to distributors in open states and through brokers in control states.

2. Liquidity

The Company's primary capital requirements are for cash used in operating activities and the repayment of debt. Funds for the Company's cash and liquidity needs have historically not been generated from operations but rather from loans as well as from convertible debt and equity financing. The Company has been dependent on raising capital from debt and equity financing to meet the Company's operating needs.

The Company had an accumulated deficit of $82.7 million as of December 31, 2023, having incurred a net loss of $7.5 million during the year ended December 31, 2023.

The Company reduced debt in 2023 through a debt for preferred swap. However, the Company's ability to meet its ongoing operating cash needs over the next 12 months depends on growing revenues and gross margins, and generating positive operating cash flow primarily through increased sales, improved profit growth, and controlling expenses. In addition, the Company has been negotiating with creditors to reduce the interest burden and improve cash flow. if the Company is unable to reach an agreement with creditors or obtain additional financing, or additional financing is not available on acceptable terms, the Company may seek to sell assets, reduce operating expenses, reduce or eliminate marketing initiatives, and take other measures that could impair its ability to be successful.

Although the Company's audited financial statements for the year ended December 31, 2023 were prepared under the assumption that it would continue operations as a going concern, the report of its independent registered public accounting firm that accompanied the financial statements for the year ended December 31, 2023 contained a going concern explanatory paragraph in which such firm expressed substantial doubt about the Company's ability to continue as a going concern, based on the financial statements at that time. If the Company cannot continue as a going concern, its stockholders would likely lose most or all of their investment in it.

3. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of Eastside Distilling, Inc.'s wholly-owned subsidiaries, including Craft Canning + Bottling, LLC (doing business as Craft Canning + Printing) and its wholly-owned subsidiary Galactic Unicorn Packaging, LLC (the Company's newly acquired fixed co-packing assets). All intercompany balances and transactions have been eliminated on consolidation.

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 sales include product sales, less excise taxes and customer programs and incentives. The Company recognizes revenue by applying the following steps in accordance with Accounting Standards Codification ("ASC") Topic 606 – *Revenue from Contracts with Customers*: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when each performance obligation is satisfied.

The Company recognizes spirits 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, 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.

In the Craft C+P segment, sales are recognized when printed cans are delivered or when mobile filling services are performed.

Customer Programs

Customer programs, which include customer promotional discount programs, are a common practice in the alcoholic beverage industry. The Company reimburses wholesalers for an agreed amount to promote sales of products and to maintain competitive pricing. Amounts paid in connection with customer programs are recorded as reductions to net sales in accordance with ASC 606 - *Revenue from Contracts with Customers*. Amounts paid in customer programs totaled \$0.2 million for each of the years ended December 31, 2023 and 2022.

Excise Taxes

The Company is responsible for compliance with the Alcohol and Tobacco Tax and Trade Bureau ("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 alcoholic 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 \$0.1 million and \$0.2 million for the years ended December 31, 2023 and 2022, respectively.

Cost of Sales

Cost of sales consists of all direct costs related to both spirits and canning for service, labor, overhead, packaging, and in-bound freight charges. Raw materials account for the largest portion of the cost of sales, followed by packaging and production costs.

Sales and Marketing Expenses

Sales and marketing expenses consist of sponsorships, agency fees, digital media, salary and benefit expenses, travel and entertainment expenses. Sales and marketing costs are expensed as incurred. Advertising expenses totaled \$0.2 million and \$0.7 million for the years ended December 31, 2023 and 2022, respectively.

General and Administrative Expenses

General and administrative expenses consist of salary and benefit expenses, travel and entertainment expenses for executive and administrative staff, rent and utilities, professional fees, insurance, and amortization and depreciation expense. General and administrative costs are expensed as incurred.

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 at the end of each reporting period and as the underlying stock-based awards vest.

Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. As of December 31, 2023, one distributor represented 18% of trade receivables. As of December 31, 2022, one distributor represented 15% of trade receivables. Sales to one distributor customer accounted for 19% of consolidated sales for the year ended December 31, 2023. Sales to one distributor and one wholesale customer together accounted for 40% of consolidated sales for the year ended December 31, 2022.

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. As of December 31, 2023 and 2022, 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:

Level 1: Fair value of the asset or liability is determined using cash or 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 as of December 31, 2023 or 2022. 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, notes payable, and the secured credit facilities. The estimated fair value of trade receivables, accounts payable, and accrued liabilities approximate their carrying value due to the short period of time to their maturities. As of December 31, 2023 and 2022, the principal amounts of the Company's notes approximate 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 due to having indefinite lives. The Company, on an annual basis, tests the indefinite life assets for impairment. If an indefinite life asset is found to be impaired, then the Company will estimate its useful life and amortize the asset over the remainder of its useful life.

Inventories

Inventories primarily consist of bulk and bottled liquor and raw materials 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 the Company's finished goods 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.

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 12.5 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 certain intangible assets at cost. Management reviews these intangible 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, an impairment loss would be recognized to write down the asset to its estimated fair value. As of December 31, 2023, the Company performed a qualitative assessment of certain of its intangible and then performed a quantitative analysis after which it was determined that the Azuñia assets were impaired and reduced its carrying cost by $0.4 million.

Long-lived Assets

The Company accounts for long-lived assets, including certain intangible assets, 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. The Company performed a qualitative assessment of certain of its long-lived assets as of December 31, 2023 and determined that they were not impaired.

Comprehensive Income

The Company did not have any other comprehensive income items in either the year ended December 31, 2023 or 2022.

Accounts Receivable Factoring Program

The Company had two accounts receivable factoring programs: one for its spirits customers (the "spirits program") that had a zero balance as of December 31, 2023 and another for its co-packing customers (the "co-packing program") that terminated in August 2023. Under the programs, the Company has the option to sell certain customer account receivables in advance of payment for 75% (spirits program) or 85% (co-packing program) of the amount due. When the customer remits payment, the Company receives the remaining balance. For the spirits program, interest is charged on the advanced 75% payment at a rate of 2.4% for the first 30 days plus 1.44% for each additional ten-day period. For the co-packing program, interest is charged against the greater of $0.5 million or the total funds advanced at a rate of 1% plus the prime rate published in the Wall Street Journal. Under the terms of both agreements, the factoring provider has full recourse against the Company should the customer fail to pay the invoice. In accordance with ASC Topic 860 – *Transfers and Servicing*, the Company has concluded that these agreements have met all three conditions identified in ASC Topic 860-10-40-5 (a) – (c) and have accounted for this activity as a sale. Given the quality of the factored accounts, the Company has not recognized a recourse obligation. In certain limited instances, the Company may provide collection services on the factored accounts but does not receive any fees for acting as the collection agent, and as such, the Company has not recognized a service obligation asset or liability. The Company factored $0.7 million of invoices and incurred $20,821 in fees associated with the factoring programs during the year ended December 31, 2023.

Recently Issued Accounting Pronouncements

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* ("ASU 2023-07"). ASU 2023-07 seeks to improve disclosures about a public entity's reportable segments and add disclosures around a reportable segment's expenses. The updated guidance is effective for the Company for annual periods beginning January 1, 2024, and interim periods within fiscal years beginning January 1, 2025. The Company does not expect the adoption of this ASU to have a material impact on its financial statements and disclosures.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* ("ASU 2023-09"). ASU 2023-09 seeks to improve transparency in income tax disclosures by requiring consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid disclosures. The updated guidance is effective for the Company on January 1, 2025. The Company does not expect the adoption of ASU 2023-09 to have a material impact on its financial statements and disclosures.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

4. Business Segment Information

The Company's internal management financial reporting consists of Craft C+P, Eastside spirits and corporate. Craft C+P offers digital can printing and co-packing services in Portland, Oregon, allowing it to offer end-to-end production capabilities. Craft C+P operates multiple mobile lines in Oregon. The spirits brands span several alcoholic beverage categories, including whiskey, vodka, rum, and tequila and are sold on a wholesale basis to distributors in open states, and to brokers in control states. The Company's principal area of operation is in the U.S. It has one spirits customer that represents 19% of its revenue. Corporate consists of key executive and accounting personnel and corporate expenses such as public company and board costs, as well as interest on debt.

The measure of profitability reviewed are condensed statements of operations and gross margins. These business segments reflect how operations are managed, operating performance is evaluated and the structure of internal financial reporting. Total asset information by segment is not provided to, or reviewed by, the chief operating decision maker ("CODM") as it is not used to make strategic decisions, allocate resources or assess performance. The accounting policies of the segments are the same as those described for the Company in the Summary of Significant Accounting Policies in Note 3.

Segment information was as follows for the years ended December 31:

(Dollars in thousands)	2023	2022
Craft C+P		
Sales	$ 6,817	$ 5,626
Net sales	6,712	5,526
Cost of sales	6,829	6,341
Gross profit	(117)	(815)
Total operating expenses	2,637	3,494
Net loss	(2,749)	(4,249)
Gross margin	-2%	-15%
Interest expense	$ 12	$ 44
Depreciation and amortization	1,207	1,359
Significant noncash items:		
(Gain) loss on disposal of property and equipment	(367)	65
Stock compensation	-	338
Spirits		
Sales	$ 3,981	$ 8,701
Net sales	3,787	8,357
Cost of sales	2,609	5,101
Gross profit	1,178	3,256
Total operating expenses	1,476	2,532
Net loss	(601)	(6,781)
Gross margin	31%	39%
Depreciation and amortization	$ 149	$ 161
Significant noncash items:		
(Gain) loss on disposal of property and equipment	3	(7)
Impairment loss	364	7,453
Corporate		
Total operating expenses	$ 1,768	$ 3,064
Net loss	(4,185)	(5,236)
Interest expense	$ 1,096	$ 2,172
Significant noncash items:		
Stock compensation	246	325
Loss on debt to equity conversion	1,321	-

Craft C+P's sales increased from growth in its digital can printing revenues, offset by lower mobile revenues. Spirits' sales in 2022 included bulk inventory sales of $4.4 million compared to $0.8 million in 2023. During the year ended December 31, 2023, the Company undertook restructuring actions to reduce volumes in unprofitable market segments and incrementally restricting actions to lower production costs and improve profitability.

5. Inventories

Inventories consisted of the following as of December 31:

(Dollars in thousands)	2023	2022
Raw materials	$ 2,253	$ 3,127
Finished goods	959	1,315
Total inventories	$ 3,212	$ 4,442

6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following as of December 31:

(Dollars in thousands)	2023	2022
Prepayment of fixed assets	$ -	$ 346
Prepayment of inventory	52	-
Future proceeds related to installment sales of equipment	89	-
Other	222	273
Total prepaid expenses and other current assets	$ 363	$ 619

7. Property and Equipment

Property and equipment consisted of the following as of December 31:

(Dollars in thousands)	2023	2022	Useful Life (in years)
Furniture and fixtures	$ 3,410	$ 4,093	3.0 - 7.0
Digital can printer	3,649	3,649	12.5
Support of digital can printer	695	567	7.0
Leasehold improvements	1,529	1,529	3.5 - 5.0
Vehicles	156	222	5.0
Total cost	9,439	10,060	
Less accumulated depreciation	(4,671)	(4,319)	
Total property and equipment, net	$ 4,768	$ 5,741	

Purchases of property and equipment totaled $0.2 million and $2.5 million for the years ended December 31, 2023 and 2022, respectively. Depreciation expense totaled $0.9 million and $1.0 million for the years ended December 31, 2023 and 2022, respectively.

During the year ended December 31, 2023, the Company disposed of fixed assets for proceeds of $0.3 million, including future proceeds of installment sales of $0.4 million, with a net book value of $0.3 million resulting in a gain of $0.4 million. During the year ended December 31, 2022, the Company disposed of fixed assets with a net book value of $0.2 million resulting in a loss on disposal of fixed assets of $0.1 million. During the years ended December 31, 2023 and 2022, the Company wrote off obsolete fixed assets with a net book value of $25,304 and $5,270, respectively.

During the year ended December 31, 2022, the Company entered into a master equity lease agreement with Enterprise FM Trust ("Enterprise"). Per the agreement, the Company delivered to Enterprise the titles to certain vehicles resulting in a loss on disposal of $0.1 million, which is included in the $0.1 million loss from 2022 above. In return, the Company directly leased the vehicles from Enterprise, which also managed the maintenance of the vehicles. In April 2023, the master equity lease agreement matured and the titles to the vehicles were returned to the Company.

8. Intangible Assets

Intangible assets consisted of the following as of December 31:

(Dollars in thousands)	2023	2022
Permits and licenses	$ 25	$ 25
Azuñia brand	4,153	4,492
Customer lists	2,895	2,895
Total intangible assets	7,073	7,412
Less accumulated amortization	(2,068)	(1,654)
Intangible assets, net	$ 5,005	$ 5,758

The customer list is being amortized over a seven-year life. Amortization expense totaled $0.4 million for both the years ended December 31, 2023 and 2022.

The permits and licenses and the Azuñia brand have all been determined to have an indefinite life and will not be amortized. The Company, on an annual basis, tests the indefinite life assets for impairment. If the carrying value of an indefinite life asset is found to be impaired, then the Company will record an impairment loss and reduce the carrying value of the asset. As of December 31, 2023 and 2022, the Company determined that the Azuñia assets were impaired and recorded an impairment cost of $0.4 million and $7.5 million, respectively.

9. Other Assets

Other assets consisted of the following as of December 31:

(Dollars in thousands)	2023	2022
Product branding	$ 396	$ 400
Deposits	240	256
Future proceeds related to installment sales of equipment	276	-
Total other assets	912	656
Less accumulated amortization	(344)	(287)
Other assets, net	$ 568	$ 369

As of December 31, 2023, the Company had $0.4 million of capitalized costs related to services provided for the rebranding of its existing product line. This amount is being amortized over a seven-year life.

Amortization expense totaled $0.1 million for both the years ended December 31, 2023 and 2022.

The deposits represent office lease deposits.

10. Leases

The Company has various lease agreements in place for facilities, equipment and vehicles. Terms of these leases include, in some instances, scheduled rent increases, renewals, purchase options and maintenance costs, and vary by lease. These lease obligations expire at various dates through 2027. The Company determines if an arrangement is a lease at inception. As the rate implicit in each lease is not readily determinable, the Company uses its incremental borrowing rate based on information available at commencement to determine the present value of the lease payments. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Leases with an initial term of 12 months or less (“short-term leases”) are not recorded on the balance sheet and are recognized on a straight-line basis over the lease term. As of December 31, 2023, the amount of right-of-use assets and lease liabilities were $2.6 million and $2.7 million, respectively. Aggregate lease expense for the year ended December 31, 2023 was $1.3 million, consisting of $1.2 million in operating lease expense for lease liabilities and $0.1 million in short-term lease cost.

Maturities of lease liabilities as of December 31, 2023 were as follows:

(Dollars in thousands)	Operating Leases	Weighted-Average Remaining Term in Years
2024	$ 1,031	
2025	1,020	
2026	808	
2027	135	
2028	-	
Thereafter	-	
Total lease payments	2,994	
Less imputed interest (based on 6.6% weighted-average discount rate)	(282)	
Present value of lease liability	$ 2,712	2.07

11. Notes Payable

Notes payable consisted of the following as of December 31:

(Dollars in thousands)	2023	2022
Promissory notes payable bearing interest of 6.0%. The notes have a 36-month term with maturity in April 2024. Accrued interest is paid in accordance with a monthly amortization schedule.	$ 486	$7,749
Amended and restated promissory notes payable bearing interest of 8.0%. The notes mature in March 2025. Accrued interest is paid in accordance with an amortization schedule.	7,556	-
Total notes payable	8,042	7,749
Less current portion	(486)	-
Long-term portion of notes payable	$7,556	$7,749

The Company paid $0.1 million and $0.5 million in interest on notes for the years ended December 31, 2023 and 2022, respectively.

Maturities on notes payable as of December 31, 2023 were as follows:

(Dollars in thousands)	
2024	$ 486
2025	7,556
2026	-
2027	-
2028	-
Thereafter	-
	$ 8,042

12. Secured Credit Facilities

Note Purchase Agreement

On October 7, 2022, the Company entered into a Note Purchase Agreement dated as of October 6, 2022 with Aegis Security Insurance Company (“Aegis”). Pursuant to the Note Purchase Agreement, Aegis purchased from the Company a secured promissory note in the principal amount of $4.5 million (the “Aegis Note”). Aegis paid for the Aegis Note by paying $3.3 million to TQLA to fully satisfy a secured line of credit promissory note that the Company issued to TQLA on March 21, 2022; and the remaining $1.2 million was paid in cash to the Company. The Aegis Note bears interest at 9.25% per annum, payable every three months. The principal amount of the Aegis Note will be payable on March 31, 2025. The Company pledged substantially all of its assets to secure its obligations to Aegis under the Aegis Note.

On September 29, 2023, the Company entered into a Debt Satisfaction Agreement with Aegis and other creditors, pursuant to which the Aegis Note was amended and restated. *See: Note 15, Stockholders Equity – Debt Satisfaction Agreement.* Principal and interest of $1.9 million were exchanged for equity issued to a special purpose vehicle, The B.A.D. Company, LLC (the **“**SPV**”**), in which Aegis holds a 29% interest. As of December 31, 2023, the principal balance of the Aegis Note was $2.6 million and interest expense accrued was $0.4 million.

6% Secured Convertible Promissory Notes

On April 19, 2021, the Company entered into a securities purchase agreement (“Purchase Agreement”) with accredited investors (“Subscribers”) for their purchase of up to $3.3 million of principal amount of 6% secured convertible promissory notes of the Company (“Note” or “Notes”), which notes are convertible into shares (“Conversion Shares”) of the Company’s common stock, par value $0.0001 per share pursuant to the terms and conditions set forth in the Notes with an initial conversion price of $44.00. In connection with the purchase of such Notes, each Subscriber received a warrant (“Existing Warrant”), to purchase a number of shares of common stock (“Warrant Shares”) equal to 60% of the principal amount of any Note issued to such Subscriber divided by the conversion price of the Note issued to such Subscriber, at an exercise price equal to $52.00. In connection with the Purchase Agreement, the Company entered into a Security Agreement under which it granted the Subscribers a security interest in certain assets of the Company (the “Security Agreement”) and a Registration Rights Agreement under which the Company agreed to register for resale the Conversion Shares and the Warrant Shares. Concurrently therewith, the Company and the investors closed $3.3 million of the private offering.

Roth Capital, LLC acted as placement agent in the private offering, and the Company paid the Placement Agent a cash fee of five percent (5%) of the gross proceeds therefrom. The Company received $3.1 million in net proceeds from the closing, after deducting the fee payable to the Placement Agent and the legal fees of the Subscribers in connection with the transaction. The Company used the proceeds to repay prior outstanding notes payable and for working capital and general corporate purposes.

Interest on the Notes accrued at a rate of 6% per annum and was payable either in cash or in shares of the Company’s common stock at the conversion price in the Note on each of the six and twelve month anniversaries of the issuance date and on the maturity date of October 18, 2022.

All amounts due under the Notes are convertible at any time after the issuance date, in whole or in part (subject to rounding for fractional shares), at the option of the holders into the Company’s common stock at a fixed conversion price, which is subject to adjustment as summarized below. The Notes were initially convertible into the Company’s common stock at an initial fixed conversion price of $44.00 per share. This conversion price is subject to adjustment for stock splits, combinations, or similar events, among other adjustments. On April 1, 2022, the Company and the holders agreed to a reduction of the conversion price of the 6% secured convertible promissory notes to $26.00 per share in connection with the Company’s issuance of a common stock purchase warrant to TQLA covering its loan amount of $3.5 million with a common stock value of $24.00 per share.

The Notes contain customary triggering events including but not limited to: (i) failure to make payments when due under the Notes; and (ii) bankruptcy or insolvency of the Company. If a triggering event occurs, each holder may require the Company to redeem all or any portion of the Notes (including all accrued and unpaid interest thereon), in cash.

The Notes are secured by a subordinated security interest in the Company's assets pursuant to the terms of a Security Agreement entered into between the Company and the Subscribers.

On October 13, 2022, the Company entered into an Amendment Agreement with the holders of the 6% Secured Convertible Promissory Notes. The Amendment Agreement changed the Maturity Date of the Notes from October 18, 2022 to November 18, 2022. In consideration of the extension, the Company issued 4,808 shares of its common stock to each of the Subscribers.

On September 29, 2023, the Company entered into a Debt Satisfaction Agreement with the Subscribers and other creditors, pursuant to which the Maturity Date of the Notes was extended from November 18, 2022 to March 31, 2025 and interest accrues at 9% per annum. *See: Note 15, Stockholders Equity – Debt Satisfaction Agreement.* Principal and interest on the Notes of $3.3 million was exchanged for equity issued to the SPV, in which the Subscribers held a 50% ownership interest, and the Notes were then amended and restated. As of December 31, 2023, the principal balance was $0.4 million and interest expense accrued was $0.1 million.

13. Income Taxes

The provision for income taxes results in effective tax rates which are different than the federal income tax statutory rate. The provision (benefit) for income taxes for the years ended December 31, 2023 and 2022 were as follows, assuming a 21% federal effective tax rate. The Company also has a state tax rate for Oregon of 6.6% for both the years ended December 31, 2023 and 2022.

The provision of income taxes for the years ended December 31, 2023 and 2022 were as follows:

(Dollars in thousands)	2023	2022
Expected federal income tax benefit	$ (1,478)	$ (3,190)
State income taxes after credits	(497)	(1,074)
Change in allowance	1,975	4,264
Total provision for income taxes	$ -	$ -

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

(Dollars in thousands)	2023	2022
Deferred tax assets		
Net operating loss carryforwards	$ 23,673	$ 21,325
Stock-based compensation	896	895
Total deferred tax assets	24,569	22,220
Deferred tax liability		
Depreciation and amortization	(2,444)	(2,070)
Total deferred tax liability	(2,444)	(2,070)
Valuation Allowance	(22,125)	(20,150)
Net deferred tax assets	$ -	$ -

As of December 31, 2023, the Company has a cumulative net operating loss carryforward (“NOL”) of approximately $74 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 begin to expire in 2034, and the state NOLs begin 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 (as amended, the Internal Revenue Code) 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.

14. Commitments and Contingencies

Legal Matters

On March 1, 2023, Sandstrom Partners, Inc. filed a complaint in the Circuit Court of the State of Oregon for the County of Multnomah alleging the Company failed to pay for its services pursuant to an agreement entered into on October 16, 2019. The complaint seeks damages of $285,000, plus a judicial declaration, due to the Company’s failure to pay for the services. The Company believes that it paid for services rendered and, if any balance is outstanding, it is minimal. The Company intends to defend the case vigorously.

On December 15, 2020, Grover Wickersham filed a complaint in the United States District Court for the District of Oregon against the Company. Mr. Wickersham, the former CEO and Chairman of the Board of the Company, has asserted causes of action for fraud in the inducement, breach of contract, breach of the implied covenant of good faith and fair dealing, defamation, interference with economic advantage, elder financial abuse, and dissemination of false and misleading proxy materials. The Company disputes the allegations and intends to defend the case vigorously.

The Company is not currently subject to any other material legal proceedings; however, it could be subject to legal proceedings and claims from time to time in the ordinary course of its business, or legal proceedings it considered immaterial may in the future become material. Regardless of the outcome, litigation can, among other things, be time consuming and expensive to resolve, and can divert management resources.

15. Net Income (Loss) per Common Share

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Potentially dilutive securities consist of the incremental common stock issuable upon exercise of stock options, convertible notes and warrants. Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. There were no anti-dilutive common shares included in the calculation of income (loss) per common share as of December 31, 2023 and 2022.

16. Stockholders' Equity

Reverse Stock Split

All shares and per share information in these financial statements has been adjusted to give effect to the 1-for-20 reverse stock split of the Company's common stock effected on May 12, 2023.

Debt Satisfaction Agreement

On September 29, 2023, the Company entered into a Debt Satisfaction Agreement (the "DSA") with the SPV, Aegis, Bigger Capital Fund, LP ("Bigger"), District 2 Capital Fund, LP ("District 2"), LDI Investments, LLC ("LDI") and TQLA, LLC. The SPV is a special purpose vehicle whose equity is shared 50% by Bigger and District 2 and 50% by Aegis and LDI.

Pursuant to the DSA, on September 29, 2023, the Company issued to the SPV 296,722 shares of the Company's common stock and 200,000 shares of its Series C Preferred Stock, and executed a Registration Rights Agreement providing that the Company will register for public resale that common stock and the common stock issuable upon conversion of the Series C Preferred Stock. In exchange for that equity, the Company's debts to the members of the SPV were reduced by a total of $6.5 million and the Company recognized a loss on the conversion of $1.3 million for the year ended December 31, 2023. Specifically, the debt was reduced as follows:

- the principal balance of the Secured Promissory Note issued by the Company to Aegis on October 6, 2022 was reduced by $1.9 million;
- the Company's debt to LDI of $1.4 million arising from advances made by LDI to the Company during the past 10 months was eliminated;
- the aggregate principal balance of the Secured Convertible Promissory Notes issued by the Company to Bigger in April and May of 2021 was reduced by $1.6 million; and
- the aggregate principal balance of the Secured Convertible Promissory Notes issued by the Company to District 2 in April and May of 2021 was reduced by $1.6 million.

Further pursuant to the DSA:

- the maturity date of the secured debt listed above as well as unsecured notes issued by the Company and held by Bigger and District 2 in the aggregate amount of $7.4 million was deferred to March 31, 2025 and the interest rate on all such debt was increased to 8% per annum;
- the Company, Aegis, Bigger and District 2 entered into an Intercreditor Agreement, pursuant to which the remaining secured debt obligations of the Company to Aegis, Bigger and District 2 were made *pari passu*;
- the Common Stock Purchase Warrant issued by the Company to TQLA LLC on March 21, 2022, which permits TQLA LLC to purchase up to 145,834 shares of the Company's common stock, was amended to prevent any exercise of the Warrant that would result in the portion of the cumulative voting power in the Company that the holder and its affiliates may own after the conversion to 9.99%. The Beneficial Ownership Limitation may be increased to 19.99% by the holder upon 61 days advance notice to the Company.
- Upon the liquidation, dissolution and winding up of the Company, or upon the effective date of a consolidation, merger or statutory share exchange in which the Company is not the surviving entity, the holder of each share of the Series C Preferred Stock shall be entitled to a distribution prior to and in preference of the holders of the common stock.
- In the event the Company declares a dividend payable in cash or stock to holders of any class of stock, the holder of each share of Series C Preferred Stock shall be entitled to receive a dividend equal in amount and kind to that payable to the holder of the number of shares of the Company's common stock into which that holder's Series C Preferred Stock could be converted on the record date for the distribution common stock. The dividends issued on the Company s outstanding Series B Preferred Stock are excluded from this provision.
- The holders of Series C Preferred Stock shall have no voting rights; except that nothing will limit a holder's voting rights with respect to shares of any other class of the Company's common stock held from time to time.

Issuance of Common Stock

During the year ended December 31, 2023, the Company issued 162,849 shares of common stock to directors and employees for stock-based compensation of $0.7 million. The shares were valued for accounting purposes using the closing share price of the Company's common stock on the date of grant, within the range of $1.29 to $7.40 per share and issued within the range of $3.05 to $7.40 per share

During the year ended December 31, 2023, the Company sold 343,495 shares of common stock for net proceeds of $1.4 million in at-the-market public placements.

On September 29, 2023, pursuant to the DSA (see discussion above), the Company issued to the SPV 296,722 shares of common stock and 200,000 shares of its Series C Preferred Stock. In exchange for that equity, the Company's debts to the members of the SPV were reduced by a total of $6.5 million.

During the year ended December 31, 2022, the Company issued 19,265 shares of common stock to directors and 4,808 shares of its common stock to each of the Subscribers of the 6% Secured Convertible Promissory Notes for stock-based compensation of $0.3 million These shares were valued using the closing share price of the Company's common stock on the date of grant, within the range of $5.60 to $19.20 per share.

On April 5, 2022, the Company sold 10,000 shares of common stock to its Chief Executive Officer for proceeds of $0.2 million based on the market price of the stock at that date.

On February 4, 2022, 8,500 shares were issued at $24.20 per share to the Company's former Chief Executive Officer pursuant to his separation agreement for stock-based compensation of $0.2 million.

Issuance of Series B Preferred Stock

On October 19, 2021, Company entered into a securities purchase agreement ("Purchase Agreement") with an accredited investor ("Subscriber") for its purchase of 2.5 million shares ("Preferred Shares") of Series B Convertible Preferred Stock ("Series B Preferred Stock") at a purchase price of $1.00 per Preferred Share, which Preferred Shares are convertible into shares of the Company's common stock pursuant to the terms and conditions set forth in a Certificate of Designation Establishing Series B Preferred Stock of the Company with an initial conversion price of $62.00 per share. 42,500 shares of common stock were reserved for issuance in the event of conversion of the Preferred Shares.

The Series B Preferred Stock accrues dividends at a rate of 6% per annum, payable annually on the last day of December of each year. Dividends shall accrue from day to day, whether or not declared, and shall be cumulative. Dividends are payable 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 $0.5 million. 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) the volume weighted average price of the common stock for the 90 trading days immediately preceding a dividend date ("VWAP"). For the year ended December 31, 2023, the Company issued dividends of 92,957 shares of common stock at a VWAP of $1.61 per share to its Series B Preferred stockholders. For the year ended December 31, 2022, the Company issued dividends of 23,004 shares of common stock at a VWAP of $6.60. For both the years ended December 31, 2023 and 2022, the Company accrued $0.2 million of preferred dividends.

Issuance of Series C Preferred Stock

On September 29, 2023, the Company entered into the DSA, pursuant to which the Company issued to the SVP 200,000 shares of its Series C Preferred Stock. Each share of Series C Preferred Stock has a stated value of $28.025 and is convertible into shares of the Company's common stock pursuant to the terms and conditions set forth in a Certificate of Designation Establishing Series C Preferred Stock with an initial conversion price of $3.05 per share.

Stock-Based Compensation

On September 8, 2016, the Company adopted the 2016 Equity Incentive Plan (the "2016 Plan"). Pursuant to the terms of the plan, on January 1, 2023 the number of shares available for grant under the 2016 Plan reset to 437,993 shares, equal to 8% of the number of outstanding shares of the Company's capital stock, calculated on an as-converted basis, on March 31 of the preceding calendar year, and then added to the prior year plan amount. As of December 31, 2023, there were 2,120 options and 196,619 restricted stock units ("RSUs") outstanding under the 2016 Plan, with vesting schedules varying between immediate or three (3) years from the grant date.

A summary of all stock option activity as of and for the year ended December 31, 2023 is presented below:

	# of Options	Weighted-Average Exercise Price
Outstanding as of December 31, 2022	2,587	$ 63.20
Options canceled	(467)	87.98
Outstanding as of December 31, 2023	2,120	$ 57.95
Exercisable as of December 31, 2023	2,120	$ 57.95

The aggregate intrinsic value of options outstanding as of December 31, 2023 was $0. As of December 31, 2023, all options had 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 Company did not issue any additional options during the year ended December 31, 2023.

For the years ended December 31, 2023 and 2022, net compensation expense related to stock options was $0 and $2,926, respectively.

Warrants

On March 21, 2022, the Company entered into a promissory note with TQLA LLC to accept a one year loan of $3.5 million. In addition, the Company issued a common stock purchase warrant to TQLA covering the loan amount with an exercise price of $24.00 per share. The note payable was fully repaid in October 2022. The common stock purchase warrant expires in March 2027. The warrants were amended pursuant to the Debt Satisfaction Agreement *(See discussion above)* to prevent any exercise that would result in the warrant-holder and affiliates acquiring cumulative voting power in excess of 9.99%. This Beneficial Ownership Limitation may be increased to 19.99% upon 61 days advance notice to the Company.

From April 19, 2021 through May 12, 2021, the Company issued in a private placement Existing Warrants to purchase up to 45,000 shares of common stock at an exercise price of $52.00 per Warrant Share. On July 30, 2021, the Company entered into Inducement Letters with the holders of the Existing Warrants whereby such holders agreed to exercise for cash their Existing Warrants to purchase the 45,000 Warrant Shares in exchange for the Company's agreement to issue new warrants (the "New Warrants") to purchase up to 45,000 shares of common stock (the "New Warrant Shares"). The New Warrants have substantially the same terms as the Existing Warrants, except that the New Warrants have an exercise price of $60.00 per share and are exercisable until August 19, 2026. On September 29, 2023, pursuant to the Debt Satisfaction Agreement (*see above*), the exercise price of the Existing Warrants was reduced to $33.08 per share and the term during which the Existing Warrants may be exercised was extended to June 23, 2028.

On January 15, 2020, the Company and its subsidiaries entered into a loan agreement (the "Loan Agreement") between the Company and Live Oak Banking Company ("Live Oak"), a North Carolina banking corporation (the "Lender") to refinance existing debt of the Company and to provide funding for general working capital purposes In connection with the Loan Agreement, the Company issued to the Lender a warrant to purchase up to 5,000 shares of the Company's common stock at an exercise price of $78.80 per share (the "Warrant"). The Warrant expires on January 15, 2025. In connection with the issuance of the Warrant, the Company granted the Lender piggy-back registration rights with respect to the shares of common stock issuable upon exercise of the Warrant, subject to certain exceptions.

A summary of all warrant activity as of and for the year ended December 31, 2023 is presented below:

	Warrants	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding as of December 31, 2022	201,667	3.8	$ 33.40	$ -
Outstanding as of December 31, 2023	201,667	3.4	$ 34.87	$ -

17. Related Party Transactions

The following is a description of transactions since January 1, 2022 as to which the amount involved exceeds the lesser of $0.1 million or one percent (1%) of the average of total assets at year-end for the last two completed fiscal years, which was $0.3 million, and in which any related person has or will have a direct or indirect material interest, other than equity, compensation, termination and other arrangements.

TQLA, LLC

During 2022, the Company entered into a Secured Line of Credit Promissory Note (the "TQLA Note") with TQLA LLC and amended it twice for total borrowing of $3.3 million. TQLA LLC is owned by Stephanie Kilkenny, a member of the Company's Board of Directors, and her husband, Patrick Kilkenny.

Aegis Security Insurance Company

On October 7, 2022, the Company entered into a Note Purchase Agreement with Aegis. Pursuant to the Note Purchase Agreement, Aegis purchased from the Company a secured promissory note in the principal amount of $4.5 million (the "Aegis Note"). $3.3 million of the purchase price was paid to TQLA, LLC to satisfy the TQLA Note. *See discussion of the Aegis transaction in Note 12.* Patrick Kilkenny is the principal owner of Aegis.

LD Investments LLC

On September 29 2023, the Company entered into a Secured Promissory Note with LDI in the principal amount of $1.4 million, representing advances made by LDI to the Company between December 2022 and August 2023. Patrick Kilkenny is the principal owner of LDI.

On September 29, 2023, the Company entered into the DSA with LDI and other creditors. *See: Note 16, Stockholders Equity – Debt Satisfaction Agreement.* The entire principal and interest on the LDI Note were exchanged for equity issued to the SPV, in which LDI holds a 21% interest.

18. Subsequent Events

During February 2024, LD Investments advanced the Company $0.6 million. The principal owner of LD Investments is Patrick Kilkenny.

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 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 (the "Exchange Act")) as of the end of the period covered by this report. These disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2023.

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, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2023 using the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). With the participation of our Chief Executive Officer and Chief Financial Officer (principal financial and accounting officer), our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2023 based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). While our initial assessment, completed on December 31, 2023 deemed internal controls effective, based upon a further evaluation of market conditions during our annual audit, which was conducted subsequent to December 31, 2023, we modified management's initial estimates and projections used in our asset impairment in a manner that caused audit adjustments. Accordingly, management concluded there was a material weakness in our internal control over financial reporting as of December 31, 2023 based on the COSO framework criteria since management lacked a formal policy of inputs in testing for impairment resulting in adjusting journal entries.

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, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. OTHER INFORMATION

During the quarter ended December 31, 2023, no director or officer adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement, as each term is defined in Item 408(a) of Regulation S-K.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to our Proxy Statement for the 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2023.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for the 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2023.

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

The information required by this item is incorporated by reference to our Proxy Statement for the 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2023.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to our Proxy Statement for the 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2023.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to our Proxy Statement for the 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2023.

Item 15. EXHIBITS

(a)(1) Financial Statements
The following documents are included in Item 8 of this report:
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2023 and 2022
Consolidated Statements of Operations for the Years Ended December 31, 2023 and 2022
Consolidated Statements of Stockholders' Equity (Deficit) for the Years Ended December 31, 2023 and 2022
Consolidated Statements of Cash Flows for the Years Ended December 31, 2023 and 2022
Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules
These schedules are omitted because they are not required or because the information is set forth in the financial statements or the notes thereto.

(a)(3) Exhibits
See Exhibit Index.

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of the Company, 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	Articles of Merger, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated November 19, 2014 and filed on November 25, 2014 and incorporated by reference herein.
3.3	Certificate of Change, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated October 6, 2016 and filed on October 11, 2016 and incorporated by reference herein.
3.4	Certificate of Change, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated June 14, 2017 and filed on June 15, 2017 and incorporated by reference herein.
3.5	Certificate of Amendment of Articles of Incorporation, filed as an Exhibit to the Company's Current Report on Form 8-K dated August 13, 2021 and filed on August 31, 2021 and incorporated by reference herein.
3.6	Certificate of Amendment to Designation of Series B Preferred Stock, filed as an Exhibit to the Company's Current Report on Form 8-K filed on October 25, 2021 and incorporated herein by reference.
3.7	Certificate of Change Pursuant to NRS 78.209 – filed May 3, 2023, filed as an Exhibit to the Company's Current Report on Form 8-K filed on May 9, 2023 and incorporated herein by reference.
3.8	Certificate of Designation of Series C Preferred Stock filed on September 28, 2023 - filed as an Exhibit to the Company's Current Report on Form 8-K filed on September 29, 2023 and incorporated herein by reference
3.9	Certificate of Amendment of Articles of Incorporation - filed on January 2, 2024, filed as an Exhibit to the Company's Current Report on Form 8-K filed on January 4, 2024 and incorporated herein by reference.
3.10	Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated August 8, 2019 and filed on August 9, 2019 and incorporated by reference herein.
4.1	Warrant dated October 26, 2021 issued to the Purchaser of Series B Preferred Stock, filed as an Exhibit to the Company's Current Report on Form 8-K filed on October 25, 2021 and incorporated herein by reference.
10.1	Eastside Distilling, Inc. 2016 Equity Incentive Plan, filed as Exhibit 99.1 to the Registrant's Registration Statement on Form S-8 filed on February 28, 2019 and incorporated by reference herein.
10.2	Asset Purchase Agreement, filed as Exhibit 1.1 to the Registrant's Current Report on Form 8-K dated September 12, 2019 and filed on September 16, 2019 and incorporated by reference herein.
10.3	Debt Satisfaction Agreement dated September 29, 2023 among Eastside Distilling, Inc., The B.A.D. Company, LLC, Aegis Security Insurance Company, Bigger Capital Fund, LP, District 2 Capital Fund, LP, LDI Investments, LLC and TQLA, LLC - filed as an Exhibit to the Company's Current Report on Form 8-K filed on September 29, 2023 and incorporated herein by reference
10.4	Note Purchase Agreement dated as of October 6, 2022 among Aegis Security Insurance Company, Eastside Distilling, Inc. and Craft Canning + Bottling LLC., filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 7, 2022 and filed on October 13, 2022 and incorporated herein by reference.
10.5	Secured Promissory Note dated as of October 6, 2022 issued by Eastside Distilling, Inc. to Aegis Security Insurance Company, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K dated October 7, 2022 and filed on October 13, 2022 and incorporated herein by reference.
10.6	Exclusive Purchase Agreement dated August 16, 2019 between Agaveros Unidos de Amatitan, SA. de CV. and Intersect Beverages, LLC., filed as Exhibit 10.32 to the Registrant's Annual Report on Form 10-K, filed on March 30, 2020 and incorporated by reference herein.
10.7	Assignment, Assumption and Consent Agreement dated September 2019 between the Company, Intersect Beverages, LLC and Agaveros Unidos de Amatitan, SA. de CV., filed as Exhibit 10.33 to the Registrant's Annual Report on Form10-K, filed on March 30, 2020 and incorporated by reference herein.
10.8	Executive Employment Agreement dated June 5, 2020 between Geoffrey Gwin and the Company, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 8, 2020.
21	Subsidiaries of the Registrant
31.1*	Certification of Chief Executive Officer and Chief Financial Officer 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.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Schema Linkbase Document
101.CAL*	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Labels Linkbase Document
101.PRE*	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

*	Filed herewith.

Item 16. FORM 10-K SUMMARY

None.

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/ Geoffrey Gwin*
Geoffrey Gwin
Chief Executive Officer

By: */s/ Geoffrey Gwin*
Geoffrey Gwin
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.

Signatures	Title	Date
/s/ Geoffrey Gwin Geoffrey Gwin	Chief Executive Officer and Chief Financial Officer, Chairman of the Board	April 1, 2024
/s/ Robert Grammen Robert Grammen	Director	April 1, 2024
/s/ Stephanie Kilkenny Stephanie Kilkenny	Director	April 1, 2024
/s/ Eric Finnsson Eric Finnsson	Director	April 1, 2024

Exhibit 21

EASTSIDE DISTILLING, INC.

Subsidiaries

MotherLode LLC, an Oregon limited liability company

Craft Canning + Bottling, LLC, an Oregon limited liability company

Galactic Unicorn Packaging, LLC, an Oregon limited liability company

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Geoffrey Gwin 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 1, 2024

/s/ Geoffrey Gwin
Geoffrey Gwin
Chief Executive Officer and Chief Financial Officer

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350**

I, Geoffrey Gwin, Chief Executive Officer and Chief Financial Officer, 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, 2023 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 1, 2024

By:	*/s/ Geoffrey Gwin*
Name:	Geoffrey Gwin
Title:	Chief Executive Officer and Chief Financial Officer