

# EASTSIDE

DISTILLING  
NASDAQ: EAST

2018  
ANNUAL  
REPORT



CELEBRATING 10 YEARS ON THE EAST SIDE

# EASTSIDE DISTILLING. A BRAND PORTFOLIO.

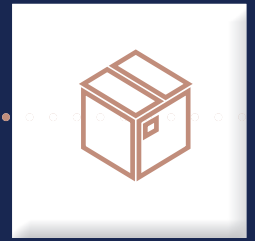
A PLATFORM  
BUILT TO  
SUPPORT  
MULTIPLE  
BRAND HITS



CREATE FORMULA  
& FLAVOR



DEVELOP  
BRANDING



PRODUCTION



# A PLATFORM FOR LONG-TERM SUCCESS.



REGIONAL  
DISTRIBUTION



INDEPENDENT  
ACCOUNTS



NATIONAL  
DISTRIBUTION



NATIONAL  
ACCOUNTS





# THE SECRET IS IN THE SAUCE

DEVELOPED UNDER THE DIRECTION OF OUR AWARD-WINNING MASTER DISTILLERS Mel Heim and Travis Schoney, we make sure that every expression is held up to their exacting standards. We're dedicated to sourcing the best ingredients available. This standard doesn't just apply to the premium raw spirits we bring in, it also applies to the team we've built to curate our blending, resting, and hand bottling program. Understanding how each element plays together is essential to creating a memorable spirit.



**OUR AWARD-WINNING MASTER DISTILLER** Mel Heim has more than a decade of experience and **IS A PIONEERING FORCE IN THE SPIRITS INDUSTRY.**



## THE MESSAGE IS ON THE BOTTLE

OUR BURNSIDE FAMILY OF OREGON OAK FINISHED WHISKEY AND BOURBON is commemorative of Burnside Street, our hometown artery that divides Portland's North and South and stretches end-to-end. Burnside Street has been and continues to be a thriving hub of activity that is alive with creative expression, famous venues, iconic record stores and daily street performances. Burnside's design, with its bold typography and unexpected color relationships, draws its inspiration from old music posters and garage-band flyers littering any number of telephone poles along the busy street and fits comfortably with the "Keep Portland Weird" aesthetic.



**ACCLAIMED SPIRITS BRANDING FIRM,** Sandstrom Partners has redesigned Eastside's portfolio to **INSPIRE CONSUMERS TO EXPERIENCE THE AWARD-WINNING SPIRITS.**

Our facilities can produce over  
500,000 CASES OF BOTTLED or  
2.7 MILLION CASES OF CANNED  
product per year.



**EXPANDING OUR  
CRAFT FOOTPRINT**



## EXPANDING PRODUCTION CAPABILITIES

IN ADDITION TO OUR CANNING AND BOTTLING CAPABILITIES, we recently commissioned a custom new 500-gallon capacity still. The still was manufactured with high quality, German produced distilling copper and is designed specifically for higher volume production of our multiple gold medal award-winning American Single Malt Whiskey.

WE ARE SEEKING TO BECOME A HIGHER VOLUME PRODUCER in the emerging American Single Malt Whiskey market, where locally grown Pacific Northwest barley is a key ingredient. In addition to our American Single Malt Whiskey, the still is also designed to produce gin, brandy, and rum products in much larger volumes and more efficiently than our existing still.



**BIG BOTTOM DISTILLING  
NAMED USA WHISKEY  
DISTILLERY OF THE YEAR  
AT THE 2019 BERLIN  
INTERNATIONAL SPIRITS  
COMPETITION**



**REDNECK RIVIERA WHISKEY** was launched in February 2018 and quickly became one of **THE MOST SUCCESSFUL FIRST YEAR PRODUCT LAUNCHES IN SPIRITS HISTORY.**

WE KNOW WHAT IT MEANS TO WORK HARD. That's why we cut no corners in creating what we can proudly claim as Granny Rich's favorite shooter. Produced in small batches, using the highest quality ingredients and artfully blended, this is what American Whiskey is all about. A taste of the good life in every sip, now you, too, can play hard on the Redneck Riviera.

"MY TEAM AND I WORKED TIRELESSLY ON THE CREATION of Redneck Riviera Whiskey. I wanted an American blend like nothing else on the shelf, and that's exactly what we got! RR Whiskey is as smooth as it gets, and I'm proud to offer it to America's 'Work Hard, Play Hard' crowd!" - John Rich





**WE CONTINUOUSLY LOOK FOR OPPORTUNITIES** to create and build a diverse brand portfolio because our mission is **TO MAKE CRAFT ACCESSIBLE TO THE MANY, NOT THE FEW.**

LEVERAGING OUR CANNING OPERATIONS, we entered the fast growing Ready-to-Drink (RTD) market with the introduction of the Portland Mule Ready-to-Drink Cocktail, our first branded RTD.

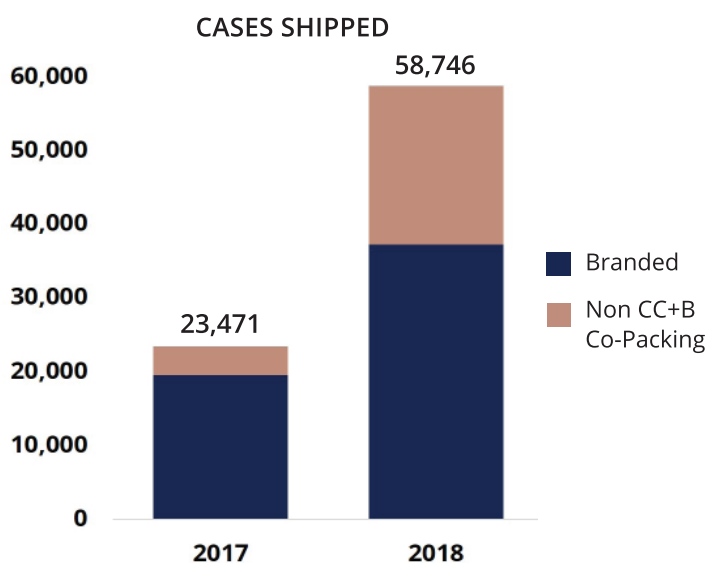
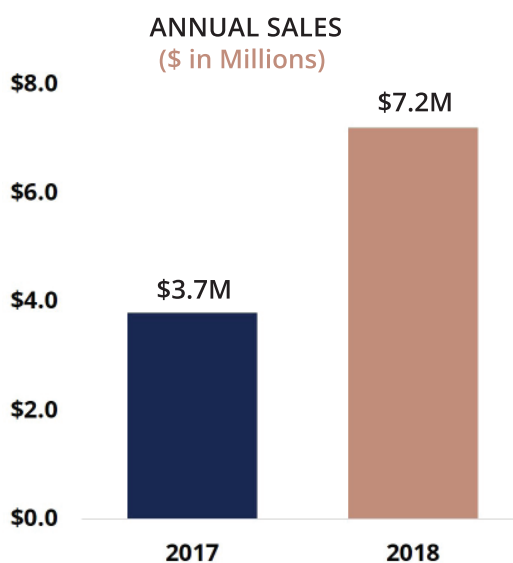
WE ALSO LEVERAGED OUR POSITION as an Oregon-based company by launching the Outlandish lineup of RTDs which are non-alcoholic beverages that include CBD and can be used as a “mixer” in uniquely designed drinks (limited only by imagination) or consumed entirely on their own. We are initially limiting distribution of Outlandish to Oregon, which legalized CBD in 2014. Outlandish and Eastside Distilling make no claims to health benefits of CBD. We encourage all our customers to do research of their own.



# COMPANY FINANCIALS

## EASTSIDE DISTILLING, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF OPERATIONS

	December 2018	December 2017
Sales	\$ 7,204,302	\$ 3,791,382
Less excise taxes, customer programs and incentives	1,080,792	1,180,386
Net Sales	6,123,510	2,610,996
Cost of sales	3,813,309	1,634,069
Gross profit	2,310,201	976,927
Operating expenses		
Advertising, promotional and selling expenses	4,345,210	2,219,168
General and administrative expenses	6,225,998	3,546,659
Loss on disposal of property and equipment	-	40,975
Total operating expenses	10,571,208	5,806,802
Loss from operations	(8,261,007)	(4,829,875)
Other income (expense), net		
Interest expense	(789,362)	(235,053)
Other income (expense)	2,700	(212,989)
Total other expense, net	(786,662)	(448,042)
Loss before income taxes	(9,047,669)	(5,277,917)
Provision for income taxes	-	-
Net loss	(9,047,669)	(5,277,917)
Income (loss) attributable to noncontrolling interests	-	601
Net loss attributable to Eastside Distilling, Inc. common shareholders	\$ (9,047,669)	\$ (5,277,316)
Basic and diluted net loss per common share	\$ (1.49)	\$ (1.42)
Basic and diluted weighted average common shares outstanding	6,074,476	3,717,956



**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, 2018

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

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

Commission File Number 000-54959

**EASTSIDE DISTILLING, INC.**

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

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

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

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

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

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

**Common Stock, \$0.0001 par value**  
(Title of Each Class)

**The Nasdaq Stock Market LLC**  
(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 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 and post such files). **Yes**  **No**

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the 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 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter was \$34,550,018 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 March 25, 2019, 9,102,297 shares of our common stock were outstanding.

**Documents Incorporated by Reference:** None.



## PART I

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

### Item 1. BUSINESS

#### 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:

- 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;
- Our continuing to focus on and ability to realize our strategic objectives;
- Our continuing to follow our product approach;
- Our ability to retain, market and grow our existing brands, including Redneck Riviera Whiskey and the effect that may have on other brands;
- Our ability to protect our intellectual property, including trademarks 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 our ability to continue to expand our production capabilities to meet demand;
- Our ability to cultivate our distribution network;
- Application of and changes in applicable laws, regulations and taxes in jurisdictions in which we operate and the impact of newly enacted laws;
- The availability of financing;
- Our expectations regarding our direct-to-consumer sales and retail stores;
- Our ability to expand our operations by acquisitions and to integrate and realize the benefits of our acquisitions;
- Our plan and ability to exploit Cannabidiol (“CBD”) products;
- Our liquidity and capital needs and ability to meet our liquidity needs; and
- Our operations, financial performance and results of operations.

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

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

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

## Overview

We are an Oregon-based producer and marketer of craft spirits, founded in 2008. Our products span several alcoholic beverage categories, including bourbon, American whiskey, vodka, gin and rum. Unlike many distillers, we operate several retail tasting rooms in Oregon to market our brands directly to consumers. Our strategy for growth is to build on our local base in the Pacific Northwest and expand selectively to other markets, using major spirits distributors. In December 2016, we retained Sandstrom Partners, an internationally-known spirit branding firm that branded St-Germain and Bulleit Bourbon, to guide our marketing strategy and branding. Sandstrom Partners subsequently became an investor in our company. With the assistance of Sandstrom Partners and using our in-house spirits expertise, during 2017, we created Redneck Riviera Whiskey (“RRW”), in collaboration with Country Music superstar John Rich, of the duo “Big & Rich.” Supported by John Rich’s marketing efforts, we launched RRW in the Southeastern and Gulf States in early 2018 primarily through Republic National Distributing Company (“RNDC”). During 2018, its first year on the market, RRW generated strong commercial progress and results, and we have focused our sales efforts outside of Oregon on RRW. We believe RRW will be a key growth engine in 2019 and will also provide a “coattail” effect for our other brands, helping them to achieve improved national recognition and success.

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

As a Nasdaq-traded company, we have access to public capital markets to support our growth initiatives, including strategic acquisitions. In May 2017, we used our shares to acquire 90% of Big Bottom Distillery, LLC (“BBD”), known for its award-winning, super-premium gins and whiskeys, including The Ninety One Gin, Navy Strength Gin, Oregon Gin, Delta Rye and American Single Malt Whiskey. BBD’s super-premium spirits give us a presence at the “high end” of the market. In December of 2018, we acquired the remaining 10% of BBD. In addition, through MotherLode Craft Distillery (“MotherLode”), our wholly-owned subsidiary acquired in March 2017, and Craft Canning LLC (“Craft Canning”) acquired on January 11, 2019, we also provide contract bottling, canning, and packaging services for existing and emerging beer, wine and spirits producers. We intend to use our canning equipment, at MotherLode and Craft Canning, to profit from the rapid growth in canned beverages (Beer, Wine, Spirit-based RTD’s and CBD. We believe our significant capacity expansion (and regional reputation) due to the more recent acquisition of Craft Canning, is a competitive advantage.

## Corporate History

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

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

## Market Opportunity

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

The global spirits market is very large, generating total revenues in excess of \$350 billion annually, growing at a moderate (estimated 2-4%) pace.

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

## *Key Growth Trends that We Target*

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

High-End and Super-Premium – The high-end and super-premium spirit products, across most categories, continue to exhibit strong growth trends, up approximately 7% in 2017.

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

International– The demand for U.S.-produced spirits abroad is increasing significantly. U.S. spirit exports nearly doubled over the past decade. U.S. spirit exports increased 14.3% to \$1.63 billion in 2017.

## **Our Strategy and Its Implementation**

Our objective is to build Eastside Distilling into a strong, nationally competitive and profitable spirits and beverage-production company, which includes: 1) offering a distinctive portfolio of premium and high-end spirit brands that have consumer appeal and following and 2) providing a scalable, private-label production and packaging operation designed to support small-to-large producers of spirits, wine, beer, CBD, or other consumer-based beverage products. Our overall strategies to accomplish that goal include:

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

To help achieve this, we are focused on:

- achieving world-class spirit rebranding with the collaboration of Sandstrom Partners;
- growing organically as well as through acquisitions;
- monetizing our diverse and growing branded-product portfolio;
- expanding our co-packing (private-label) services;
- improving margins; and
- accelerating our strong double-digit growth in core markets, as well as expanding opportunistically in international markets.

## **Our Strengths**

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

- *Award-Winning, Diverse Product Line:* We have a diverse product line, currently offering over twenty premium craft spirits, many of which have won awards for taste and/or product design. According to a study by the American Craft Spirits Association, the U.S. craft spirits volume of cases sold experienced a compound annual growth rate of over 25% between 2010 and 2017 and saw an increase in market share from 0.8% to 3.2% during that period. Our sales of premium brands have increased over 1,000% since 2010. We believe our diverse, recognized product line in this growing market will enable us to establish a presence in new geographic markets and enable us to procure additional distributors for our products.
- *Key Relationships:* We have distribution arrangements with several of the largest wine and spirits distributors in the United States, such as RNDC, Young’s Market and Southern Glazer’s. We have also engaged Park Street, a provider of back-office administrative and logistical services for alcohol and beverage distributors. We believe these relationships will help accomplish our goal of having our premium spirits sold and distributed nationwide.

- *Experienced Distilling and Blending Experts:* We believe that our team of expert blenders and distillers, with highly regarded “palates” and experience is important to us maintaining a high-quality, artisanal character to our products as well as adding to our consumer appeal.
- *Experienced Marketing and Branding:* Our strong relationship with Sandstrom Partners, an internationally-known spirit branding firm, provides us with strong expertise and capabilities with respect to marketing and branding, a critical element in a large consumer market, such as spirits.
- *Expanded Production:* With the recent (*January 2019*) acquisition of Craft Canning along with our substantial investments already made during 2017 and 2018, we believe that our production capabilities have been significantly enhanced to support both our Eastside branded products as well as our private-label operations.

## **Our Product Approach**

Our approach to our craft spirits involves five important aspects:

- *Commitment to Quality:* We create and deliver high-quality, innovative products targeted at growing markets.
- *Authentic Yet Scalable:* We believe our approach to production allows us to produce our products at scale, while keeping flavor profiles consistent.
- *Unique Talent and Experience:* Every spirit reflects the creativity of our entire team.
- *Extensive Spirit Portfolio:* Many craft distillers have only one to three products; we currently have over 20, which we believe affords us the opportunity to target a broader range of consumers with our brands.
- *Generate Customer Loyalty:* These factors attract loyal and enthusiastic customers and major distributors for our products.

## **Our Brands and Services**

We develop, produce and market the premium brands and provide canning and bottling services listed below:

**Burnside.** We develop, market and produce several premium, barrel-aged whiskeys and bourbons under our brand name “Burnside.” During 2017, we undertook a major re-branding and market re-positioning strategy with our Burnside-branded products. This effort was led by our marketing partner, Sandstrom Partners. The new branding, packaging and product line expansion was launched late in the fourth quarter of 2017. The current products sold under this brand include: Burnside West End Blend (a blended whiskey), Burnside Oregon Oaked Bourbon (a blended bourbon), Burnside Goose Hollow RSV Bourbon (a special reserve straight bourbon), Burnside Oregon Oaked Rye (a blended rye whiskey), and Burnside Buckman Reserve. All of the Burnside products are age-finished in our own in-house, specifically treated, Oregon-oak barrels, which we believe adds an enhanced and improved flavor profile and provides the products with differentiation in the marketplace and anchors the lineup to our Oregon roots. We consider the Burnside products to be “premium” to “ultra-premium” brands. Our Burnside brands accounted for approximately 15% and 25% of our sales for the years ended December 31, 2018, and 2017, respectively. While dollar volume increased during 2018, the decrease in Burnside as a percentage of our total sales is primarily due to the introduction of the new Redneck Riviera Whiskey product and its strong initial year along with a rapid increase in our private label business.

*Redneck Riviera Whiskey.* In October 2017, we were granted an exclusive license for the use of the Redneck Riviera brand for spirits-based products. The Redneck Riviera trademark is owned by Rich Marks, which is controlled by John Rich, a “multiple platinum” country music singer and songwriter who performs with the “Big & Rich” band. In January 2018, we officially launched our first product, Redneck Riviera Whiskey, under this royalty-free, 10-year license. During 2018, this new brand generated substantial interest from distributors and customers around the nation and contributed 32% to total sales for the year. Beginning in 2020, we will be required to meet certain levels of case sales to avoid termination of the license, and if those levels are met, we will be entitled to renew the license in perpetuity or until such time as a sale of the Redneck Riviera spirits brands occurs.

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

*Barrel Hitch American Whiskey.* We market a standard whiskey: Barrel Hitch American Whiskey. Our Barrel Hitch American Whiskey is 80 proof and won a triple-Gold Medal and “best of show” in the MicroLiquor Spirit Awards in 2015. Barrel Hitch was introduced in July 2015 and accounted for approximately 2% and 11% of our sales for the years 2018 and 2017, respectively.



*Premium Vodka.* We develop, market and produce a premium potato vodka under the brand name “Portland Potato Vodka”, which is distilled from potatoes rather than grain and is gluten-free. Our Portland Potato Vodka was awarded a gold medal from the 2018 Los Angeles International Spirits Competition. A new product, Hot Potato Vodka, was added to this category in the second quarter of 2017 and more recently in late 2018 our new Marionberry Vodka. The vodka is 80 proof and accounted for approximately 15% and 22% of our sales for the years ended December 31, 2018 and 2017, respectively. While dollar volume increased during 2018, the decrease in Vodka as a percentage of sales is primarily due to the introduction of the new Redneck Riviera Whiskey product and its strong initial year along with a rapid increase in our private label business.

*Distinctive Specialty Whiskeys.* We develop, market and produce two distinctive specialty whiskeys: Cherry Bomb Whiskey and Marionberry Whiskey. Our Cherry Bomb Whiskey combines handcrafted small batch whiskey with a blast of real Oregon cherries. Our Cherry Bomb Whiskey won a gold medal for taste and a silver medal for package design in the 2014 MicroLiquor Spirit Awards. Our Marionberry whiskey combines Oregon marionberries (a hybrid blackberry) with premium aged whiskey and was awarded two silver medals in the MicroLiquor Spirit Awards for taste and package design. Our specialty whiskeys accounted for approximately 4% and 13% of our sales for the years ended December 31, 2018 and 2017, respectively.

*Rums.* We develop, market and produce two rums under the ‘Below Deck’ brand name: Below Deck Silver Rum and Below Deck Spiced Rum. We also sell a Coffee Rum (which was renamed and now marketed under ‘Hue Hue’). Below Deck’s Silver Rum is our original rum. Below Deck Spiced Rum is double-distilled from molasses and infused with exotic spices and won a triple gold medal for taste in the 2014 MicroLiquor Spirit Awards. Our Coffee Rum is double-distilled and infused with real cold-brewed coffee from Arabica beans and won a Best in Category, Rum, 2017 and 2018 from the American Distilling Institute Spirit Competition. Our Rum-based products accounted for approximately 4% and 11% of our sales for the years ended December 31, 2018 and 2017, respectively.

*Seasonal/Limited Edition Spirits.* In addition to our premium bourbons, whiskeys, rum and vodka, we create seasonal and limited-edition handmade products, such as Advocaat (eggnog) Liqueur, Peppermint Bark Liqueur, Bier Schnapps and Holiday Spiced Liqueur. Our Seasonal/Limited Edition Spirits accounted for approximately 1% of our sales for each of the years ended December 31, 2018 and 2017, respectively.

*BBD Spirits.* We also acquired several other award-winning brands as a result of our acquisition of Big Bottom Distillery (“BBD”) in May 2017. The extensive BBD product portfolio includes several craft spirits that we believe are highly complementary to our product line, including The Ninety One Gin, Navy Strength Gin (114 proof) and Delta Rye (111 proof) rye whiskey, among others. Inspired by the craft spirits movement in Oregon, Big Bottom Distillery’s small-batch, hand-crafted spirits provide consumers with unique takes on traditional spirits. BBD products accounted for approximately 4% and 3% of our sales for the years ended December 31, 2018 and 2017, respectively.

*MotherLode LLC.* Our wholly-owned subsidiary, MotherLode, provides bottling services, as well as production support to customers such as other craft spirit and wine producers. We refer to this as our private-label business. MotherLode added the ability to provide canning services to customers for wine and RTD alcoholic drinks. The custom built canning line is designed to produce Ball Corporation’s popular “slim can” in 187 ml, 200 ml and 250 ml sizes, with 250 ml being equal to approximately 8.45 ounces. The new line was completed in late 2017 and began to produce for customers in early 2018. During 2018, we also conducted private bulk spirit sales which further added to the MotherLode operations during the year. MotherLode accounted for approximately 23% and 9% of our sales for the years ended December 31, 2018 and 2017, respectively. In January 2019, we significantly added to our private label operations with the acquisition of Craft Canning, LLC.

*Recent New Product Launches.* We have recently introduced several important new products that we expect to contribute to 2019 sales. These new products include recently launched: 1) our first ready-to-drink canned (spirit-based) product, called the Portland Mule, and 2) two new Redneck Riviera whiskey product extensions which include a larger 1.75ml size and a premium version named Granny Rich reserve. We also anticipate launching in 2019 our first CBD-based canned product, called Outlandish, which does not contain alcohol and is currently limited to sales in Oregon.

## **Production and Supply**

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

We rely on a limited number of suppliers for the sourcing of our spirit products and raw materials, including our distillate products and other ingredients. These suppliers consist of third-party producers in the U.S. We do not have long-term, written agreements with any of our suppliers. However, we believe that we have consistent and reliable third-party sources for the needed materials. We produce and bottle all our spirits for distribution, regardless of whether the distillation phase of the process was at our facility or at one of our suppliers. During 2018, we procured a significant portion of our outside base distillate from MGP Ingredients and we intend to continue to actively rely on this supplier.

## **Distribution Network**

We believe that one of our key strengths is the distribution network that we have developed with our sales team and our independent distributors and brokers. We currently have distribution and brokerage relationships with third-party distributors in 39 U.S. states.

### *U.S. Distribution*

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

The U.S. spirits industry has consolidated dramatically over the last ten years due to merger and acquisition activity. Eight major spirits companies currently dominate the industry, each of which owns and operates its own importing businesses. All companies, including these large companies, are required by law to sell their products through wholesale distributors in the United States. The major companies continue to exert increasing influence over the regional distributors and as a result, it has become increasingly difficult for smaller companies to get their products recognized by distributors.

### *Importation*

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

Our inventory is maintained in our warehouses in Milwaukie, Oregon and Hillsboro, Oregon and shipped nationally by 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 that we currently work with also distribute our competitors’ products and brands. As a result, we must foster and maintain our relationships with our distributors. Through our internal sales team, we have established relationships for our brands with wholesale distributors in the thirty-nine states we sell our products, and our products are sold in the U.S. by these wholesale distributors, as well as by various state beverage alcohol control agencies.

## **Other Sources of Revenue**

### *Retail Stores and Kiosks*

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

## *Special Events*

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

## **Significant Customers**

Sales to one distributor, the Oregon Liquor Control Commission, accounted for approximately 30% and 32% of our consolidated sales for the years ended December 31, 2018 and 2017, respectively.

## **Sales Team**

We have a total sales force of 21 people, with an average of over ten years of industry experience with premium beverage alcohol brands.

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

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

## **Advertising, Marketing and Promotion**

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

In late 2016, to aid us in this strategy, we retained Sandstrom Partners, a Portland-based firm specializing in spirits branding, and tasked them with reviewing our current product portfolio, as well as our new ideas, and advising us on marketing, creation of brand awareness and product positioning, locally and nationally. We are using Sandstrom's full range of brand development services, including research, strategy, brand identity, package design, environments, advertising as well as digital design and development. During 2017, Sandstrom Partners helped us successfully re-brand our key Burnside product as well as developed the branding for our new "Redneck Riviera" brand. Throughout 2018 Sandstrom Partners was focused on a number of new and existing (re-branded) product efforts. Some of those have now been launched (including Hue Hue, Granny Rich, and the more recent Portland Mule RTD products), with several more planned to be launched in 2019.

We use a range of marketing strategies and tactics to build brand equity and increase sales, including consumer and trade advertising, price promotions, point-of-sale materials, event sponsorship, in-store and on-premise promotions and public relations, as well as a variety of other traditional and non-traditional marketing techniques, including social media marketing, to support our brands.

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

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

## **Intellectual Property**

Trademarks are an important aspect of our business. We sell our products under a number of trademarks, which we own or use under license, including the Redneck Rivera trademark, which is owned by Rich Marks and described above under “Item 1 - Business - Our Brands”. Our brands are protected by trademark registrations or are the subject of pending applications for trademark registration in the U.S. where we distribute, or plan to distribute, our brands. The trademarks may be registered in the names of our 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 industry is subject to seasonality with peak retail sales generally occurring in the fourth calendar quarter, primarily due to seasonal holiday buying. Historically, this holiday demand has resulted in higher sales for us in our fourth quarter.

## **Competition**

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

Over the past ten years, the U.S. wine and spirits industry has undergone dramatic consolidation and realignment of brands and brand ownership. The number of major importers in the U.S. has declined significantly. Today, we believe eight 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 Remy Cointreau S.A.

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

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

## **Government Regulation**

We are subject to the jurisdiction of the Federal Alcohol Administration Act, U.S. Customs laws, and the Alcoholic Beverage Control laws of all fifty states, 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 the advertising, marketing and sale of beverage alcohol. These regulations range from a complete prohibition of the marketing of alcohol in some states to restrictions on advertising 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. Once we begin distributing our products internationally, import and excise duties could have a significant effect on our sales, both through reducing the consumption of alcohol and through encouraging consumer switching into lower-taxed categories of alcohol.

We are also subject to regulations pertaining to our new CBD product, “Outlandish.” On December 20, 2018, the Agricultural Improvement Act of 2018, which is also known as the “2018 Farm Bill,” was enacted and legalized hemp and hemp products under U.S. federal law. However, we must still comply with all applicable state hemp laws. Oregon has legalized CBD for personal consumption. In addition, the Food and Drug Administration (the “FDA”) has publicly stated that certain products derived from hemp, including CBD, which is a cannabinoid that can be extracted from hemp, will be regulated by the FDA. Thus, participants in the hemp industry will need to comply with all applicable federal and state laws, rules and regulations in the cultivation, transportation, and sale of hemp and hemp derived products. We believe we comply with all federal and state laws, rules and regulations, including, in particular, because we do not believe the FDA has jurisdiction over sales of CBD that do not affect interstate commerce. However, these laws continue to evolve and be interpreted. See Item 1A “Risk Factors — *The federal and state regulatory landscape regarding products containing CBD is uncertain and evolving, and new or changing laws or regulations relating to hemp and hemp-derived products could have a material adverse effect on our business, financial condition and results of operations.*”

## **Employees**

As of December 31, 2018, we had 49 full-time employees, 21 of whom were in sales and marketing and five of whom were in management and 28 of whom were in production and administration. We also had 21 part-time employees.

## **Geographic Information**

Eastside currently sells its products in 39 states, as well as in Ontario, Canada.

## **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.

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

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

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

In addition, our profitability depends in part on achieving scale. We will need to achieve wider market acceptance of our brands and materially increase sales and gain profitability

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

We believe that we will continue to incur net losses for the foreseeable future as we expect to make continued significant investment in product development and sales and marketing and to incur significant administrative expenses as we seek to grow our brands. We also anticipate that our cash needs will exceed our income from sales for the foreseeable future. Some of our products may never achieve widespread market acceptance and may not generate sales and profits to justify our investment in them. Also, we may find that our expansion plans are more costly than we anticipate and that they do not ultimately result in commensurate increases in our sales, which would further increase our losses. We expect we will continue to experience losses and negative cash flow, some of which could be significant. Results of operations will depend upon numerous factors, some of which are beyond our control, including market acceptance of our products, new product introductions and competition. We also incur substantial operating expenses at the corporate level, including costs directly related to being a reporting company with the U.S. Securities and Exchange Commission (the “SEC”). For the year ended December 31, 2018, we reported a net loss of \$9 million. As of December 31, 2018, we had an accumulated deficit since inception of \$27.1 million.

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

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

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

We are required by law to use state-licensed distributors or, in 18 states known as "control states," state-owned agencies performing this function, to sell our products to retail outlets, including liquor stores, bars, restaurants and national chains in the United States. We have established relationships for our brands with a limited number of wholesale distributors; however, failure to maintain those relationships could significantly and adversely affect our business, sales and growth. We currently distribute our products in 39 states.

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

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

We currently derive a significant amount of our revenues from a few major distributors. A significant decrease in business from or loss of any of our major distributors could harm our financial condition by causing a significant decline in revenues attributable to such distributors. Sales to one distributor, the Oregon Liquor Control Commission, accounted for approximately 30% and 32% of our consolidated sales for 2018 and 2017, respectively. While we believe our relationships with our major distributors are good, we do not have long-term contracts with any of them and purchases generally occur on an order-by-order basis. If we experience a significant decrease in sales to any of our major distributors and are unable to replace such sales volume with orders from other customers, our sales may decrease which would have a material adverse financial effect on our results of operations and financial condition.

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

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

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

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

***The federal and state regulatory landscape regarding products containing CBD is uncertain and evolving, and new or changing laws or regulations relating to hemp and hemp-derived products could have a material adverse effect on our business, financial condition and results of operations.***

On December 20, 2018, the Agricultural Improvement Act of 2018, which is also known as the "2018 Farm Bill," was enacted and legalized hemp and hemp products under U.S. federal law. However, we must still comply with all applicable state hemp laws. In addition, the Food and Drug Administration (the "FDA") has publicly stated that certain products derived from hemp, including CBD, which is a cannabinoid that can be extracted from hemp, will be regulated by the FDA. Thus, participants in the hemp industry will need to comply with all applicable federal and state laws, rules and regulations in the cultivation, transportation, and sale of hemp and hemp derived products.

We plan to commence distribution of Outlandish, a non-alcoholic beverage that contains hemp-derived CBD. While we believe our current operations and the sale of Outlandish in Oregon, a state that has legalized CBD for personal consumption, comply with existing federal and state laws relating to hemp and hemp-derived products, we will have to quickly adapt our sales and operations to comply with forthcoming and rapidly-shifting federal and state regulations. Local, state, federal, and international laws and regulations pertaining to CBD are broad in scope and subject to evolving interpretations, which could require us to incur substantial costs associated with compliance requirements. In addition, violations or allegations of such violations of these laws, including an assertion by the FDA that it has jurisdiction over our intrastate CBD sales, could disrupt our business, result in fines or discontinuance of our CBD products and result in a material adverse effect on our operations. In addition, it is possible that regulations may be enacted in the future that will be directly applicable to our CBD business. It is also possible that the federal government will change existing laws, which may limit the legal uses of the hemp plant and its derivatives and extracts, such as cannabinoids. We cannot predict the nature of any future laws, regulations, interpretations, or applications, nor can we determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our activities in the legal hemp industry.

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

A component of our growth strategy may be the acquisition of additional brands that are complementary to our existing portfolio through acquisitions of such brands or their corporate owners, directly or through mergers, joint ventures, long-term exclusive distribution arrangements and/or other strategic relationships. For example, in May 2017, we acquired 90% (and the remaining 10% in December 2018) of the ownership of BBD for its award-winning range of super-premium gins and whiskeys, and we acquired MotherLode in March 2017, which provides contract canning, bottling and packaging services for existing and emerging spirits producers, some of whom contract with us to blend or distill spirits. In early 2019, we completed the acquisition of Craft Canning, which significantly adds to our contract canning, bottling and packaging services. If we are unable to identify suitable brand candidates and successfully execute our acquisition strategy, our growth will be limited.

Also, even if we are successful in acquiring additional brands or related service businesses, we may not be able to achieve or maintain profitability levels that justify our investment in or realize operating and economic efficiencies or other planned benefits with respect to those additional brands 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:

- difficulties in assimilating acquired operations or products, including failure to anticipate synergies;
- failure to realize or anticipate benefits or 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 will also be dependent upon acceptable acquisition targets and opportunities 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.

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

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

In October 2017, we were granted an exclusive license for the use of the Redneck Riviera brand for spirits-based products. The Redneck Riviera trademark is owned by Rich Marks, which is controlled by John Rich, a "multiple platinum" country music singer and songwriter who performs with the "Big & Rich" band. Beginning in 2020, we will be required to meet certain levels of case sales, and if such sale levels are not met, Rich Marks will have the right to terminate the license.

***A failure of one or more of our key or service product information technology systems or: cyber-security breach or cyber-related fraud could have a material adverse impact on our business.***

We rely on information technology (IT) systems, networks, and services, including internet sites, data hosting and processing facilities and tools, hardware (including laptops and mobile devices), software and technical applications and platforms, some of which are managed, hosted, provided and/or used by third-parties or their vendors, to assist us in the management of our business.

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



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

Our success depends upon the efforts and abilities of our senior management team, other key employees, and a high-quality employee base, as well as our ability to attract, motivate, reward, and retain them. If we or one of our executive officers or significant employees terminates her or his employment, we may not be able to replace their expertise, fully integrate new personnel or replicate the prior working relationships, and the loss of their services might significantly delay or prevent the achievement of our business objectives. Qualified individuals with the breadth of skills and experience in our industry that we require are in high demand, and we may incur significant costs to attract them. We do not maintain and do not intend to obtain key man insurance on the life of any executive or employee. Difficulties in hiring or retaining key executive or employee talent, or the unexpected loss of experienced employees could have an adverse impact 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. For instance, our Board of Directors could make changes in our executive leadership, which may disrupt our business while the new leadership becomes more familiar with our business and strategy and establishes relationships with employees, customer, suppliers and other business partners.

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

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

## **RISKS RELATED TO OUR INDUSTRY**

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

Consumer preferences may shift due to a variety of factors, including changes in demographic and social trends, public health initiatives, product innovations, changes in vacation or leisure, dining and beverage consumption patterns and a downturn in economic conditions, 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.

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

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

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

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

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

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

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

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

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

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

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

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

***We could face product liability or other related liabilities that increase our costs of operations and harm our reputation. In addition, our insurance coverage might not be adequate.***

Although we maintain liability insurance and will attempt to limit contractually our liability for damages arising from our products, these measures may not be sufficient for us to successfully avoid or limit product liability or other related liabilities. Our product liability insurance coverage is limited to \$2 million per occurrence and \$5 million in the aggregate and our general liability umbrella policy is capped at \$2 million, which may be insufficient. 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.

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

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

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

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

## **RISKS RELATED TO OUR COMMON STOCK**

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

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

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

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

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

We currently have non-trading, privately-issued common stock warrants to purchase 1,083,435 shares of common stock. During the term that our Private Warrants are outstanding, the holders of such warrants will be given the opportunity to profit from a rise in the market price of our common stock. We may find it more difficult to raise additional equity capital while the Public Warrants and/or Private Warrants are outstanding. As of December 2018, there are no remaining publicly-traded warrants outstanding.

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

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

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

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

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

Grover T. Wickersham, our chairman and chief executive officer, is the beneficial owner of approximately 5.5% of the outstanding shares of our common stock as of March 28, 2019, including shares he owns as the indirect beneficial owner (but for which he disclaims beneficial ownership), and excluding shares he (or the entities for which he is deemed to be the beneficial owner) has the right to acquire upon exercise of warrants and options that may be exercised in the future. Accordingly, as a result of his direct and indirect beneficial ownership, he may be able to exercise substantial control and directly influence our affairs and business, including any determination with respect to a change in control, future issuances of common stock or other securities, declaration of dividends on the common stock and the election of directors. Were all of the options and warrants exercised for which Mr. Wickersham is deemed to own, whether directly and indirectly, his influence over matters that are subject to a stockholder vote would further increase.

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

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

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

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

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

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

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

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

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

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

Our primary production facility is located at 2150 Hanna Harvester Road, Milwaukie, Oregon and comprises approximately 30,000 square feet. We lease these premises under a lease agreement which ends on October 31, 2021, with an option to renew through 2026. Our Big Bottom production facility is located at 21420-D NW Nicholas Court Hillsboro, Oregon 97214 and comprises 6,040 square feet. We lease this premise under a lease agreement which ends on June 30, 2020.

We also lease retail space for our tasting rooms in the Portland, Oregon area. We lease a 683 square foot retail store in Clackamas Town Center, under a two-year lease expiring March 31, 2020. We lease retail space at 1512 SE 7<sup>th</sup> Avenue, Portland, Oregon 97214, expiring on March 31, 2021. We lease an 885 square foot retail store in Washington Square Mall, under a two-year lease expiring March 31, 2020. We lease a 1,633 square foot retail store at the Woodburn Outlet Mall, under a lease that expires May 31, 2019. We lease retail space at 1422 NW 23<sup>rd</sup> Avenue, Portland, Oregon 97210, expiring on December 31, 2023. During the holiday season (November and December) we generally will open additional, temporary locations. We intend to maintain these retail stores and kiosks to build local brand awareness and direct-to-consumer retail sales. Some of these stores will contain in-store tastings, which we believe will lead to additional product purchases.

**Item 3. LEGAL PROCEEDINGS**

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

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### Item 5. MARKET FOR 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." Limited trading of our common stock has occurred during the past two years; therefore, only limited historical price information is available. The following table sets forth the high and low closing prices of our common stock (USD) for the last two fiscal years, as reported by both Nasdaq and OTC Markets Group Inc. (*where information regarding the bid and asked prices of our stock were previously reported during part of 2017*) and represents inter dealer quotations, without retail mark-up, mark-down or commission and may not be reflective of actual transactions.

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

<u>2017 (Nasdaq and OTC Markets* - through August 10, 2017)</u>	<u>High</u>	<u>Low</u>
First quarter* .....	\$ 7.50	\$ 4.35
Second quarter* .....	6.75	4.00
Third quarter* .....	6.72	3.40
Fourth quarter .....	5.69	3.91
<u>2018 (Nasdaq)</u>	<u>High</u>	<u>Low</u>
First quarter .....	\$ 7.75	\$ 3.87
Second quarter .....	9.25	6.60
Third quarter .....	8.59	7.10
Fourth quarter .....	8.44	5.99

#### 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, OR 97214 (Telephone: (503) 227-2950).

As of March 28, 2019, there were 9,102,297 shares of our common stock outstanding, which were held by approximately 102 record stockholders. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of shares of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies.

#### Dividend Policy

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

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

#### Recent Sales of Unregistered Securities

The following lists set forth information regarding all securities sold or granted by us within the past year that were not registered under the Securities Act of 1933, as amended (the "Securities Act"), and the consideration, if any, received by us for such securities:

- In January 2018, the Company issued 11,525 shares to two third-party consultants in exchange for services rendered. The shares were valued using the closing share price of our common stock on the date of grant, at \$3.99 per share.
- In July 2018, the Company issued 167,273 shares of common stock upon conversion of outstanding promissory notes and accrued interest with an aggregate principal amount converted of \$1,003,638. We did not receive any cash proceeds from these issuances
- In August 2018, the Company issued 20,000 shares of common stock upon exercise of warrants at an exercise price of \$3.50 per share. We received cash proceeds of \$70,000 from the exercise.
- In August 2018, the Company issued 42,000 shares of common stock upon exercise of warrants at an exercise price of \$3.50 per share in exchange for \$147,000 in outstanding accounts payable owed. We did not receive any cash proceeds from the exercise.

- In October 2018, the Company issued 10,000 shares of common stock upon exercise of warrants at an exercise price of \$3.50 per share. We received cash proceeds of \$35,000 from the exercise.
- In December 2018, the Company issued 5,000 shares of common stock upon exercise of warrants at an exercise price of \$3.85 per share in exchange for \$19,250 in outstanding accounts payable owed. The Registrant did not receive any cash proceeds from the exercise.
- In December 2018, the Company issued 3,122 shares of common stock in exchange for the purchase of the remaining 10% interest in Big Bottom Distilling (BBD). Upon closing, the Company acquired 100% of BBD.
- In December 2018, the Company issued warrants to purchase 10,000 common shares at an exercise price of \$6.30 per share to a consultant.
- From March through July of 2018, the Company completed a private offering of promissory notes and accompanying warrants in which it raised \$5,000,000 in gross proceeds. The promissory notes bear interest at 8% per annum, payable monthly on the last day of the month. The entire amount of principal and any accrued and unpaid interest is due and payable on May 1, 2021.

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

### **Repurchase of Securities**

On September 25, 2018, the Company exercised its option to redeem its warrants to purchase common stock, which were originally sold in our public offering in 2017. Pursuant to the terms of the warrants, holders had the option to either exercise the warrants prior to September 25, 2018 or have them redeemed at a price of \$0.15. Approximately 98% of the warrants were exercised by the holders as described above. Upon the expiration date, we redeemed the remaining 34,022 warrants that went unexercised.

### **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 under "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, like any forward-looking statements, involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include the factors set forth above and the other information set forth in this Form 10-K.*

## Overview

We are an Oregon-based producer and marketer of craft spirits, founded in 2008. Our products span several alcoholic beverage categories, including bourbon, American whiskey, vodka, gin and rum. Unlike many distillers, we operate several retail tasting rooms in Oregon to market our brands directly to consumers. Our strategy for growth is to build on our local base in the Pacific Northwest and expand selectively to other markets, using major spirits distributors. In December 2016, we retained Sandstrom Partners, an internationally-known spirit branding firm that branded St-Germain and Bulleit Bourbon, to guide our marketing strategy and branding. Sandstrom Partners subsequently became an investor in our company. With the assistance of Sandstrom Partners and using our in-house spirits expertise, during 2017, we created Redneck Riviera Whiskey (“RRW”), in collaboration with Country Music superstar John Rich, of the duo “Big & Rich.” Supported by John Rich’s marketing efforts, we launched RRW in the Southeastern and Gulf States in early 2018, primarily through Republic National Distributing Company (“RNDC”). During 2018, its first year on the market, RRW generated strong commercial progress and results, and we have focused our sales efforts outside of Oregon on RRW. We believe RRW will be a key growth engine in 2019 and will also provide a “coattail” effect for our other brands, helping them to achieve improved national recognition and success.

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

As a Nasdaq-traded company, we have access to public capital markets to support our growth initiatives, including strategic acquisitions. In May 2017, we used our shares to acquire 90% of Big Bottom Distillery (“BBD”), known for its award-winning, super-premium gins and whiskeys, including The Ninety One Gin, Navy Strength Gin, Oregon Gin, Delta Rye and American Single Malt Whiskey. BBD’s super-premium spirits give us a presence at the “high end” of the market. In December of 2018, we acquired the remaining 10% of BBD. In addition, through MotherLode Craft Distillery (“MotherLode”), our wholly-owned subsidiary acquired in March 2017, and Craft Canning LLC (“Craft Canning”), acquired on January 11, 2019, we also provide contract bottling, canning, and packaging services for existing and emerging beer, wine and spirits producers. We intend to use our canning equipment, at MotherLode and Craft Canning, to profit from the rapid growth in canned beverages (Beer, Wine, Spirit-based RTD’s and Cannabidiol (“CBD”). We believe our significant capacity expansion (and regional reputation) due to the more recent acquisition of Craft Canning, is a competitive advantage.

## Recent Developments

*Introduction of new Redneck Riviera Whiskey “Granny Rich Reserve”.* On February 5, 2019, we announced the introduction of its newest product under the Redneck Riviera trademark - Redneck Riviera Whiskey “Granny Rich Reserve”. Representing the first line extension with the Redneck Riviera Brand, Granny Rich Reserve is a premium priced blend of traditional corn whiskey, aged three years or more, blended with American single malt aged at least four years.

*RNDC Expands Distribution of Redneck Riviera Whiskey.* On January 31, 2019, we announced Republic National Distributing Company (“RNDC”) would distribute Eastside’s Redneck Riviera Whiskey (“RRW”) in Ohio, marking the 39<sup>th</sup> state to carry the product.

*Introduction of new Portland Mule Ready-to-Drink (RTD) Cocktail.* On January 29, 2019, we announced its landmark entry into the fast growing Ready-to-Drink (RTD) market with the introduction of the Portland Mule Ready-to-Drink Cocktail. Portland Mule will come in a 250ml, or 8.4 oz can, designed by the award-winning design team at Sandstrom Partners, and will have a 10.5% alcohol by volume.

*Acquisition of Craft Canning & Bottling – creates significant increase in canning operations.* On January 14, 2019, we announced the acquisition of Portland-based Craft Canning + Bottling (“Craft” or “CC+B”) a leading provider of mobile canning and bottling services in Oregon, Washington and Colorado. Craft Canning + Bottling will combine operations with Eastside’s Mother Lode co-packing subsidiary, positioning the combined business unit to be a preeminent local provider to the fast-growing wine and Ready-to-Drink (RTD) cocktail segments.



## Available Information

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

## Results of Operations

### Overview

The Company made progress in fiscal year 2018 toward its overall long-term goals and objectives. New product launches accelerated revenue growth over 2017, increased production capacity, and strong improvements in our balance sheet strength were the most notable accomplishments during 2018. Other important achievements during 2018 included:

- *Significant Distributor and Geographic Expansion.* The launch in early 2018 of our new Redneck Riviera Whiskey product was met with enthusiasm by key distributors and customers throughout the year. That in turn allowed us to establish relationships with nine top-tier distributors around the country, introduce the product into 39 states and win a number of major corporate chain retailers (such as Albertsons, Walmart, and others). These achievements exceeded our original 2018 launch plan and have provided us with an improved distribution network and infrastructure.
- *Production Facilities Expansion.* We continued to make investments in our primary production facility, which included adding square footage as well as additional equipment. This expansion positions us to execute on our 2019 growth objectives.
- *Canning Line.* We began to benefit from our ability to can our own branded ready-to-drink (“RTD”) products as well as provide canning services to other producers. In January 2019, we launched our first branded canned product, the “Portland Mule” and we have begun to experience an increase in canning requests from outside producers. We further enhanced our co-packing (private label) activities with the recent acquisition of Craft Canning, which substantially increases our canning capabilities, and we expect will contribute to a notable increase in this business activity for 2019.
- *Product Development Platform.* We believe we further enhanced our platform through formula development with our internal blending and distilling team, marketing and branding with Sandstrom Partners, and additions to our production capabilities to enable us to accelerate our new product development activities.

We believe we have built a strong foundation and are well positioned to continue our expansion efforts and drive further successes for shareholders. While we have become the third largest spirits company in Oregon, there remains substantial opportunities and we expect Oregon, our largest market, to continue to grow at a strong pace. In addition, as we continue to work closely with major distributors and focus on our new Redneck Riviera product, we expect both our national and international sales efforts to increase at a rapid pace and become a larger percentage of our overall business. We also expect our new canning abilities to further add to our growth in 2019.

### Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Our sales for the year ended December 31, 2018 increased to \$7,204,302, or approximately 90%, from \$3,791,382 for the year ended December 31, 2017.

	<u>2018</u>		<u>2017</u>	
Wholesale .....	\$ 4,354,351	50%	\$ 1,947,431	51%
Private Label (Co-packing).....	1,636,183	34%	324,525	9%
Retail / Special Events.....	1,213,768	16%	1,519,426	40%
Total.....	<u>\$ 7,204,302</u>	<u>100%</u>	<u>\$ 3,791,382</u>	<u>100%</u>

Increases in wholesale sales and co-packing primarily contributed to our overall 2018 sales increase. Wholesale sales benefited from the rapid launch of the new Redneck Riviera Whiskey product as well as continued strong sales traction within the Pacific Northwest. Our private label business experienced increased activity from our new canning capabilities, and also benefited from our periodic bulk spirit sales during the year. Lastly, our retail operations experienced a decline due to a reduction in event activities and relocation of a store.

Excise taxes, customer programs and incentives for the year ended December 31, 2018 decreased to \$1,080,792, or approximately 8%, from \$1,180,386 for the comparable 2017 period. The decrease is attributable to the lower federal excise tax rate implemented during the year, which was offset by higher customer programs and incentives due to our increased distribution.

During the year ended December 31, 2018, cost of sales increased to \$3,813,309, or approximately 133%, from \$1,634,069 for the year ended December 31, 2017. Cost of sales consists of the costs of ingredients utilized in the production of spirits, manufacturing labor and overhead, warehousing rent, packaging, and inbound freight charges. Ingredients account for the largest portion of the cost of sales, followed by packaging and production costs. Gross margin is gross profits stated as a percentage of net sales. The increase is primarily attributable to the costs associated with our increased liquor sales in the year. The cost of sales we reported in both 2018 and 2017, are based on small production lots. Our objective is to achieve economies of scale as we continue to scale our operations and therefore drive improvement in our per unit cost of sales.

Gross profit is calculated by subtracting the cost of products sold from net sales.

The following table compares our gross profit (in thousands of dollars) and gross margin in the years ended December 31, 2018 and 2017:

	<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Gross profit.....	\$ 2,310	\$ 977
Gross margin .....	38%	37%

Our gross margin of 38% of net sales in the year ended December 31, 2018 increased from our gross margin of 37% for the year ended December 31, 2017 primarily due to the lower federal excise tax rate, which was offset by certain low margin private-label transactions, an increase in our production facilities (resulting in lower relative utilization rates) and higher raw material costs experienced during the year (especially in the fourth quarter of 2018).

Advertising, promotional and selling expenses for the year ended December 31, 2018 increased to \$4,345,210 or approximately 96% from \$2,219,168 for the year ended December 31, 2017. This increase is primarily due to our efforts to expand our product sales nationally.

General and administrative expenses for the year ended December 31, 2018 increased to \$6,225,998, or approximately 76%, from \$3,546,659 for the year ended December 31, 2017. This increase is primarily due to added headcount and other expenses to support our planned expansion along with higher non-cash expenses (such as stock-based comp and depreciation and amortization costs).

Other expense, net was \$786,662 for the year ended December 31, 2018, compared to \$448,042 for the year ended December 31, 2017, an increase of 76%. This increase was primarily due to an increase in interest expense. During the year ended December 31, 2017, the Company expensed an impairment of \$25,000 of the intangible assets and \$193,374 of the goodwill initially recorded in the second quarter 2017 acquisition of Big Bottom Distillery, LLC.

Net loss available to common shareholders during the year ended December 31, 2018 was \$9,047,669 as compared to a loss of \$5,277,316 for the year ended December 31, 2017. Our net loss was primarily attributable to our increased advertising, promotional and selling expenses relating to increased national sales distribution expenses, increased legal and accounting, and an increase in stock-related compensation as well as higher depreciation and amortization costs.

## **Liquidity and Capital Resources**

### ***Year Ended December 31, 2018***

Our primary capital requirements are for the financing of inventories, and cash used in operating activities, particularly our increased selling, marketing and promotional activities to grow our key brands. Funds for such purposes have historically not been generated from operations but rather from short-term credit in the form of extended payment terms from suppliers, long-term debt and equity financings.

For the years ended December 31, 2018 and 2017, we incurred net losses of approximately \$9 million and \$5.3 million respectively and has an accumulated deficit of approximately \$27.1 million as of December 31, 2018. We have been dependent on raising capital from debt and equity financings to meet our needs for cash flow used in operating activities. For the year ended December 31, 2018, we raised approximately \$23.3 million from cash flow from financing activities to meet cash flows used in operating activities.

We have a \$3,000,000 credit facility under a Credit and Security Agreement secured by all of our bulk whiskey, bourbon and rye inventory held in third-party storage facilities (“Specified Inventory”), This secured credit facility allows us to borrow 80% of the value of the Specified Inventory we are able to purchase with this line. We must maintain a current market value of Specified Inventory of at least 120% of the loan balance. At December 31, 2018, we had less than \$100,000 available under the secured credit facility.

At December 31, 2018, we had approximately \$10.6 million of cash on hand with a positive working capital of \$21.1 million. While the Company has successfully raised equity and debt funding in the recent past, management is also heavily focused on meeting the ongoing operating cash needs by generating improved operating cash flow, primarily through rapidly increased sales, improved profit margins and controlling expenses. We believe the recent addition of Craft Canning (in January 2019) will further help achieve this key objective.

The Company's cash flow related information for the years 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Net cash flows provided by (used in):		
Operating activities .....	\$ (13,918,429)	\$ (7,011,741)
Investing activities .....	\$ (1,296,410)	\$ (652,936)
Financing activities .....	\$ 23,271,401	\$ 9,162,926

### *Operating Activities*

In 2018, the net loss plus non-cash adjustments resulted in cash used of approximately \$6.4 million compared to using \$3.6 million in 2017. Total operating cash used was \$13.9 million compared to \$7.0 million in 2017. The increase in cash usage can be primarily attributed to a \$7.0 million inventory build, a \$0.7 million accounts receivable build and a \$0.2 million increase in accrued liabilities partially offset by a \$0.7 million increase in accounts payable.

In 2017, the inventory build was \$3.0 million, prepaid expenses increased \$0.6 million and accrued liabilities decreased \$0.6 million which was partially offset by a \$0.8 million increase in accounts payable.

### *Investing Activities*

Cash used in investing activities consists primarily of purchases of property and equipment. We incurred capital expenditures of \$1.3 million and \$657,477 in 2018 and 2017 respectively. The increase in cash usage can largely be attributed to further buildout and equipment additions to our primary production facility in Milwaukie, Oregon.

### *Financing Activities*

During 2018, operating losses and working capital needs were primarily funded by \$8.7 million in proceeds from the sale of common stock, \$3.6 million in proceeds from the issuance of notes, \$2.9 million net proceeds from the secured credit facility and warrant exercises of \$8 million, partially offset by principal payments on notes of \$0.5 million.

### **Common Stock Financings**

In November 2018, we completed an underwritten public offering of 1,235,000 shares of our common stock at a public offering price of \$6.50 per share. The gross proceeds to us from this offering were \$8.03 million, before deducting underwriting discounts and commissions and other estimated offering expenses. On December 19, 2018, the underwriters exercised their option to purchase an additional 185,250 shares to cover over-allotments, which resulted in additional gross proceeds to us of \$1,184,625 before deducting offering expenses.

### **Public and Private Warrant Exercises**

During 2018, we issued 1,345,978 shares of common stock at \$5.40 per share in connection with the exercise of warrants for cash proceeds of \$7,268,281, and 500,000 shares of common stock at \$5.40 per share in connection with the exercise of warrants in exchange for a reduction in outstanding note principal of \$2,700,000. These warrants were part of our publicly-traded warrants. In addition, we issued 120,000 shares of common stock at \$5.40 per share in connection with the exercise of underwriter warrants. The warrants were a part of a unit consisting of one share of common stock and one common stock warrant exercisable at \$5.40 per share for additional gross proceeds of \$648,000. As of year-end, there were no remaining publicly-traded warrants outstanding.

During 2018, we issued 110,334 shares of common stock at an average price of \$5.32 per share in connection with the exercise of certain private warrants outstanding for cash proceeds of \$587,004.

## Promissory Notes

During 2018, we completed a private offering of promissory notes and accompanying warrants in which we raised \$5,000,000 in gross proceeds. The promissory notes bear interest at 8% per annum, payable monthly on the last day of the month. The entire amount of principal and any accrued and unpaid interest is due and payable on May 1, 2021. For every \$100,000 in principal, we issued to the investor 10,000 common stock purchase warrants, for a total of 500,000 warrants. The warrants, which are identical to the warrants that were issued our public offering that was consummated in August 2017, are exercisable through August 10, 2022, unless earlier redeemed, at an exercise price of \$5.40, subject to adjustment for stock splits, reverse splits and other similar recapitalization events. As discussed above, during the third quarter of 2018, all of these warrants were exercised in exchange for a reduction of \$2,700,000 in the principal note amount.

## Critical Accounting Policies

The discussion and analysis of the Company's financial condition and results of operations is based upon its consolidated financial statements, which have been prepared in accordance with 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. The more judgmental estimates are summarized below. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that 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.

### *Revenue Recognition*

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

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

### *Customer Programs and Incentives*

Customer programs and incentives, which include customer promotional discount programs, customer incentives and other payments, are a common practice in the alcohol beverage industry. The Company makes these payments to customers and incurs these costs to promote sales of products and to maintain competitive pricing. Amounts paid in connection with customer programs and incentives are recorded as reductions to net revenue or as advertising, promotional and selling expenses in accordance with ASC Topic 605-50, *Revenue Recognition- Customer Payments and Incentives*, based on the nature of the expenditure. Amounts paid to customers totaled \$426,302 and \$182,975 in 2018 and 2017, respectively.

### *Cost of Sales*

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

### *Advertising, Promotional and Selling Expenses*

The following expenses are included in advertising, promotions and selling expenses in the accompanying consolidated statements of operations: media advertising costs, special event costs, tasting room costs, sales and marketing expenses, salary and benefit expenses for the sales team, travel and entertainment expenses for the sales, brand and sales support workforce and promotional activity expenses. Advertising, promotional and selling costs are expensed as incurred. Advertising, promotional and selling expense was \$ 4,345,210 and \$2,219,168 in 2018 and 2017, respectively.

### *Shipping and Fulfillment Costs*

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

### *Cash and Cash Equivalents*

Cash equivalents are considered to be highly-liquid investments with maturities of three months or less at the time of the purchase. The Company had no cash equivalents at December 31, 2018 and December 31, 2017.

### *Concentrations*

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. At December 31, 2018, two distributors represented 37% of trade receivables. At December 31, 2017, two distributors represented 79% of trade receivables. Sales to two distributors accounted for approximately 42% and 35% of consolidated sales for the year ended December 31, 2018 and 2017, respectively.

### *Inventories*

Inventories primarily consist of bulk and bottled liquor and merchandise and are stated at the lower of cost or market. Cost is determined using an average costing methodology, which approximates cost under the first-in, first-out (FIFO) method. A portion of inventory is held by the OLCC on consignment until it is sold to a third party. Eastside regularly monitors inventory quantities on hand and records write-downs for excess and obsolete inventories based primarily on the Company's estimated forecast of product demand and production requirements. Such write-downs establish a new cost basis of accounting for the related inventory. The Company has recorded no write-downs of inventory for the years ended December 31, 2018 and 2017.

### *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. Eastside is subject to periodic compliance audits by the TTB. Individual states also impose excise taxes on alcohol beverages in varying amounts. The Company calculates its excise tax expense based upon units produced and on its understanding of the applicable excise tax laws. Excise taxes totaled \$654,490 and \$997,410 in 2018 and 2017, respectively.

### *Stock-Based Compensation*

The Company recognizes as compensation expense all stock-based awards issued to employees in accordance with the fair value recognition provisions of Accounting Standards Codification Topic 718, *Compensation - Stock Compensation*. The compensation cost is measured based on the grant-date fair value of the related stock-based awards and is recognized over the service period of stock-based awards, which is generally the same as the vesting period. The fair value of stock options is determined using the Black-Scholes valuation model, which estimates the fair value of each award on the date of grant based on a variety of assumptions including expected stock price volatility, expected terms of the awards, risk-free interest rate, and dividend rates, if applicable. Stock-based awards issued to nonemployees are recorded at fair value on the measurement date and are subject to periodic market adjustments as the underlying stock-based awards vest. Net stock-based compensation was \$657,546 and \$563,356 in 2018 and 2017, respectively.

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

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

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

Not applicable.

## Item 8. FINANCIAL STATEMENTS SUPPLEMENTARY DATA

### Report of Independent Registered Public Accounting Firm

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#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

We have audited the accompanying consolidated balance sheets of Eastside Distilling, Inc. (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes and schedules (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. 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 financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

*/s/ M&K CPAS, PLLC*

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

Houston, TX

March 28, 2019

**Eastside Distilling, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**December 31, 2018 and 2017**

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<b>Assets</b>		
Current assets:		
Cash .....	\$ 10,642,877	\$ 2,586,315
Trade receivables .....	1,064,078	315,321
Inventories .....	11,017,459	4,051,282
Prepaid expenses and current assets .....	765,146	649,749
Total current assets .....	<u>23,489,560</u>	<u>7,602,667</u>
Property and equipment, net .....	1,758,130	728,506
Intangible assets, net .....	285,676	325,668
Goodwill .....	28,182	28,182
Other assets .....	796,260	343,942
<b>Total Assets</b> .....	<u>\$ 26,357,808</u>	<u>\$ 9,028,965</u>
 <b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable .....	\$ 1,984,690	\$ 1,267,189
Accrued liabilities .....	386,166	156,163
Deferred revenue .....	1,728	1,579
Current portion of notes payable .....	-	293,726
Total current liabilities .....	<u>2,372,584</u>	<u>1,718,657</u>
Secured trade credit facility, net of debt issuance costs .....	2,934,106	-
Notes payable - less current portion and debt discount .....	<u>2,300,000</u>	<u>2,161,760</u>
<b>Total liabilities</b> .....	<u>7,606,690</u>	<u>3,880,417</u>
 Commitments and contingencies (Note 12)		
 Stockholders' equity:		
Series A convertible preferred stock, \$0.0001 par value; 3,000 shares authorized; 0 and 0 shares issued and outstanding at December 31, 2018 and 2017 .....	-	-
Common stock, \$0.0001 par value; 15,000,000 shares authorized; 8,764,085 and 4,889,745 shares issued and outstanding at December 31, 2018 and 2017, respectively .....	876	489
Additional paid-in capital .....	45,888,872	23,223,435
Accumulated deficit .....	(27,138,630)	(18,090,961)
<b>Total Eastside Distilling, Inc. Stockholders' Equity</b> .....	<u>18,751,118</u>	<u>5,132,963</u>
Noncontrolling interests .....	-	15,585
<b>Total Stockholders' Equity</b> .....	<u>18,751,118</u>	<u>5,148,548</u>
<b>Total Liabilities and Stockholders' Equity</b> .....	<u>\$ 26,357,808</u>	<u>\$ 9,028,965</u>

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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Sales.....	\$ 7,204,302	\$ 3,791,382
Less excise taxes, customer programs and incentives .....	1,080,792	1,180,386
Net sales.....	6,123,510	2,610,996
Cost of sales.....	3,813,309	1,634,069
Gross profit.....	<u>2,310,201</u>	<u>976,927</u>
Operating expenses:		
Advertising, promotional and selling expenses .....	4,345,210	2,219,168
General and administrative expenses.....	6,225,998	3,546,659
Loss on disposal of property and equipment .....	-	40,975
Total operating expenses .....	<u>10,571,208</u>	<u>5,806,802</u>
<b>Loss from operations</b> .....	<u>(8,261,007)</u>	<u>(4,829,875)</u>
Other income (expense), net .....		
Interest expense .....	(789,362)	(235,053)
Other income (expense).....	2,700	(212,989)
Total other expense, net.....	<u>(786,662)</u>	<u>(448,042)</u>
<b>Loss before income taxes</b> .....	<u>(9,047,669)</u>	<u>(5,277,917)</u>
Provision for income taxes .....	-	-
<b>Net loss</b> .....	<u>(9,047,669)</u>	<u>(5,277,917)</u>
Income (loss) attributable to noncontrolling interests.....	<u>-</u>	<u>601</u>
<b>Net loss attributable to Eastside Distilling, Inc. common shareholders</b> .....	<u>\$ (9,047,669)</u>	<u>\$ (5,277,316)</u>
<b>Basic and diluted net loss per common share</b> .....	<u>\$ (1.49)</u>	<u>\$ (1.42)</u>
<b>Basic and diluted weighted average common shares outstanding</b> .....	<u>6,074,489</u>	<u>3,717,956</u>

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



**Eastside Distilling, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholder's (Deficit) Equity**  
**Years ended December 31, 2018 and 2017**

	Convertible Series A Preferred Stock		Common Stock		Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)	Non-controlling interest in consolidated entities	Total Equity
	Shares	Amount	Shares	Amount					
<b>Balance, December 31, 2016</b>	300	\$ 245,838	2,542,504	\$ 254	\$13,699,785	\$ (12,813,044)	\$ 1,132,833	\$ -	\$ 1,132,833
Issuance of common stock	-	-	15,001	2	58,498	-	58,500	-	58,500
Issuance of common stock, net of issuance costs of \$1,120,323, with detachable warrants	-	-	1,780,019	177	6,669,401	-	6,669,578	-	6,669,578
Issuance of common stock from warrant exercise for cash	-	-	40,834	4	159,246	-	159,250	-	159,250
Issuance of common stock for services by third parties	-	-	107,340	11	479,903	-	479,914	-	479,914
Issuance of common stock for services by employees	-	-	59,538	6	253,649	-	253,655	-	253,655
Stock option exercises	-	-	9,260	1	50,000	-	50,001	-	50,001
Stock-based compensation	-	-	-	-	563,356	-	563,356	-	563,356
Issuance of common stock for acquisition of MotherLode, net of issuance costs of \$5,580	-	-	86,667	9	371,411	-	371,420	-	371,420
Issuance of common stock for 90% acquisition of Big Bottom Distilling, net of issuance costs of \$14,400	-	-	28,096	3	120,455	-	120,458	14,984	135,442
Shares issued for payoff of long-term notes	-	-	120,154	12	561,866	-	561,878	-	561,878
Cumulative dividend on Series A preferred	-	5,037	-	-	-	-	5,037	-	5,037
Common shares issued for preferred conversion	(300)	(250,875)	100,001	10	235,865	-	(15,000)	-	(15,000)
Adjustment of shares for reverse stock-split	-	-	331	-	-	-	-	-	-
Net profit attributable to noncontrolling interests	-	-	-	-	-	-	-	601	601
Net loss attributable to common shareholders	-	-	-	-	-	(5,277,917)	(5,277,917)	-	(5,277,917)
<b>Balance, December 31, 2017</b>	-	\$ -	4,889,745	\$ 489	\$23,223,435	\$ (18,090,961)	\$ 5,132,963	\$ 15,585	\$ 5,148,548
Issuance of common stock, net of expenses	-	-	1,480,250	148	8,678,975	-	8,679,123	-	8,679,123
Issuance of common stock from warrant exercise for cash, net of expenses	-	-	1,521,312	152	8,004,029	-	8,004,181	-	8,004,181
Issuance of common stock for services by third parties	-	-	81,708	8	412,823	-	412,831	-	412,831
Issuance of common stock for services by employees	-	-	79,734	8	712,461	-	712,469	-	712,469
Issuance of common stock in exchange of debt	-	-	672,273	67	3,722,821	-	3,722,888	-	3,722,888
Issuance of common stock for purchase of remaining 10% of Big Bottom LLC	-	-	3,122	-	19,294	-	19,294	-	19,294
Acquisition of remaining non-controlling interest in Big Bottom Distilling, Inc	-	-	-	-	-	-	-	(15,585)	(15,585)
Issuance of detachable warrants on notes payable	-	-	-	-	351,548	-	351,548	-	351,548
Stock option exercises	-	-	35,941	4	105,940	-	105,944	-	105,944
Stock-based compensation	-	-	-	-	863,262	-	863,262	-	863,262
Net issuance to settle RSUs	-	-	-	-	(205,716)	-	(205,716)	-	(205,716)
Net loss attributable to common shareholders	-	-	-	-	-	(9,047,669)	(9,047,669)	-	(9,047,669)
<b>Balance December 31, 2018</b>	-	-	8,764,085	\$ 876	\$45,888,872	\$ (27,138,630)	\$ 18,751,118	\$ -	\$18,751,118

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, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash Flows From Operating Activities:</b>		
Net loss .....	\$ (9,047,669)	\$ (5,277,917)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization .....	364,813	92,016
Loss on disposal of property and equipment .....	-	40,975
Amortization of debt issuance costs.....	392,230	92,156
Impairment of goodwill and intangible assets .....	-	218,374
Issuance of common stock in exchange for services for related parties.....	712,469	-
Issuance of common stock in exchange for services for 3 <sup>rd</sup> parties .....	412,831	642,309
Stock-based compensation.....	657,546	563,356
Changes in operating assets and liabilities:		
Trade receivables .....	(748,757)	35,858
Inventories .....	(6,966,177)	(3,037,835)
Prepaid expenses and other assets.....	(625,750)	(612,977)
Accounts payable.....	721,209	804,976
Accrued liabilities .....	208,677	(572,485)
Deferred revenue.....	149	(547)
Net cash used in operating activities.....	(13,918,429)	(7,011,741)
<b>Cash Flows From Investing Activities:</b>		
Cash acquired in acquisition .....	-	4,541
Purchases of property and equipment .....	(1,296,410)	(657,477)
Net cash used in investing activities .....	(1,296,410)	(652,936)
<b>Cash Flows From Financing Activities:</b>		
Stock issuance cost related to acquisitions .....	-	(19,980)
Stock issuance cost related to common shares issued for preferred conversion .....	-	(9,361)
Proceeds from common stock, net of issuance costs of \$1,120,323 and \$23,762, respectively, with detachable warrants .....		6,728,079
Proceeds from common stock, net of issuance costs .....	8,679,123	-
Proceeds from option exercise.....	105,944	-
Proceeds from warrant exercise .....	8,004,181	159,250
Payments on conversion of note payable.....	-	(90,000)
Payments of principal on notes payable.....	(514,867)	(106,902)
Proceeds from notes payable, net of issuance costs .....	3,630,000	2,501,840
Proceeds from notes payable, warrants issued.....	447,020	-
Proceeds from secured credit facility, net of issuance costs of \$80,000 .....	2,920,000	-
Net cash provided by financing activities .....	23,271,401	9,162,926
<b>Net increase in cash</b> .....	8,056,562	1,498,249
Cash - beginning of year .....	2,586,315	1,088,066
<b>Cash - end of year</b> .....	\$ 10,642,877	\$ 2,586,315
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for interest .....	\$ 293,342	\$ 103,293
<b>Supplemental Disclosure of Non-Cash Financing Activity</b>		
Issuance of common stock for the acquisition of MotherLode Craft Distillery, LLC.....	\$ -	\$ 377,000
Acquisition of remaining non-controlling interest in Big Bottom Distilling, LLC..	\$ 15,585	\$ 134,858
Common stock issued in exchange of notes payable .....	\$ 3,722,888	\$ 558,137
Issuance of debt discount .....	\$ 351,548	\$ -

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

## **1. Description of Business**

We are an Oregon-based producer and marketer of craft spirits, founded in 2008. Our products span several alcoholic beverage categories, including bourbon, American whiskey, vodka, gin and rum. Unlike many distillers, we operate several retail tasting rooms in Oregon to market our brands directly to consumers. Our strategy for growth is to build on our local base in the Pacific Northwest and expand selectively to other markets, using major spirits distributors. In December 2016, we retained Sandstrom Partners, an internationally-known spirit branding firm that branded St-Germain and Bulleit Bourbon, to guide our marketing strategy and branding. Sandstrom Partners subsequently became an investor in our company. With the assistance of Sandstrom Partners and using our in-house spirits expertise, during 2017, we created Redneck Riviera Whiskey (“RRW”), in collaboration with Country Music superstar John Rich, of the duo “Big & Rich.” Supported by John Rich’s marketing efforts, we launched RRW in the Southeastern and Gulf States in early 2018 primarily through Republic National Distributing Company (“RNDC”). During 2018, its first year on the market, RRW generated strong commercial progress and results, and we have focused our sales efforts outside of Oregon on RRW. We believe RRW will be a key growth engine in 2019 and will also provide a “coattail” effect for our other brands, helping them to achieve improved national recognition and success.

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

As a Nasdaq-traded company, we have access to public capital markets to support our growth initiatives, including strategic acquisitions. In May 2017, we used our shares to acquire 90% of Big Bottom Distillery (“BBD”), known for its award-winning, super-premium gins and whiskeys, including The Ninety One Gin, Navy Strength Gin, Oregon Gin, Delta Rye and American Single Malt Whiskey. BBD’s super-premium spirits give us a presence at the “high end” of the market. In December of 2018, we acquired the remaining 10% of BBD. In addition, through MotherLode Craft Distillery (“MotherLode”), our wholly-owned subsidiary acquired in March 2017, and now Craft Canning, acquired in January 2019, we also provide contract bottling, canning, and packaging services for existing and emerging beer, wine and spirits producers. We intend to use our canning equipment, at MotherLode and Craft Canning, to profit from the rapid growth in canned beverages (Beer, Wine, Spirit-based RTD’s and CBD). We believe our significant capacity expansion (and regional reputation) due to the more recent acquisition of Craft Canning, is a competitive advantage.

We currently sell our products in 39 states as well as Ontario, Canada. The Company also generates revenue from tastings, tasting room tours, private parties, and merchandise sales from its facilities in Oregon. The Company is subject to the regulation and oversight of the Oregon Liquor Control Commission (OLCC) and the Alcohol and Tobacco Tax and Trade Bureau (TTB), as well as other state agencies regulating the sale and distribution of alcohol products.

## **2. Liquidity**

Historically, the Company has funded its cash and liquidity needs through convertible notes, extended credit terms, and equity financings. For the years ended December 31, 2018 and 2017, the Company incurred a net loss of approximately \$9 million and \$5.3 million respectively year and has an accumulated deficit of approximately \$27 million as of December 31, 2018. The Company has been dependent on raising capital from debt and equity financings to meet its needs for cash flow used in operating activities. For the year ended December 31, 2018, the Company raised approximately \$23.3 million in cash flow from financing activities to meet cash flow used in operating activities.

At December 31, 2018, the Company has approximately \$10.6 million of cash on hand with a positive working capital of \$21.1 million. The Company’s ability to meet their ongoing operating cash needs is dependent on generating positive operating cash flow, primarily through increased sales, improved profit growth and controlling expenses. Management believes that cash on hand will be sufficient to meet their operating activities to meet their near-term cash needs over the next twelve months.

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

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

The accompanying consolidated financial statements for Eastside Distilling, Inc. and subsidiaries were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of Eastside Distilling, Inc.'s wholly-owned subsidiary MotherLode (beginning as of March 8, 2017), and wholly-owned subsidiary BBD (majority owned beginning May 1, 2017 through December 2018 and wholly-owned as of December 2018). All intercompany balances and transactions have been eliminated in consolidation.

#### **Segment Reporting**

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

#### **Use of Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Revenue Recognition**

Net revenue includes product sales, less excise taxes and customer programs and incentives. The Company recognizes revenue by applying the following steps in accordance with Accounting Standards Codification ("ASC") Topic 606 – *Revenue from Contracts with Customers*: (i) 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 sales when merchandise is shipped from a warehouse directly to wholesale customers (except in the case of a consignment sale). For consignment sales, which include sales to the Oregon Liquor Control Commission ("OLCC"), the Company recognizes sales upon the consignee's shipment to the customer. Postage and handling charges billed to customers are also recognized as sales upon shipment of the related merchandise. Shipping terms are generally FOB shipping point, and title passes to the customer at the time and place of shipment or purchase by customers at a retail location. For consignment sales, title passes to the consignee concurrent with the consignee's shipment to the customer. The customer has no cancellation privileges after shipment or upon purchase at retail locations, other than customary rights of return. The Company excludes sales tax collected and remitted to various states from sales and cost of sales. Sales from items sold through the Company's retail location are recognized at the time of sale.

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

#### **Customer Programs and Incentives**

Customer programs and incentives, which include customer promotional discount programs, customer incentives and other payments, are a common practice in the alcohol beverage industry. The Company makes these payments to customers and incurs these costs to promote sales of products and to maintain competitive pricing. Amounts paid in connection with customer programs and incentives are recorded as reductions to net revenue or as advertising, promotional and selling expenses in accordance with ASC Topic 605-50, Revenue Recognition - Customer Payments and Incentives, based on the nature of the expenditure. Amounts paid to customers totaled \$426,302 and \$182,975 in years 2018 and 2017, respectively.

### **Advertising, Promotional and Selling Expenses**

The following expenses are included in advertising, promotions and selling expenses in the accompanying consolidated statements of operations: media advertising costs, special event costs, tasting room costs, sales and marketing expenses, salary and benefit expenses, travel and entertainment expenses for the sales, brand and sales support workforce and promotional activity expenses. Advertising, promotional and selling costs are expensed as incurred. Advertising, promotional and selling expense totaled \$ 4,345,210 and \$2,219,168 in years 2018 and 2017, respectively.

### **Cost of Sales**

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

### **Shipping and Fulfillment Costs**

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

### **Cash and Cash Equivalents**

Cash equivalents are considered to be highly-liquid investments with maturities of three months or less at the time of the purchase. The Company had no cash equivalents at December 31, 2018 and 2017.

### **Concentrations**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. At December 31, 2018, two customers represented 34% of trade receivables. At December 31, 2017, two customers represented 79% of trade receivables. Sales to one and two distributors accounted for approximately 42% and 35% of consolidated sales for the years ended December 31, 2018 and 2017, respectively.

### **Fair Value Measurements**

GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. GAAP permits an entity to choose to measure many financial instruments and certain other items at fair value and contains financial statement presentation and disclosure requirements for assets and liabilities for which the fair value option is elected. At December 31, 2018 and December 31, 2017, 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 at December 31, 2018 and 2017. However, GAAP requires the disclosure of fair value information about financial instruments that are not measured at fair value. Financial instruments consist principally of trade receivables, accounts payable, accrued liabilities, note payable, and convertible note payable. The estimated fair value of trade receivables, accounts payable, and accrued liabilities approximates their carrying value due to the short period of time to their maturities. At December 31, 2018 and 2017, the Company's note payable, convertible notes payable and secured credit facility balances outstanding are at fixed rates and their carrying value approximates fair value.

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

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

### **Inventories**

Inventories primarily consist of bulk and bottled liquor and merchandise and are stated at the lower of cost or market. Cost is determined using an average costing methodology, which approximates cost under the first-in, first-out (FIFO) method. A portion of inventory is held by certain independent distributors on consignment until it is sold to a third party. The Company regularly monitors inventory quantities on hand and records write-downs for excess and obsolete inventories based primarily on the Company's estimated forecast of product demand and production requirements. Such write-downs establish a new cost basis of accounting for the related inventory. The Company has recorded no write-downs of inventory for the years ended December 31, 2018 and 2017.

### **Property and Equipment**

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

### **Intangible Assets / Goodwill**

The Company accounts for long-lived assets, including property and equipment, at amortized cost. Management reviews long-lived assets for probable impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these estimated cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value. At December 31, 2017, an impairment loss of \$218,374 was recognized related to its acquisition of Big Bottom Distillery, LLC. At December 31, 2018, no additional impairment loss was recognized.

### **Long-lived Assets**

The Company accounts for long-lived assets, including property and equipment, at amortized cost. Management reviews long-lived assets for probable impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these estimated cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value.

### **Income Taxes**

The provision for income taxes is based on income and expenses as reported for financial statement purposes using the "asset and liability method" for accounting for deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. At December 31, 2018 and 2017, the Company established valuation allowances against its net deferred tax assets.

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Income tax positions that meet the “more-likely-than-not” recognition threshold are measured at the largest amount of income tax benefit that is more than 50 percent likely to be realized upon settlement with the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized income tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized income tax benefits would be classified as additional income taxes in the accompanying consolidated statements of operations. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized income tax benefits, accrued or expensed at and for the years ended December 31, 2018 and 2017.

The Company files federal income tax returns in the United States, and various state income tax returns. The Company is no longer subject to examinations by the related tax authorities for the Company’s U.S. federal and state income tax returns for years prior to 2012.

### **Comprehensive Income**

The Company does not have any reconciling other comprehensive income items for the for the years ended December 31, 2018 and 2017, respectively.

### **Excise Taxes**

The Company is responsible for compliance with the TTB regulations, which includes making timely and accurate excise tax payments. The Company is subject to periodic compliance audits by the TTB. Individual states also impose excise taxes on alcohol beverages in varying amounts. The Company calculates its excise tax expense based upon units produced and on its understanding of the applicable excise tax laws. Excise taxes totaled \$654,490 and \$997,410 in years 2018 and 2017, respectively.

### **Stock-Based Compensation**

The Company recognizes as compensation expense all stock-based awards issued to employees. The compensation cost is measured based on the grant-date fair value of the related stock-based awards and is recognized over the service period of stock-based awards, which is generally the same as the vesting period. The fair value of stock options is determined using the Black-Scholes valuation model, which estimates the fair value of each award on the date of grant based on a variety of assumptions including expected stock price volatility, expected terms of the awards, risk-free interest rate, and dividend rates, if applicable. Stock-based awards issued to nonemployees are recorded at fair value on the measurement date and are subject to periodic market adjustments as the underlying stock-based awards vest. Net stock-based compensation was \$657,546 and \$563,356 in fiscal years 2018 and 2017, respectively.

### **Accounts Receivable Factoring Program**

During 2017, we terminated our previous receivable factoring program. Under the prior program, we had the option to sell certain customer account receivables in advance of payment for 75% of the amount due. When the customer remitted payment, we received the remaining 25%. We were charged interest on the advanced 75% payment at a rate of 1.5% per month. Under the terms of the agreement with the factoring provider, any factored invoices had recourse should the customer fail to pay the invoice. Thus, we recorded factored amounts as a liability until the customer remitted payment and we received the remaining 25% of the non-factored amount. We did not factor any new invoices during 2018 and 2017. At December 31, 2018, we had no factored invoices outstanding and incurred no fees associated with factoring. During fiscal 2017 we incurred fees associated with the factoring program of \$63,238.

### **Recently Adopted Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-15, Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments and in November 2016 issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The new standards are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, and amends the existing accounting standards for the statement of cash flows. The amendments provide guidance on the following nine cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; separately identifiable cash flows and application of the predominance principle; and restricted cash. The adoption on January 1, 2018 of ASU 2016-15 and ASU 2016-18 did not have a material effect on the consolidated financial statements.

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

### **Recent Accounting Pronouncements**

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment*. ASU 2017-04 will simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Current guidance requires that companies compute the implied fair value of goodwill under Step 2 by performing procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. ASU 2017-04 will require companies to perform annual or interim goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and will be applied prospectively. Early adoption of this standard is permitted. The Company is currently in the process of evaluating the impact of ASU 2017-04 on its consolidated financial statements.

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

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

Under the new guidance, lessor accounting will be largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and AASU No. 2014-09, *Revenue from Contracts with Customers*. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Early application is permitted for all public business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. We are currently evaluating the impact ASU 2016-02 will have on the Company’s condensed consolidated financial statements.

In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842)*. This guidance provides an additional (and optional) transition method whereby the new lease standard is applied at the adoption date and recognized as an adjustment to retained earnings. In addition, this ASU provides a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease and instead account for the lease as a single component if both the timing and pattern of transfer of the nonlease component(s) are the same, and if the lease would be classified as an operating lease. These amendments have the same effective date as ASU 2016-02.



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In June 2018, the FASB issued ASU No. 2018-07, Compensation – Stock Compensation (Topic 718) – Improvements to Nonemployee Share-Based Payment Accounting, which aligns the accounting for share-based payment awards issued to employees and nonemployees. Under ASU 2018-07, the existing employee guidance will apply to nonemployee share-based transactions (as long as the transaction is not effectively a form of financing), with the exception of specific guidance related to the attribution of compensation cost. The cost of nonemployee awards will continue to be recorded as if the grantor had paid cash for the goods or services. In addition, the contractual term will be able to be used in lieu of an expected term in the option-pricing model for nonemployee awards. The new standard is effective on January 1, 2019, and early adoption is permitted, including in interim periods, and should be applied to all new awards granted after the date of adoption. The Company is currently assessing the potential impact this ASU will have on our consolidated results of operations, financial position, and cash flows.

**4. Business Acquisitions**

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

*MotherLode Craft Distillery, LLC*

On March 8, 2017, the Company completed the acquisition of MotherLode Craft Distillery, LLC (“MotherLode”), a small Portland, Oregon-based provider of bottling services and production support to craft distilleries. The Company’s condensed consolidated financial statements for fiscal 2018 include MotherLode’s results of operations. The Company’s condensed consolidated financial statements for fiscal 2017 include MotherLode’s results of operations from the acquisition date of March 8, 2017 through December 31, 2017. The Company’s condensed consolidated financial statements reflect the final purchase accounting adjustments in accordance with ASC 805 “Business Combinations”, whereby the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values on the acquisition date.

The following allocation of the purchase price is as follows:

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

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

*Big Bottom Distillery, LLC*

On May 1, 2017, the Company acquired 90% of the ownership of Big Bottom Distillery, LLC (“BBD”), a Hillsboro, Oregon-based distiller of super-premium spirits. The Company’s condensed consolidated financial statements for the fiscal year 2018 include BBD’s results. The Company’s condensed consolidated financial statements for the fiscal year 2017 include BBD’s results of operations from the acquisition date of May 1, 2017 through December 31, 2017. The Company’s condensed consolidated financial statements reflect the final purchase accounting adjustments in accordance with ASC 805 “Business Combinations”, whereby the purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values on the acquisition date.

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The following allocation of the 90% purchase price on May 1, 2017 is as follows:

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

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

At December 31, 2018, the Company acquired the remaining 10% of BBD. The consideration given was 3,122 shares of common stock valued at the December 31, 2018 closing price of \$6.18 per share, for a purchase price of \$19,294.

**5. Inventories**

Inventories consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Raw materials .....	\$ 10,347,616	\$ 3,755,477
Finished goods.....	669,843	295,805
Total inventories .....	<u>\$ 11,017,459</u>	<u>\$ 4,051,282</u>

**6. Property and Equipment**

Property and equipment consists of the following at December 31:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures .....	\$ 1,148,540	\$ 326,088
Leasehold improvements.....	477,184	56,410
Vehicles .....	49,483	49,483
Construction in progress.....	425,851	372,667
Total cost .....	<u>2,101,058</u>	<u>804,648</u>
Less accumulated depreciation and amortization .....	<u>(342,928)</u>	<u>(76,142)</u>
Total property and equipment, net.....	<u>\$ 1,758,130</u>	<u>\$ 728,506</u>

Depreciation and amortization expense totaled \$266,786 and \$41,253 for the years ended December 31, 2018 and 2017, respectively.

**Eastside Distilling, Inc. and Subsidiaries**  
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**7. Intangible Assets and Goodwill**

At December 31, 2018, intangible assets and goodwill consist of the following:

	<u>2018</u>	<u>2017</u>	<u>Life</u>
Permits and licenses .....	\$ 25,000	\$ 25,000	-
Customer lists .....	351,430	351,432	7 years
Goodwill.....	28,182	28,182	-
Total intangible assets and goodwill .....	<u>404,614</u>	<u>404,614</u>	
Less accumulated amortization .....	<u>(90,754)</u>	<u>(50,764)</u>	
Intangible assets and goodwill - net .....	<u>\$ 313,858</u>	<u>\$ 353,850</u>	

Amortization expense totaled \$39,990 and \$50,764 for the years ended December 31, 2018 and 2017, respectively.

**8. Other Assets**

Other assets consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Product branding .....	\$ 525,000	\$ 285,000
Investment in online company .....	300,000	-
Deposits.....	29,297	53,942
Total other assets.....	<u>854,297</u>	<u>343,942</u>
Less accumulated amortization .....	<u>(58,037)</u>	<u>-</u>
Other assets - net .....	<u>\$ 796,260</u>	<u>\$ 343,942</u>

As of December 31, 2018, the Company had \$525,000 of capitalized costs related to services provided for the rebranding of its existing product lines and branding for new product lines. This amount will be amortized over a seven-year life. In December 2018, the Company invested in an online (direct-to-consumer) business and intends to begin selling select products through this platform. The deposits of \$29,297 represent office and retail space lease deposits.

As of December 31, 2017, \$285,000 represented rebranding the Burnside product line, \$40,000 represented deposits on future product rebranding and \$13,942 represented office and retail spaces lease deposits.

Amortization expense totaled \$58,037 and \$0 for the years ended December 31, 2018 and 2017, respectively.

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**9. Notes Payable**

Notes payable consists of the following at December 31, 2018 and December 31, 2017:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Notes payable bearing interest at 5.00%. The notes' principal, plus any accrued and unpaid interest is due May 1, 2021. Interest is paid monthly. ....	2,300,000	-
Notes payable bearing interest at 8.00%. The notes have a 2-year maturity, are due either June 30, 2018 or June 30, 2019 and pay interest-only on a monthly basis. ....	-	407,500
Note payable bearing interest at 2.74%. The note is payable in monthly principal plus interest payments of \$100 through December 2019. ....	-	2,306
Note payable bearing interest at 4.00%. The note is payable in quarterly principal plus interest payments of \$9,614 through March 2019. ....	-	56,341
Convertible notes payable bearing interest at 4.00%. The notes principal plus accrued interest is due in full at various dates between April 3, 2020 – September 30, 2020. The notes have an automatic conversion feature upon the closing (or first in a series of closings) of the next equity financing in which the Company sells shares of its equity securities for an aggregate consideration of at least \$4,000,000 at a purchase price of at least \$7.50. The outstanding principal and unpaid accrued interest on the notes shall be automatically converted into equity securities at a price equal to 80% of the price paid per share by the investors in the next equity financing or \$6.00, whichever is lower, provided, however, that in no event shall the conversion price be less than \$6.00. The note has a voluntary conversion feature where the investor may convert, in whole or in part, at any time at the conversion price of \$6.00.....	-	927,192
Promissory notes payable bearing interest at 8.00%. The notes' principal is due on June 30, 2019. Interest is paid monthly.....	-	1,101,840
Total notes payable.....	<u>2,300,000</u>	<u>2,495,179</u>
Less current portion.....	-	(293,726)
Less debt discount for detachable warrant .....	-	(39,693)
Long-term portion of notes payable .....	<u>\$ 2,300,000</u>	<u>\$ 2,161,760</u>

During 2018 we used \$514,867 in cash and \$3,722,888 in stock to retire the outstanding notes from 2017. The ending 2018 note balance reflects the new notes entered into during 2018. We paid \$189,552 and \$103,293 in interest on notes during 2018 and 2017 respectively.

Maturities on notes payable as of December 31, 2018, are as follows:

Year ending December 31:

2019 .....	\$
2020 .....	
2021 .....	2,300,000
2022 .....	-
Thereafter.....	-
	<u>\$ 2,300,000</u>

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**10. Secured Credit Facility**

On May 10, 2018, Eastside Distilling, Inc. (the “Company”) entered into a credit and security agreement (the “Credit and Security Agreement”), by and between the Company and The KFK Children’s Trust, Jeffrey Anderson – Trustee (the “Lender”). Pursuant to the Credit and Security Agreement, the Lender will make loans to the Company in an aggregate principal amount not to exceed \$3,000,000 (the “Loans”). The Loans are secured by all of the Company’s bulk whiskey, bourbon and rye inventory held in third-party storage facilities (“Specified Inventory”), The Company may borrow 80% of the value of the Specified Inventory it is able to purchase under the Credit and Security Agreement.

The proceeds of the Loans are to be used by the Company to purchase the Specified Inventory for use in distilling and producing its spirits products, and for no other purpose.

The Loans have an annual interest rate of 7.00%. The Company will pay accrued and unpaid interest on the Loans, for the period commencing on the date each such Loan is made and continuing until each such Loan is paid in full. During 2018, The Company paid \$103,790 in interest on the Loans. The Company must pay the outstanding principal amount of the Loans in a one-time payment on the termination date of the Credit and Security Agreement (June 10, 2021), or earlier pursuant to other provisions thereof. The Company may prepay the Loans or any portion thereof at any time, and from time to time, without premium or penalty. As of December 31, 2018, the Company has borrowed the full \$3 million available under the agreement.

The current market value of the Company’s bulk whiskey, bourbon and rye inventories must be at least 120% of the outstanding Loan balance. In addition, the Credit and Security Agreement contains other customary covenants including, among other things, certain restrictions on incurring indebtedness.

**11. 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, 2017 and 2018 were as follows, assuming a 35% and 21% federal effective tax rate, respectively. The Company also has a state tax rate for Oregon, of 6.6% for both December 31, 2017 and 2018.

	2018	2017
Expected federal income tax benefit .....	\$ (1,774,610)	\$ (1,794,492)
State income taxes after credits .....	(597,146)	(348,343)
Change in valuation allowance.....	2,371,756	2,142,835
Total provision for income taxes.....	\$ -	\$ -

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

	2018	2017
Deferred tax assets:		
Net operating loss carryforwards .....	\$ 7,780,105	5,489,143
Stock-based compensation .....	623,386	563,356
Total deferred tax assets.....	8,403,491	6,052,499
Deferred tax liabilities:		
Depreciation and amortization .....	(208,864)	(92,016)
Total deferred tax liabilities .....	(208,864)	(92,016)
Valuation allowance.....	(8,194,627)	(5,960,483)
Net deferred tax assets.....	\$ -	-

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At December 31, 2018, the Company has a cumulative net operating loss carryforward (NOL) of approximately \$8.6 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.

**12. Commitments and Contingencies**

**Operating Leases**

The Company leases its corporate office, warehouse, kiosks and tasting room space under operating lease agreements which expire at various dates through December 2023. Monthly lease payments range from \$1,857 to \$25,175 over the terms of the leases. For operating leases which contain fixed escalations in rental payments, the Company records the total rent expense on a straight-line basis over the lease term. The difference between the expense computed on a straight-line basis and actual payments for rent represents deferred rent which is included within accrued liabilities on the accompanying consolidated balance sheets. Retail spaces under lease are subject to monthly percentage rent adjustments when gross sales exceed certain minimums.

At December 31, 2018, future minimum lease payments required under the operating leases are approximately as follows:

For year ending December 31st:

2019 .....	\$	547,411
2020 .....		435,958
2021 .....		117,683
2022 .....		37,153
2023 .....		38,267
Total.....	\$	1,176,472

Total rent expense was approximately \$459,147 and \$362,000 for the years ended December 31, 2018 and 2017, respectively.

**Legal Matters**

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

**13. Net Loss per Common Share**

Basic loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted net loss per common share is computed by dividing net loss by the sum of the weighted average number of common shares outstanding and the potential number of any dilutive common shares outstanding during the period. Potentially dilutive securities consist of the incremental common stock issuable upon exercise of stock options and convertible notes. Potentially dilutive securities are excluded from the computation if their effect is anti-dilutive. There were no dilutive common shares at December 31, 2018 and 2017. The numerators and denominators used in computing basic and diluted net loss per common share in 2018 and 2017 are as follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Net loss available to common shareholders (numerator).....	\$ (9,047,669)	\$ (5,277,316)
Weighted average shares (denominator) .....	6,074,489	3,717,956
Basic and diluted net loss per common share.....	\$ (1.49)	\$ (1.42)

**14. Stockholder's Equity**

**Reverse Stock Splits**

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

**Issuance of Common Stock**

On December 31, 2018, the Company issued 3,122 shares in connection with the purchase of the remaining 10% interest in BBD.

On November 20, 2018, the Company issued 1,235,000 shares of common stock at \$6.50 per share in connection with an underwritten public offering for net proceeds of approximately \$7.2 million. On December 19, 2018 an additional 185,250 shares were issued as part of the overallotment for additional proceeds of approximately \$1.1 million.

During 2018, the Company issued 1,345,978 shares of common stock at \$5.40 per share in connection with the exercise of warrants for cash proceeds of \$7,268,281, and 500,000 shares of common stock at \$5.40 per share in connection with the exercise of warrants in exchange for a reduction in outstanding note principal of \$2,700,000.

On September 25, 2018, the Company issued 120,000 shares of common stock at \$5.40 per share in connection with the exercise of underwriter warrants. The warrants were part of units, and each unit consisted of one share of common stock and one common stock warrant exercisable at \$5.40 per share.

In July 2018, the Company issued 167,273 shares of common stock at \$6.00 per share in exchange for outstanding note principal and interest. The conversion was within the terms of the original note agreement and no gain or loss was recorded.

During 2018, the Company issued 115,334 shares of common stock at an average of \$5.35 per share in connection with the exercise of warrants for proceeds of \$617,004. In addition, the Company issued 59,308 shares of common stock at an average of approximately \$4.05 per share in exchange for services rendered.

During 2018, the Company issued 79,734 shares of common stock to directors and employees for stock-based compensation of \$712,469. The shares were valued using the closing share price of our common stock on the date of grant, with the range of \$3.99 - \$8.50 per share.

During 2018, the Company issued 35,941 shares of common stock in connection with existing option exercises, at an average exercise price of \$4.56.

During 2018, the Company issued 27,400 shares of common stock to consultants in exchange for services. The shares were valued using the closing share price of our common stock on the date of grant, with a range of \$3.99 - \$7.72 per share, for a total value of \$162,378.

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

### **Stock-Based Compensation**

On September 8, 2016, the Company adopted the 2016 Equity Incentive Plan (the "2016 Plan"). The total number of shares available for the grant of either stock options or compensation stock under the 2016 Plan was initially set at 166,667 shares, subject to adjustment. On January 1, 2017 and pursuant to the plan provisions, the number of shares available for grant under the 2016 Plan increased to 307,139 shares, equal to 8% of the number of outstanding shares of the Company's capital stock, calculated on an as-converted basis, on December 31 of the preceding calendar year. On October 18, 2017, the Board of Directors (the "Board") approved amendments to the 2016 Plan to (i) increase the number of shares of the common stock that may be issued under the 2016 Plan (the "Aggregate Limit") by an additional 192,861 shares of common stock, for a total of 500,000 shares of common stock, (ii) increase the number of shares of common stock that may be granted to any participant pursuant to options to purchase common stock and stock appreciation rights under the 2016 Plan in any one year period (the "Individual Option Limit") from 8,333 shares to 200,000 shares, (iii) increase the number of shares of common stock that may be granted to any participant pursuant to other awards (the "Individual Award Limit") under the 2016 Plan in any one year period from 8,333 shares to 200,000 shares and (iv) increase the number of shares of common stock that may be paid to any one participant under the 2016 Plan for a performance period pursuant to performance compensation awards under the 2016 Plan (the "Individual Performance Award Limit") from 8,333 shares to 200,000 shares, which amendments were adopted and approved at the December 2017 meeting of stockholders. On January 1, 2018, pursuant to the plan provisions, the number of shares available for grant under the 2016 Plan further increased to 1,131,880 shares. The exercise price per share of each stock option shall not be less than 100 percent of the fair market value of the Company's common stock on the date of grant. At December 31, 2018, there were 904,249 options and 225,780 restricted stock units ("RSUs") issued under the 2016 Plan with vesting schedules varying between immediate and five (5) years from the grant date.

On January 29, 2015, our Board of Directors adopted the 2015 Stock Incentive Plan (the "2015 Plan"). The total number of shares available for the grant of either stock options or compensation stock under the plan is 50,000 shares, subject to adjustment. At December 31, 2018, there were 49,584 options issued under the Plan outstanding, with vesting schedules varying between immediate and one (1) year from the grant date, which options vest at the rate of at least 25% in the first year, starting 6-months after the grant date, and 75% in year two.

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A summary of all stock option activity at and for the years ended December 31, 2018 and 2017 is presented below:

	<b># of Options</b>	<b>Weighted- Average Exercise Price</b>
<b>Outstanding at December 31, 2016</b> .....	173,750	\$ 9.25
Options granted .....	243,667	4.34
Options exercised .....	(9,260)	5.40
Options canceled .....	(39,151)	5.39
<b>Outstanding at December 31, 2017</b> .....	369,006	\$ 6.47
Options granted .....	654,000	5.47
Options exercised .....	(48,715)	4.56
Options canceled .....	(78,433)	4.86
<b>Outstanding at December 31, 2018</b> .....	895,858	\$ 5.62
 <b>Exercisable at December 31, 2018</b> .....	 406,464	 \$ 5.80

The aggregate intrinsic value of options outstanding at December 31, 2018 was \$558,278, compared to \$28,962 at December 31, 2017.

At December 31, 2018, there were 489,393 unvested options with an aggregate grant date fair value of \$1,322,193. The unvested options will vest in accordance with the vesting schedule in each respective option agreement, which varies between immediate and five (5) years from the grant date. The aggregate intrinsic value of unvested options at December 31, 2018 was \$344,232. During the year ended December 31, 2018, 255,182 options vested.

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

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

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

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

The following weighted-average assumptions were used in the Black-Scholes valuation model for options granted during the year ended December 31, 2018:

Risk-free interest rate .....	2.65%
Expected term (in years).....	6.28
Dividend yield.....	-
Expected volatility.....	56%

The weighted-average grant-date fair value per share of stock options granted during the year ended December 31, 2018 was \$2.64. The aggregate grant date fair value of the 641,000 options granted during the year ended December 31, 2018 was \$1,689,398.

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For the twelve months ended December 31, 2018, net compensation expense related to stock options was \$657,546. At December 31, 2018, the total compensation expense related to stock options not yet recognized is approximately \$1,088,420, which is expected to be recognized over a weighted-average period of approximately 2.18 years.

**Warrants**

During the twelve months ended December 31, 2018, the Company issued an aggregate of 500,000 common stock warrants in connection with the issuance of \$5,000,000 in notes payable, and 10,000 common stock warrants to a consultant. The Company has determined the warrants should be classified as equity on the condensed consolidated balance sheet as of December 31, 2018. The estimated fair value of the warrants at issuance was \$2,110,997, based on a combination of closing market trading price on the date of issuance for the public offering warrants, and the Black-Scholes option-pricing model using the weighted-average assumptions below:

Volatility .....	48%
Risk-free interest rate .....	2.59%
Expected term (in years) .....	4.0
Expected dividend yield.....	-
Fair value of common stock.....	\$ 7.95

A total of 1,961,312 warrants were exercised during the fiscal year 2018 for cash proceeds of \$7,885,285 and a \$2,700,000 reduction of outstanding note principal. In addition, 54,308 warrants were exercised during the twelve month period at an average of approximately \$4.07 per share in exchange for services rendered.

A summary of activity in warrants is as follows:

	<u>Warrants</u>	<u>Weighted Average Remaining Life</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2017 .....	<u>2,623,077</u>	<u>3.62 years</u>	<u>\$ 5.96</u>	<u>\$ 54,880</u>
Twelve months ended December 31, 2018:				
Granted.....	510,000	4.47 years	\$ 5.42	\$ 387,600
Exercised.....	(2,015,620)		\$ 5.36	-
Forfeited and cancelled .....	<u>(34,022)</u>	4.25 years	<u>\$ 5.40</u>	<u>-</u>
Outstanding at December 31, 2018 .....	<u>1,083,435</u>	<u>1.04 years</u>	<u>\$ 6.83</u>	<u>\$ -</u>

**15. Related Party Transactions**

The following is a description of transactions since January 1, 2017 as to which the amount involved exceeds the lesser of \$120,000 or one percent (1%) of the average of our total assets at year-end for the last two completed fiscal years which was \$176,934 and in which any related person has or will have a direct or indirect material interest, other than equity, compensation, termination and other arrangements.

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

On August 10, 2017, Mr. Wickersham and his affiliates purchased 55,555 units at \$4.50 per unit, with each unit consisting of one share of common stock and one Public Warrant, for total proceeds of approximately \$250,000 in cash. On August 9, 2018, Mr. Wickersham and his affiliates exercised the 55,555 warrants associated with the 2017 unit offering at an exercise price of \$5.40 per share, for total proceeds of approximately \$300,000.

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On August 23, 2017, our Board appointed Jack Peterson to the Board to fill an existing vacancy on the Board effective immediately. Mr. Peterson is also the President of Sandstrom Partners. In late 2016, with the goal of increasing its brand value and accelerating sales, the Company retained Sandstrom Partners and tasked them with reviewing the Company's current product portfolio, as well as its new ideas, and advising it with respect to marketing, creation of brand awareness and product positioning, locally and nationally. The Company is using Sandstrom Partner's full range of brand development services, including research, strategy, brand identity, package design, environments, advertising as well as digital design and development. The Company paid \$140,000 in cash, issued 33,334 shares of stock valued at \$145,000 (at the time of issuance), and issued 42,000 warrants with an exercise price of \$3.50 valued at \$43,596 (using a Black-Scholes value at the time of issuance) to Sandstrom Partners in 2017 for services rendered by Sandstrom under its agreement with the Company. We have also issued an additional 10,025 shares valued at \$40,000 (at the time of issuance) to Sandstrom in 2018. On August 11, 2018, we issued 42,000 shares of common stock to Sandstrom in connection with the exercise of their 42,000 warrants in exchange for services rendered.

On December 29, 2017, the Grover T. Wickersham Employees' Profit Sharing Plan ("PSP") purchased from us a promissory note bearing interest at the rate of 8% per annum (a "Promissory Note") for aggregate consideration of \$464,750. Interest is paid monthly. The Promissory Note is due on June 30, 2019 or in the event the Company completes a private or public offering of its equity or debt securities in which the gross amount raised in such financing is at least \$2.0 million (a "Future Financing"), all amounts due under the Promissory Note will become due and payable within five (5) business days of the final closing of such Future Financing. In lieu of receiving the cash repayment of amounts due under this Note in connection with a Future Financing, at the option of PSP, the principal amount due and payable may be used to purchase the securities offered in the Future Financing. PSP used a balance of \$379,750 to purchase the Company's new private offering of notes with warrants. The remaining principal balance of \$85,000 was paid in April 2018. The new promissory notes bear interest at 8% per annum, payable monthly on the last day of the month. The entire amount of principal and any accrued and unpaid interest is due and payable on May 1, 2021. In conjunction with this new offering, PSP was issued 37,975 warrants, exercisable at \$5.40 per share. On August 9, 2018, PSP exercised the 37,975 warrants at \$5.40 per share in exchange for a reduction in outstanding note principal due. \$174,685 remained outstanding on the note.

On December 29, 2017, the Grover T. and Jill Z. Wickersham 2000 Charitable Remainder Trust (the "Wickersham Trust") purchased from us a promissory note bearing interest at the rate of 8% per annum (a "Promissory Note") for aggregate consideration of \$179,300. Interest is paid monthly. The Promissory Note is due on June 30, 2019 or in the event the Company completes a private or public offering of its equity or debt securities in which the gross amount raised in such financing is at least \$2.0 million (a "Future Financing"), all amounts due under the Promissory Note will become due and payable within five (5) business days of the final closing of such Future Financing. In lieu of receiving the cash repayment of amounts due under the Promissory Note in connection with a Future Financing, at the option of Wickersham Trust, the principal amount due and payable may be used to purchase the securities offered in the Future Financing. During the first quarter of 2018, Wickersham Trust used the balance to purchase the Company's new private offering of notes with warrants. The new promissory notes bear interest at 8% per annum, payable monthly on the last day of the month. The entire amount of principal and any accrued and unpaid interest is due and payable on May 1, 2021. In conjunction with this new offering, the Wickersham Trust was issued 17,930 warrants, exercisable at \$5.40 per share. On August 9, 2018, the Wickersham Trust exercised the 17,930 warrants at \$5.40 per share in exchange for a reduction in outstanding note principal due. \$82,478 remained outstanding on the note.

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

## **16. Subsequent Events**

On January 11, 2019, the Company acquired Craft Canning LLC, an Oregon limited liability company by way of a subsidiary merger and changed its name to Craft Canning + Bottling, LLC ("Craft").

**Eastside Distilling, Inc. and Subsidiaries**  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

Eastside acquired Craft for total consideration of \$4,844,882, subject to certain post-closing adjustments as described in the Merger Agreement (the “Merger Consideration”). The Merger Consideration consisted of \$2,003,200 in cash, a three-year note of \$761,678, and 338,212 shares of common stock of Eastside (the “Consideration Shares”) allocated only to “accredited investors” as such term is defined under Section 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended. Holders of the Consideration Shares have agreed to a one-year lock-up restricting the sale of the Consideration Shares. The Company has granted the holders of Consideration Shares “piggyback” registration rights effective after the one-year lock-up.

Owen Lingley became non-executive Chairman of Craft Canning + Bottling, LLC, and is party to a consulting agreement with the Company. The Company also issued to Mr. Lingley a warrant to purchase 146,262 shares of common stock of the Company at \$7.80 per share and an exercise period of three years. The shares of common stock issuable upon exercise of the warrant will be subject to the same “piggyback” registration rights as the Consideration Shares described above.

The Merger Agreement additionally provides that in the event that Craft’s EBITDA (as defined in the Merger Agreement) for fiscal year 2019 is less than \$1,000,000 (such shortfall, the “EBITDA Adjustment”), the principal amounts on notes payable to former holders of Craft Interests will be reduced on a pro rata basis in an aggregate amount equal to the EBITDA Adjustment.

The Merger Agreement contains representations, warranties, and covenants by the parties that are customary for a transaction of this nature.

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

None.

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

**Evaluation of Disclosure Controls and Procedures**

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (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, 2018.

**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, 2018 using the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, our management has concluded that we maintained effective internal control over financial reporting as of December 31, 2018.

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, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None.

## PART III

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

The following is a brief description of the principal occupation and recent business experience of each of our executive officers and directors and their ages as of March 28, 2019:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Grover T. Wickersham	70	Chief Executive Officer, Chairman of the Board, Director
Patrick Crowley <sup>(3)</sup>	71	Director
Trent D. Davis <sup>(2)(3)</sup>	50	Director
Michael M. Fleming <sup>(1)(2)(3)</sup>	70	Director
David Holmes	45	Director
Jack Peterson	54	Director
Matthew Szot <sup>(1)(2)</sup>	44	Director
Robert Manfredonia	54	President
Steven Shum	48	Chief Financial Officer
Melissa Heim	35	Executive Vice President Operations and Master Distiller

(1) Member of the audit committee.

(2) Member of the compensation committee.

(3) Member of the nominating and corporate governance committee.

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

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

There are no family relationships among our officers or directors.

#### Executive Officers

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

**Robert Manfredonia** has served as our President since December 6, 2018. Mr. Manfredonia has over 25 years of experience helping liquor companies drive new business growth, distributor focus and forging strong relationships with external business partners. In April 2018, Mr. Manfredonia joined us from Russian Standard, where he was Vice President in charge of National Accounts. As our Vice President of National Accounts, Mr. Manfredonia was in charge of selling the Company's Redneck Riviera Whiskey product to 'big box' retailers including Costco, Kroger, Albertsons, Walmart, CVS, Winn Dixie, Spec's (Texas), Jewel Osco, ABC Liquors (Florida) and other significant accounts. He started his career as a sales manager with Southern Wine & Spirits. From 2012 through 2015, he was co-founder of Diamond Brands Inc., where he led the concept development, research and development, and bringing to market of a French sparkling wine. From 2007 through 2012, he was Western Division Director for Duvel Moortgat USA, where he had oversight of six breweries, five European, and U.S. management of 106 distributors. Prior to 2007, Mr. Manfredonia worked for Miller Brewing Company as a Division Director of International Brands. His oversight included nine urban centers and 52 distributors with a fiscal 2006 revenue increase of 42%. He served as a logistics specialist in the United States Air Force from 1984 through 1989, serving in Asia and Europe.

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

**Melissa Heim** has served as our master distiller since June 2012 and has been a professional producer of spirits for 11 years. In November 2016, she was appointed our Executive Vice President Operations. We believe Ms. Heim was one of the first female master distillers and blenders west of the Mississippi River. Prior to joining us, she apprenticed at and then served as head distiller at Rogue Distillery and Public House in Portland's Pearl District, holding the latter position from 2008 to 2010. Also, Ms. Heim co-founded and served as president of the Clear Boots Society, an organization that supports women's leadership in the spirits industry. Ms. Heim studied Liberal Arts with emphasis on English at the University of Oregon. Ms. Heim is a current board member and Treasurer for the Women Distillers Guild, a member of the Craft Spirit Steering Committee for the international association Women of the Vine and Spirits, a member in good standing with the American Distilling Institute since 2014, a member in good standing with the American Craft Spirits Association since 2014, was named as one of the beverage industry's top 40 under 40 tastemakers in 2017 and holds certification of advanced blending, maturation and warehousing techniques for spirits.

### **Non-Employee Directors**

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

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



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

**Matthew Szot** was appointed to our Board of Directors in June 2018. Mr. Szot is currently the Executive Vice President and Chief Financial Officer of S&W Seed Company (Nasdaq: SANW) where he has served since March 2010. Mr. Szot brings a wealth of knowledge in mergers and acquisitions, debt and equity financings, developing and implementing financial and operational process improvements, technical accounting, SEC reporting and compliance. During this tenure, Mr. Szot has been instrumental in negotiating, structuring and integrating six strategic acquisitions. Mr. Szot is also currently a Director and serves as Chairman of the Audit Committee of SenesTech (Nasdaq: SNES), a life science company focused on animal fertility control. From February 2007 until October 2011, Mr. Szot served as the Chief Financial Officer for Cardiff Partners, LLC, a strategic consulting company that provided executive financial services to various publicly traded and privately held companies. From 2003 to December 2006, Mr. Szot served as Chief Financial Officer and Secretary of Rip Curl, Inc., a market leader in wetsuit and action sports apparel products. From 1996 to 2003, Mr. Szot was a Certified Public Accountant with KPMG in the San Diego and Chicago offices and served as an Audit Manager for various publicly traded companies. Mr. Szot graduated with High Honors from the University of Illinois, Champaign-Urbana with a Bachelor of Science degree in Agricultural Economics/Accountancy. Mr. Szot is a Certified Public Accountant in the State of California. We believe Mr. Szot is qualified to serve on our Board of Directors because of his experience serving on public company boards and in executive positions, as well as his extensive experience in and qualifications pertaining to finance, accounting and operations.

**Patrick T. Crowley** was appointed to our Board of Directors on October 15, 2018. Mr. Crowley is a veteran motion picture producer with worldwide experience. He has produced many box office hits including Jurassic World: Fallen Kingdom, Jurassic World, Eight Below, The Bourne Identity, The Bourne Supremacy, The Bourne Ultimatum, The Bourne Identity, Eagle Eye and The Other Guys. He was the executive producer on Sleepless in Seattle, Legends of the Fall and Charlie's Angels: Full Throttle. As the Company contemplates broadening its collaboration with celebrities as a result of its positive results working with country music star, John Rich in the Redneck Riviera Whiskey venture, the Board believes that Mr. Crowley's extensive experience and contacts in the entertainment world will be a unique and valuable voice in the boardroom.

**David Holmes** was appointed to our Board of Directors on October 15, 2018. Mr. Holmes currently serves as the founder of Third Floor, LLC, a development-stage company assembling a platform of brands primarily focused on 'evolved beverage' and cannabis beverage. Prior thereto, he was a co-founder of Boathouse Beverage, the developer of the SpikedSeltzer brand, which was sold to ABInbev in 2016. While at Boathouse, Mr. Holmes built the SpikedSeltzer brand from concept to product to sale and, in the process, created a segment in the alcohol beverage market. He developed and directed all branding/marketing and related execution, along with sole responsibility for all investment, finance, logistics and field sales management. Following the SpikedSeltzer brand acquisition, Mr. Holmes became Vice President at ABInbev where his primary focus was on managing the operational transition to ABI, leading and guiding the brand identity transition into ABI and wholesaler outreach and relationship building. Prior to co-founding Boathouse Beverage, Mr. Holmes was a director and portfolio manager at Citi Capital Advisors from 2007 through 2012, where he ran its distressed debt opportunity fund. Mr. Holmes was also an analyst at Marathon Asset Management, an alternative asset management firm with \$10 billion in assets under management investing in global credit and fixed income markets. Mr. Holmes has an MBA in Finance from Columbia University and a BA in Economics from Connecticut College. Because of his extensive experience within the spirits industry, the Company believes Mr. Holmes will be a valuable member of the Board.

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

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

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

## **Family Relationships**

None.

## **Board Committees**

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

### *Audit Committee*

Our audit committee oversees the engagement of our independent public accountants, reviews our audited financial statements, meets with our independent public accountants to review internal controls and reviews our financial plans. Our audit committee currently consists of Matthew Szot, who is the chair of the committee and Michael M. Fleming. Former director Shelly A. Saunders served on the audit committee prior to her resignation from the Board of Directors effective March 19, 2019. The vacancy on the audit committee caused by Ms. Saunders' resignation has not yet been filled by the Board of Directors as of March 28, 2019. Each of Messrs. Szot and Fleming has been determined by our Board of Directors to be independent in accordance with NASDAQ and SEC standards. Our Board of Directors has also designated each of Mr. Szot and Mr. Fleming as an "audit committee financial expert" as the term is defined under SEC regulations and has determined that each of Mr. Fleming and Mr. Szot possesses the requisite "financial sophistication" under applicable NASDAQ rules. The audit committee operates under a written charter which is available on our website at <https://www.east-sidedistilling.com/investors>. Both our independent registered accounting firm and internal financial personnel will regularly meet with our audit committee and have unrestricted access to the audit committee. Each member of the audit committee is able to read and understand fundamental financial statements, including our consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows. Further, no member of the audit committee has participated in the preparation of our consolidated financial statements, or those of any of our current subsidiaries, at any time during the past three years.

### *Compensation Committee*

Our compensation committee reviews and recommends policies, practices and procedures relating to compensation for our directors, officers and other employees and advising and consulting with our officers regarding managerial personnel and development. Our compensation committee currently consists of Trent D. Davis, who is the chair of the committee, Matthew Szot and Michael M. Fleming, each of whom has been determined by our Board of Directors to be independent in accordance with NASDAQ standards. Each member of our compensation committee is also a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Exchange Act, and an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended. The compensation committee operates under a written charter which is available on the Company's website at <https://www.east-sidedistilling.com/investors>.

### *Nominating and Corporate Governance Committee*

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

## **Director Nomination Process**

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

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

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

## **General Stockholder Communications**

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

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our officers and directors and persons who own more than ten percent of a registered class of our equity securities to file with the SEC reports of ownership on Form 3 and changes in ownership on Form 4 and Form 5. Officers, directors and greater-than-ten-percent stockholders are required by Commission regulations to furnish to us copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that all Section 16(a) filing requirements applicable to our officers, directors, and greater-than-10% beneficial owners were met during the fiscal year ended December 31, 2018.

## Code of Ethics

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

## Item 11. EXECUTIVE COMPENSATION

The following table sets forth the compensation awarded to, earned by or paid to our Named Executive Officers for services rendered during the fiscal years ended December 31, 2018, and 2017.

Name and Position	2018 Summary Compensation Table						
	Year	Salary	Bonus	Stock Awards	Option Awards	All Other Compensation	Total (\$)
Grover T. Wickersham....	2018	\$ 120,000	\$ 123,750	\$ 164,314 <sup>(3)</sup>	\$ 318,545 <sup>(1)</sup>	\$	\$ 726,609
Chief Executive Officer, Director (Since November 2016)	2017	\$ 20,769	\$ 50,000	\$ 188,350 <sup>(4)</sup>	\$ 156,740 <sup>(2)</sup>	\$	\$ 415,859
Robert Manfredonia ....	2018	\$ 109,615	\$ —	\$ 50,000 <sup>(6)</sup>	\$ 204,625 <sup>(5)</sup>	\$	\$ 364,240
President (Since December 2018)							
Steve Shum.....	2018	\$ 135,000	\$ 132,250	\$ 164,314 <sup>(9)</sup>	\$ 318,545 <sup>(7)</sup>	\$	\$ 750,109
Chief Financial Officer, (Since October 1, 2015)	2017	\$ 135,000	\$ 63,461	\$ 59,390 <sup>(10)</sup>	\$ 5,095 <sup>(8)</sup>	\$	\$ 262,946
Melissa Heim...	2018	\$ 87,289	\$ 10,000	\$ 19,950 <sup>(13)</sup>	\$ 68,575 <sup>(11)</sup>	\$	\$ 185,814
Executive V.P. Operations and Master Distiller	2017	\$ 85,000	\$ 34,297	\$ 57,906 <sup>(14)</sup>	\$ 30,915 <sup>(12)</sup>	\$	\$ 208,118

- (1) Amounts reflect the aggregate grant date fair value of the 115,000 shares of common stock underlying the stock options granted on three separate dates of grant (with exercise prices of \$3.92, \$3.99 and \$7.87 per share, respectively) without regards to forfeitures, computed in accordance with FASB ASC Topic 718, Compensation—Stock Compensation (“ASC 718”). This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest monthly over a 2 or 3-year period. The assumptions used to calculate the value of the stock options are set forth in Note 14 in the Notes to Consolidated Financial Statements on page 52.
- (2) Amounts reflect the aggregate grant date fair value of the 53,333 shares of common stock underlying the stock options granted on two separate dates of grant (with exercise prices of \$4.80 and \$3.78 per share, respectively) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest monthly over a 3-year period. The assumptions used to calculate the value of the stock options are set forth in Note 13 in the Notes to Consolidated Financial Statements on page 46 of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on April 2, 2018.
- (3) Amounts reflect the aggregate grant date fair value of 24,098 restricted stock units calculated based on the closing sales price reported on the Nasdaq Capital Market on the respective dates of grant (\$3.99, \$7.19, and \$7.69 per share, respectively) without regards to forfeitures.
- (4) Amounts reflect the aggregate grant date fair value of 50,834 restricted stock units calculated based on the closing sales price reported on the Nasdaq Capital Market on the respective dates of grant (\$4.80, \$3.78, and \$4.33 per share, respectively) without regards to forfeitures.

- (5) Amounts reflect the aggregate grant date fair value of the 75,000 shares of common stock underlying the stock options granted on two separate dates of grant (with exercise prices of \$7.05 and \$7.87 per share, respectively) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest monthly over a 3-year period. The assumptions used to calculate the value of the stock options are set forth in Note 14 in the Notes to Consolidated Financial Statements on page 52.
- (6) Amounts reflect the aggregate grant date fair value of 6,696 restricted stock units calculated based on the closing sales price reported on the Nasdaq Capital Market on the respective dates of grant (\$7.05, and \$7.94 per share, respectively) without regards to forfeitures.
- (7) Amounts reflect the aggregate grant date fair value of the 115,000 shares of common stock underlying the stock options granted on three separate dates of grant (with exercise prices of \$3.92, \$3.99 and \$7.87 per share, respectively) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest monthly over a 2 or 3-year period. The assumptions used to calculate the value of the stock options are set forth in Note 14 in the Notes to Consolidated Financial Statements on page 52.
- (8) Amounts reflect the aggregate grant date fair value of the 1,667 shares of common stock underlying the stock option on the date of grant (with an exercise price of \$4.50 per share) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest quarterly over a 3-year period. The assumptions used to calculate the value of the stock options are set forth in Note 13 in the Notes to Consolidated Financial Statements on page 46 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on April 2, 2018.
- (9) Amounts reflect the aggregate grant date fair value of 24,098 restricted stock units calculated based on the closing sales price reported on the Nasdaq Capital Market on the respective dates of grant (\$3.99, \$7.19, and \$7.69 per share, respectively) without regards to forfeitures.
- (10) Amounts reflect the aggregate grant date fair value of 13,000 restricted stock units calculated based on the closing sales price reported on the Nasdaq Capital Market on the respective dates of grant (\$6.00, \$3.90, and \$4.33 per share, respectively) without regards to forfeitures.
- (11) Amounts reflect the aggregate grant date fair value of the 25,000 shares of common stock underlying the stock option on the date of grant (with an exercise price of \$3.99 per share) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest quarterly over a 3-year period. The assumptions used to calculate the value of the stock options are set forth in Note 14 in the Notes to Consolidated Financial Statements on page 52.
- (12) Amounts reflect the aggregate grant date fair value of the 11,667 shares of common stock underlying the stock options granted on two separate dates of grant (with an exercise price of \$4.50 and \$3.78 per share, respectively) without regards to forfeitures, computed in accordance with ASC 718. This amount does not reflect the actual economic value realized by the named executive officer. The options issued vest monthly over a 3-year period. The assumptions used to calculate the value of the stock options are set forth in Note 13 in the Notes to Consolidated Financial Statements on page 46 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on April 2, 2018.
- (13) Amounts reflect the aggregate grant date fair value of 5,000 restricted stock units calculated based on the closing sales price reported on the Nasdaq Capital Market on the dates of grant (\$3.99 per share) without regards to forfeitures.
- (14) Amounts reflect the aggregate grant date fair value of 5,548 restricted stock units calculated based on the closing sales price reported on the Nasdaq Capital Market on the respective dates of grant (\$3.78 and \$4.33 per share, respectively) without regards to forfeitures.

#### **All Other Compensation**

None

## 2018 Grants of Plan-Based Awards

The following table sets forth information concerning the number of shares of common stock underlying restricted stock unit awards and stock options granted to the Named Executive Officers in the year ended December 31, 2018.

<u>Name</u>	<u>Grant Date</u>	<u>All Other Stock Awards: Number of Shares of Stock or Units (#)</u>	<u>All Other Option Awards: Number of Securities Underlying Options (#)</u>	<u>Exercise or Base Price of Option Awards (\$/Share)</u>	<u>Grant Date Fair Value of Stock and Option Awards <sup>(1)</sup></u>
Grover T. Wickersham.....	01/08/2018		50,000 <sup>(2)</sup>	\$ 3.92	\$ 130,650
	01/11/2018		25,000 <sup>(4)</sup>	\$ 3.99	\$ 68,575
	01/11/2018	5,000 <sup>(3)</sup>			\$ 19,950
	04/17/2018	5,000 <sup>(3)</sup>			\$ 35,950
	08/18/2018	14,098 <sup>(3)</sup>			\$ 103,620
	10/15/2018	—	40,000 <sup>(4)</sup>	\$ 7.87	\$ 119,320
Melissa Heim.....	01/11/2018		25,000 <sup>(4)</sup>	\$ 3.99	\$ 68,575
		5,000 <sup>(3)</sup>			\$ 19,950
Steve Shum.....	01/08/2018	—	50,000 <sup>(2)</sup>	\$ 3.92	\$ 130,650
	01/11/2018		25,000 <sup>(4)</sup>	\$ 3.99	\$ 68,575
		5,000 <sup>(3)</sup>			\$ 19,950
	04/17/2018	5,000 <sup>(3)</sup>			\$ 35,950
	08/18/2018	14,098 <sup>(3)</sup>			\$ 103,620
	10/15/2018		40,000 <sup>(4)</sup>	\$ 7.87	\$ 119,320
Robert Manfredonia .....	4/02/2018		50,000 <sup>(4)</sup>	\$ 7.05	\$ 130,050
		3,547 <sup>(3)</sup>			\$ 25,000
	10/04/2018	3,149 <sup>(3)</sup>			\$ 25,000
	10/15/2018	—	25,000 <sup>(4)</sup>	\$ 7.87	\$ 74,575

(1) Represents the grant date fair value of each equity award calculated in accordance with ASC 718.

(2) Options vest quarterly over a 2-year period.

(3) RSUs vested immediately.

(4) Options vest quarterly over a 3-year period.

## Outstanding Equity Awards at 2018 Fiscal Year-End

The following table sets forth all outstanding equity awards made to each of the Named Executive Officers that are outstanding as of December 31, 2018.

Name	Grant Date	Option Awards (1)			
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Grover T. Wickersham .....	10/13/2016	35,000 <sup>(1)</sup>	—	\$ 5.40	10/13/2026
	04/05/2017	29,167 <sup>(2)</sup>	4,167	\$ 4.80	04/05/2027
	09/15/2017	10,000 <sup>(3)</sup>	10,000	\$ 3.78	09/15/2027
	01/08/2018	25,000 <sup>(2)</sup>	25,000	\$ 3.92	01/08/2028
	01/11/2018	8,333 <sup>(3)</sup>	16,667	\$ 3.99	01/08/2028
	10/15/2018	3,333 <sup>(3)</sup>	36,667	\$ 7.87	10/15/2028
Melissa Heim .....	03/25/2015	417 <sup>(3)</sup>	—	\$ 105.00	03/25/2025
	09/20/2016	7,500 <sup>(3)</sup>	2,500	\$ 4.80	09/20/2026
	12/30/2016	2,223 <sup>(3)</sup>	1,111	\$ 5.94	12/30/2016
	03/14/2017	972 <sup>(3)</sup>	695	\$ 4.50	03/14/2027
	09/15/2017	5,000 <sup>(3)</sup>	5,000	\$ 3.78	09/15/2027
	01/11/2018	8,333 <sup>(3)</sup>	16,667	\$ 3.99	01/11/2028
Steven Shum .....	10/1/2015	14,167 <sup>(4)</sup>	—	\$ 27.00	10/1/2020
	9/20/2016	15,000 <sup>(3)</sup>	5,000	\$ 4.80	10/1/2026
	03/14/2017	972 <sup>(3)</sup>	695	\$ 4.50	03/14/2027
	01/08/2018	25,000 <sup>(2)</sup>	25,000	\$ 3.92	01/08/2028
	01/11/2018	8,333 <sup>(3)</sup>	16,667	\$ 3.99	01/08/2028
	10/15/2018	3,333 <sup>(3)</sup>	36,667	\$ 7.87	10/15/2028
Robert Manfredonia .....	04/02/2018	16,667 <sup>(3)</sup>	33,333	\$ 7.05	04/02/2028
	10/15/2018	2,083 <sup>(3)</sup>	22,917	\$ 7.87	10/15/2028

(1) Options vest monthly over a 6-month period.

(2) Options vest quarterly over 2-year period

(3) Options vest quarterly over 3-year period

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

## Employment Agreements

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

### *Employment Agreement with Steve Shum*

In 2015, we entered into an employment agreement with Mr. Shum, which was amended in 2016. The agreement annually renews for one-year terms.

The agreement contains the following provisions among other terms: (i) reimbursement for all reasonable travel and other out-of-pocket expenses incurred in connection with his employment; (ii) vacation leave; (iii) medical, dental and life insurance benefits; (iv) 36-month non-compete/non-solicitation terms; and (v) a severance payment equal to six months of base salary upon termination without cause (as defined in the agreement). Mr. Shum is not entitled to increased severance in connection with a change of control.

### *Employment Agreement with Melissa Heim*

On February 27, 2015, we entered into an employment agreement with Melissa Heim. The agreement is for an initial term ending on February 27, 2020 and one-year periods thereafter.

The agreement contains the following provisions among other customary terms: (i) reimbursement for all reasonable travel and other out-of-pocket expenses incurred in connection with her employment; (ii) paid vacation leave; (iii) medical, dental and life insurance benefits and (iv) 36-month non-compete/non-solicitation terms; (v) Ms. Heim is not entitled to increased severance in connection with a change of control.

Effective December 6, 2018, the Company entered into an Amended and Restated Employment Agreement with Mr. Manfredonia. The agreement is for an initial term ending on December 5, 2021 and provides for an annual base salary during the term of the agreement of \$150,000. Mr. Manfredonia is eligible to receive a bonus of \$100,000 per annum, which would be subject to Company results and individual performance. In addition, the Company will recommend to the compensation committee that it grant Mr. Manfredonia \$37,500 worth of restricted stock units within the first 5 days of the completion of each quarter. Each award will be immediately vested and will be subject to the terms and conditions of the 2016 Equity Incentive Plan. Further, Mr. Manfredonia may be eligible to receive stock option grants pursuant to the 2016 Equity Incentive Plan, subject to the discretion of compensation committee. The agreement also contains the following provisions: (i) reimbursement for all reasonable travel and other out-of-pocket expenses incurred in connection with his employment, along with a \$500 per month car allowance; (ii) benefits and perquisites available to other senior executives of the Company; and (iii) a severance payment upon termination without cause.

### Potential Payments upon Termination

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

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

<u>Name</u>	<b>Potential Payment upon Termination Without Cause <sup>(1)</sup></b>
Steven Shum	\$ 75,000 <sup>(2)</sup>
Robert Manfredonia	\$ 75,000 <sup>(3)</sup>
Melissa Heim	\$ 42,500 <sup>(4)</sup>

- (1) Employee entitled to six months' severance at the then applicable base salary rate.  
 (2) Based on Mr. Shum's current annual base salary of \$150,000.  
 (3) Based on Mr. Manfredonia's current annual base salary of \$150,000.  
 (4) Based on Ms. Heim's current annual base salary.

### Compensation of Directors

#### 2018 Director Compensation

During 2018, the Board of Directors established an annual compensation program for the directors that includes; 1) an annual retainer of \$16,000 paid in cash in quarterly installments, 2) \$5,000 in stock awards per quarter, 3) \$2,500 cash payment for each board chair, which will be paid annually at the beginning of the year, 4) 1,000 for in-person board meetings and \$500 for telephonic board meetings and 5) 5,000 stock options per year. The following table sets forth information regarding compensation earned by or paid to our non-employee directors during the year ended December 31, 2018.

<u>Name</u>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Stock Awards (\$)</b>	<b>Option Awards (\$)</b>	<b>Total (\$)</b>
Trent D. Davis.....	\$ 35,250	\$ 5,000 <sup>(2)</sup>	\$ 28,243 <sup>(3)</sup>	\$ 68,493
Michael M. Fleming.....	\$ 25,250	\$ 5,000 <sup>(2)</sup>	\$ 28,243 <sup>(3)</sup>	\$ 58,493
Jack Peterson.....	\$ 20,700	\$ 5,000 <sup>(2)</sup>	\$ 28,243 <sup>(3)</sup>	\$ 53,943
Shelly A. Saunders <sup>(1)</sup> .....	\$ 23,000	\$ 5,000 <sup>(2)</sup>	\$ 28,243 <sup>(3)</sup>	\$ 56,243
Matthew Szot.....	\$ 13,625	\$ 5,000 <sup>(2)</sup>	\$ 11,405 <sup>(4)</sup>	\$ 30,030
Patrick Crowley.....	\$ 5,000	\$ 5,000 <sup>(2)</sup>	\$ 11,190 <sup>(4)</sup>	\$ 21,190
David Holmes.....	\$ 5,500	\$ 5,000 <sup>(2)</sup>	\$ 11,190 <sup>(4)</sup>	\$ 21,690

- (1) Resigned from Board of Directors effective March 19, 2019.  
 (2) Represents the aggregate-grant date fair value of 810 RSUs, valued using the closing stock price as reported on the Nasdaq Capital Market on the respective dates of grant. As of December 31, 2018, the RSU's granted were fully vested. As of December 31, 2018, there were no unvested RSUs held by each non-employee directors.



- (3) Represents the aggregate-grant date fair value of non-qualified stock options under the 2016 Plan. This includes two separate grants during the year, for the purchase up to 7,500 shares of common stock at an exercise price of \$3.99 per share and for the purchase of up to 5,000 shares of common stock at an exercise price of \$7.87 per share as of January 11, 2018 and October 15, 2018 respectively without regards to forfeitures, computed in accordance with ASC Topic 718 – Stock Compensation (“ASC 718”). The assumptions used to calculate the value of the stock options are set forth in Note 14 in the Notes to Consolidated Financial Statements on page 52. As of December 31, 2018, the total number of shares of outstanding stock options held by each non-employee director were as follows: Mr. Davis, 19,537; Mr. Fleming, 19,537; Mr. Peterson, 20,000; Ms. Saunders, 20,000; Mr. Szot, 5,000; Mr. Crowley, 5,000; and Mr. Holmes 5,000.
- (4) Represents a grant of non-qualified stock options under the 2016 Plan to purchase up to 5,000 shares of common stock at an exercise price of \$7.87 per share to each of our non-employee directors as of October 13, 2016 without regards to forfeitures, computed in accordance with ASC Topic 718 – Stock Compensation (“ASC 718”). The assumptions used to calculate the value of the stock options are set forth in Note 14 in the Notes to Consolidated Financial Statements on page 52.

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

The following table sets forth information as of March 28, 2019 as to each person or group who is known to us to be the beneficial owner of more than 5% of our outstanding voting securities and as to the security and percentage ownership of each of our executive officers and directors and of all of our officers and directors as a group. As of March 28, 2019, we had 9,102,297 shares of common stock outstanding.

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

Shares of common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of the date of March 28, 2019 are considered outstanding and beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Name And Address <sup>(1)</sup>	Number of Common Shares Beneficially Owned	Percentage Owned
<i>5% Stockholders:</i>		
Glenbrook Capital <sup>(2)</sup> .....	811,729	8.79%
Orca Investment Management <sup>(3)</sup> .....	649,018	7.13%
<i>Officers and Directors:</i>		
Grover T. Wickersham <sup>(4)</sup> .....	757,246 <sup>(5)</sup>	8.09%
Michael Fleming.....	44,644 <sup>(6)</sup>	0.49%
Trent Davis .....	36,977 <sup>(7)</sup>	0.41%
Jack Peterson .....	72,444 <sup>(8)</sup>	0.79%
Matthew Szot.....	5,810 <sup>(9)</sup>	*
David Holmes.....	3,310 <sup>(10)</sup>	*
Patrick Crowley .....	3,310 <sup>(11)</sup>	*
Melissa Heim.....	42,663 <sup>(12)</sup>	0.47%
Robert Manfredonia.....	28,270 <sup>(13)</sup>	0.31%
Steven Shum.....	108,175 <sup>(14)</sup>	1.18%
All directors and officers as a group (10 persons) .....	1,102,849	11.87%

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

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

(3) The address is 2250 Aviation Drive, Suite 3, Roseburg, Oregon 97470

- (4) The shares of common stock include (i) 157,037 shares held directly; (ii) 238,728 shares owned by an employee profit sharing plan of Mr. Wickersham's former law firm, for which he formerly served as trustee; (iii) 60,370 shares owned by a charitable remainder trust, for which he serves as co-trustee and a beneficiary; and (iv) 45,856 shares owned by his minor daughter's irrevocable trust, for which he serves as trustee.
- (5) Includes (i) 150,253 shares of common stock issuable upon exercise of currently-exercisable warrants and (ii) 105,002 shares of common stock issuable upon exercise of stock options exercisable on or before May 27, 2019.
- (6) Includes (i) 9,334 shares of common stock issuable upon exercise of currently-exercisable warrants and (ii) 19,537 shares issuable upon exercise of stock options exercisable on or before May 27, 2019.
- (7) Includes (i) 5,000 shares of common stock issuable upon exercise of currently-exercisable warrants and (ii) 19,537 shares issuable upon exercise of stock options exercisable on or before May 27, 2019.
- (8) Includes (i) 9,400 shares of common stock held directly or indirectly by Mr. Peterson and (ii) 46,169 shares of common stock owned by Sandstrom Partners, of which Mr. Peterson is the current CEO (iii) 16,875 shares of common stock issuable upon exercise of stock options exercisable on or before May 27, 2019.
- (9) Includes 5,000 shares issuable upon exercise of stock options exercisable on or before May 27, 2019.
- (10) Includes 2,500 shares issuable upon exercise of stock options exercisable on or before May 27, 2019.
- (11) Includes 2,500 shares issuable upon exercise of stock options exercisable on or before May 27, 2019.
- (12) Includes 28,613 shares issuable upon exercise of stock options exercisable on or before May 27, 2019.
- (13) Includes 25,000 shares issuable upon exercise of stock options exercisable on or before May 27, 2019.
- (14) Includes 80,279 shares issuable upon exercise of stock options exercisable on or before May 27, 2019.

**Securities Authorized for Issuance Under Equity Compensation Plans.** The following provides information concerning compensation plans under which our equity securities are authorized for issuance as of December 31, 2018:

**Equity Compensation Plan Information**

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders <sup>(1)(2)</sup> ...	895,858	\$ 5.62	2,267
Equity compensation plans not approved by security holders ....	—	—	—
Total .....	895,858	\$ 5.62	2,267

- (1) **2015 Stock Incentive Plan.** On January 29, 2015, our Board of Directors adopted the 2015 Stock Incentive Plan (the "2015 Plan"). The total number of shares available for the grant of either stock options or compensation stock under the 2015 Plan is 50,000 shares, subject to adjustment. At December 31, 2018, there were 49,584 options issued under the Plan outstanding, with vesting schedules varying between immediate and, one (1) year from the grant date, which options vest at the rate of at least 25 percent in the first year, starting six months after the grant date, and 75% in year two.
- (2) **2016 Stock Incentive Plan.** On September 8, 2016, the Company adopted the 2016 Equity Incentive Plan (the "2016 Plan"). The total number of shares available for the grant of either stock options or compensation stock under the 2016 Plan was initially set at 166,667 shares, subject to adjustment. On January 1, 2017 and pursuant to the plan provisions, the number of shares available for grant under the 2016 Plan reset to 307,139 shares, equal to 8% of the number of outstanding shares of the Company's capital stock, calculated on an as-converted basis, on December 31 of the preceding calendar year. On October 18, 2017, the Board of Directors approved amendments to the 2016 Plan to (i) increase the number of shares of the common stock that may be issued under the 2016 Plan (the "Aggregate Limit") by an additional 192,861 shares of common stock, for a total of 500,000 shares of common stock, (ii) increase the number of shares of common stock that may be granted to any participant pursuant to options to purchase common stock and stock appreciation rights under the 2016 Plan in any one year period (the "Individual Option Limit") from 8,333 shares to 200,000 shares, (iii) increase the number of shares of common stock that may be granted to any participant pursuant to other awards (the "Individual Award Limit") under the 2016 Plan in any one year period from 8,333 shares to 200,000 shares and (iv) increase the number of shares of common stock that may be paid to any one participant under the 2016 Plan for a performance period pursuant to performance compensation awards under the 2016 Plan (the "Individual Performance Award Limit") from 8,333 shares to 200,000 shares, which amendments were adopted and approved at the December 2017 meeting of stockholders. On January 1, 2018, pursuant to the plan provisions, the number of shares available for grant under the 2016 Plan further reset to 1,131,880 shares. The exercise price per share of each stock option shall not be less than 100 percent of the fair market value of the Company's common stock on the date of grant. At December 31, 2018, there were 904,249 options and 225,780 restricted stock units ("RSUs") issued under the 2016 Plan, with vesting schedules varying between immediate and five (5) years from the grant date.

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

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

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

On August 10, 2017, Mr. Wickersham and his affiliates purchased 55,555 units at \$4.50 per unit, with each unit consisting of one share of common stock and one Public Warrant, for total proceeds of approximately \$250,000 in cash. On August 9, 2018, Mr. Wickersham and his affiliates exercised the 55,555 warrants associated with the 2017 unit offering at an exercise price of \$5.40 per share, for total proceeds of approximately \$300,000.

On August 23, 2017, our Board appointed Jack Peterson to the Board to fill an existing vacancy on the Board effective immediately. Mr. Peterson is also the President of Sandstrom Partners. In late 2016, with the goal of increasing its brand value and accelerating sales, the Company retained Sandstrom Partners and tasked them with reviewing the Company’s current product portfolio, as well as its new ideas, and advising it with respect to marketing, creation of brand awareness and product positioning, locally and nationally. The Company is using Sandstrom Partner’s full range of brand development services, including research, strategy, brand identity, package design, environments, advertising as well as digital design and development. The Company paid \$140,000 in cash, issued 33,334 shares of stock valued at \$145,000 (at the time of issuance), and issued 42,000 warrants with an exercise price of \$3.50 valued at \$43,596 (using a Black-Scholes value at the time of issuance) to Sandstrom Partners in 2017 for services rendered by Sandstrom under its agreement with the Company. We have also issued an additional 10,025 shares valued at \$40,000 (at the time of issuance) to Sandstrom Partners in 2018. On August 11, 2018, we issued 42,000 shares of common stock to Sandstrom in connection with the exercise of their 42,000 warrants in exchange for services rendered.

On December 29, 2017, the Grover T. Wickersham Employees’ Profit Sharing Plan (“PSP”) purchased from us a promissory note bearing interest at the rate of 8% per annum (a “Promissory Note”) for aggregate consideration of \$464,750. Interest is paid monthly. The Promissory Note is due on June 30, 2019 or in the event the Company completes a private or public offering of its equity or debt securities in which the gross amount raised in such financing is at least \$2.0 million (a “Future Financing”), all amount due under this Promissory Note shall become due and payable within five (5) business days of the final closing of such Future Financing. In lieu of receiving the cash repayment of amounts due under this Promissory Note in connection with a Future Financing, at the option of PSP, the principal amount due and payable may be used to purchase the securities offered in the Future Financing. PSP used a balance of \$379,750 to purchase the Company’s new private offering of notes with warrants. The remaining principal balance of \$85,000 was paid in April 2018. The new promissory notes bear interest at 8% per annum, payable monthly on the last day of the month. The entire amount of principal and any accrued and unpaid interest is due and payable on May 1, 2021. In conjunction with this new offering, PSP was issued 37,975 warrants, exercisable at \$5.40 per share. On August 9, 2018, PSP exercised the 37,975 warrants at \$5.40 per share in exchange for a reduction in outstanding note principal due. \$174,685 remained outstanding on the note.

On December 29, 2017, the Grover T. and Jill Z. Wickersham 2000 Charitable Remainder Trust (the “Wickersham Trust”) purchased from us a promissory note bearing interest at the rate of 8% per annum (a “Promissory Note”) for aggregate consideration of \$179,300. Interest is paid monthly. The Promissory Note is due on June 30, 2019 or in the event the Company completes a private or public offering of its equity or debt securities in which the gross amount raised in such financing is at least \$2.0 million (a “Future Financing”), all amount due under the Promissory Note shall become due and payable within five (5) business days of the final closing of such Future Financing. In lieu of receiving the cash repayment of amounts due under the Promissory Note in connection with a Future Financing, at the option of Wickersham Trust, the principal amount due and payable may be used to purchase the securities offered in the Future Financing. During the first quarter of 2018, the Wickersham Trust used the balance to purchase the Company’s new private offering of notes with warrants. The new promissory notes bear interest at 8% per annum, payable monthly on the last day of the month. The entire amount of principal and any accrued and unpaid interest is due and payable on May 1, 2021. In conjunction with this new offering, the Wickersham Trust was issued 17,930 warrants, exercisable at \$5.40 per share. On August 9, 2018, the Wickersham Trust exercised the 17,930 warrants at \$5.40 per share in exchange for a reduction in outstanding note principal due. \$82,478 remained outstanding on the note.

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

## Director Independence

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

## Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

### Audit Fees

M&K CPAS, PLLC ("M&K") billed us \$15,000 in progress fees for our 2018 annual audit, \$20,000 in fees for the completion of our 2017 audit, and \$7,000 in fees for the review of our quarterly financial statements in 2018. M&K billed us \$9,000 in progress fees for our 2017 annual audit and \$6,000 in fees for the review of our quarterly financial statements in 2017. BPM LLP billed us \$24,000 in fees for our 2017 quarterly financial statements.

### Audit Related Fees

We paid fees to M&K and BPM LLP for assurance and related services of \$30,500 and \$26,400 related to other SEC filings in 2018 and 2017, respectively.

### Tax Fees

For the years ended each of December 31, 2018 and 2017, the aggregate fees billed for tax compliance, by BPM LLP and M&K were \$0.

### Pre-Approval Policies and Procedures

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

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

## Item 15. EXHIBITS.

- (a) Exhibits

### EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description of Document</b>
3.1	Amended and Restated Articles of Incorporation of the Registrant, as presently in effect, filed as Exhibit 3.1 to the Registration Statement on Form S-1 filed on November 14, 2011 (File No. 333-177918) and incorporated by reference herein.
3.2	Articles of Merger, filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated November 19, 2014 and filed on November 25, 2019 and incorporated by reference herein.
3.3	Certificate of Designation – Series A Preferred Stock, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated March 9, 2016 and filed on March 11, 2016 and incorporated by reference herein.
3.4	Amendment to Certificate of Designation After Issuance of Class or Series, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated June 1, 2016 and filed on June 9, 2016 and incorporated by reference herein.
3.5	Certificate of Change, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated October 6, 2016 and filed on October 11, 2016 and incorporated by reference herein.
3.6	Certificate of Change, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated June 14, 2017 and filed on June 15, 2017 and incorporated by reference herein.
3.7	Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated October 13, 2016 and filed on October 19, 2016 and incorporated by reference herein.

- 4.1 Form of the Registrant’s common stock certificate, filed as Exhibit 4.1 to Amendment No. 2 to Registrant’s Registration Statement on Form S-1 (SEC File No. 333-215848) (the “2017 S-1 Registration Statement”) filed on July 7, 2017 and incorporated by reference herein.
- 4.3 Form of Warrant to purchase common stock (included as Exhibit A to Exhibit 4.2), filed as Exhibit 4.2 to the Registrant’s Current Report on Form 8-K filed on July 7, 2016 and incorporated by reference herein.
- 4.4 Common Stock Purchase Warrant, filed as Exhibit 4.3 to the Registrant’s Current Report on Form 8-K filed on August 10, 2017 and incorporated by reference herein.
- 4.5 Form of Underwriter Warrant, filed as Exhibit 4.1 to the Registrant’s Current Report on Form 8-K filed on November 21, 2018 and incorporated by reference herein.
- 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.
- 10.5+ Employment Agreement dated October 5, 2015 between Steven Shum and the Registrant, filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K dated October 1, 2015 and filed on October 6, 2015 and incorporated by reference herein.
- 10.6+ First Amendment to Employment Agreement dated November 4, 2016 between Steven Shum and the Registrant, filed as Exhibit 10.2 to the Registrant’s Current Report on Form 8-K dated November 4, 2016 and filed on November 10, 2016 and incorporated by reference herein.
- 10.7+ Employment Agreement dated February 27, 2015 between Melissa Heim and the Registrant, filed as Exhibit 10.7 to the Registrant’s 2017 Registration Statement, filed on February 1, 2017 and incorporated by reference herein.
- 10.8 Lease Agreement dated February 1<sup>st</sup>, 2017 between NW Flex Space LLC and the Registrant \*
- 10.9 Lease Amendment dated October 30, 2018 between NW Flex Space LLC and the Registrant \*
- 10.10 Lease Agreement dated September 21, 2017 between Eastbank Commerce Center, LLC and the Registrant \*
- 10.14 Purchase and Assignment of Membership Interests, Assumption of Obligations, Agreement to be Bound by Limited Liability Company Agreement and Admission of Substituted Member among the Registrant, Allen Barteld and MotherLode, LLC, dated as of March 8, 2017, filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K and filed on March 14, 2017 and incorporated by reference herein.
- 10.16 Employment Agreement between the Registrant and Jarrett Catalani dated as of July 1, 2017, filed as Exhibit 10.16 to Amendment No. 3 to the Registrant’s 2017 Registration Statement, filed on July 21, 2017 and incorporated by reference herein.
- 10.17 Underwriting Agreement between the Registrant and Roth Capital Partners, as representative of the several underwriters, dated August 10, 2017, filed as Exhibit 1.1 to the Registrant’s Current Report on Form 8-K, filed on August 10, 2017 and incorporated by reference herein.
- 10.18 Amended and Restated Redneck Riviera License Agreement dated May 31, 2018, filed as Exhibit 10.2 to the Registrant’s Quarterly Report on Form 10-Q, filed on August 13, 2018 and incorporated by reference herein. \*\*
- 10.19 Form of Eastside Distilling, Inc. 5% Promissory Note dated March 2018\*
- 10.20 Credit and Security Agreement dated May 10, 2018 between the Registrant and the KFK Children’s Trust - Jeffrey Anderson - Trustee, filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q, filed on May 14, 2018 and incorporated by reference herein.
- 10.21 Underwriting Agreement, dated November 20, 2018 between the Registrant and Roth Capital Partners, LLC as representative of the underwriters set forth on Schedule I thereto, filed as Exhibit 1.1 to the Registrant’s Current Report on Form 8-K, filed on November 21, 2018 and incorporated by reference herein.
- 10.22 Merger Agreement, dated January 11, 2019 between the Registrant, Craft Acquisition Co LLC, Craft Canning LLC, Owen Lingley, and the other parties thereto, filed as Exhibit 1.1 to the Registrant’s Current Report on Form 8-K, filed on January 14, 2019 and incorporated by reference herein.
- 10.23+ Amended and Restated Employment Agreement with Robert Manfredonia \*
- 14 Code of Ethics, filed as Exhibit 14 to the Registration Statement on Form S-1 (File No. 333-202033), filed on February 11, 2015 and incorporated by reference herein.
- 21.1 Subsidiaries of the Registrant \*
- 23.2 Consent of M&K CPAS, PLLC, independent registered public accounting firm.\*
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).\*
- 31.2 Certification of 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, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Schema Linkbase Document
- 101.CAL\* XBRL Taxonomy Calculation Linkbase Document
- 101.DEF\* XBRL Taxonomy Definition Linkbase Document
- 101.LAB\* XBRL Taxonomy Labels Linkbase Document
- 101.PRE\* XBRL Taxonomy Presentation Linkbase Document

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\* Filed herewith.

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

+ Indicates a management contract or compensatory plan.

## SIGNATURES

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

### EASTSIDE DISTILLING, INC.

By: /s/ Grover Wickersham

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

By: /s/ Steve Shum

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

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

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Grover Wickersham</u> Grover Wickersham	Chief Executive Officer, and Director (Principal Executive Officer)	March 28, 2019
<u>/s/ Steve Shum</u> Steve Shum	Chief Financial Officer (Principal Financial and Accounting Officer)	March 28, 2019
<u>/s/ Mick Fleming</u> Mick Fleming	Director	March 28, 2019
<u>/s/ Trent Davis</u> Trent Davis	Director	March 28, 2019
<u>/s/ Matthew Szot</u> Matthew Szot	Director	March 28, 2019
<u>/s/ Patrick Crowley</u> Patrick Crowley	Director	March 28, 2019
<u>/s/ David Holmes</u> David Holmes	Director	March 28, 2019
<u>/s/ Jack Peterson</u> Jack Peterson	Director	March 28, 2019

## NW Flex Space Lease Agreement

This Warehouse Space Lease Agreement (this "Lease") is entered into by and between NW Flex Space LLC, an Oregon limited liability company ("Lessor"), and Motherlode LLC, an Oregon Limited Liability Corporation ("Lessee"). Lessor is the tenant under that certain Lease Agreement with Financial Growth Technologies LLC, an Oregon limited liability company ("Master Lessor") dated November 1st, 2016 (the "Master Lease") for that certain property located at 2000 SE Hanna Harvester Dr., Milwaukie, OR 97222 (the "Property"). Lessee desires to sublease certain space at the Property from Lessor. Lessor is willing to sublease that space to Lessee on the terms and conditions set forth in this NW Flex Space Lease Agreement (this "Lease").

**1. Premises.** Lessor leases to Lessee, and Lessee leases from Lessor, approximately 9,222 square feet of industrial space (the "Premises") in the building (the "Building") located on the Property. A depiction of the Premises is shown on Exhibit A attached hereto.

**2. Term.** The term of this Lease will commence on February 1st, 2017 (the "Commencement Date") and will expire on December 31st, 2018 (the "Term"), except as otherwise provided in Section 22 below.

**3. Rent.** Monthly rent shall be \$6,400 ("Rent"), payable in advance to Lessor on or before the Commencement Date and on the first (1st) day of each month thereafter. Rent shall be payable without prior notice or demand, without offset or deduction at the address of Lessor set forth below. In the event that any Rent or other amount payable under this Lease is not received by Lessor within five (5) days of the date it is due, Lessee shall pay to Lessor (i) a late fee equal to the greater of \$100 or ten percent (10%) of the delinquent Rent (the "Late Fee") and (ii) interest on such delinquent Rent at a rate equal to the lesser of the prime rate of interest as published in the Wall Street Journal on the date that interest begins to accumulate plus four percent (4%) or the highest rate allowed by law from the date that such delinquent Rent was due through the date that such delinquent Rent is actually received by Lessor. Rent shall be prorated for any part of the Term that is a partial month. Lessee acknowledges that late payment by Lessee to Lessor of any Rent due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs may include, without limitation, processing and accounting charges and late charges which may be imposed on Lessor under the terms of any Master Lease or any mortgage. The parties hereby agree that the Late Fee represents a fair and reasonable estimate of the costs incurred by Lessor by reason of the late payment by Lessee. Acceptance of any Late Fee by Lessor shall in no event constitute a waiver of Lessee's default with respect to the overdue amount in question, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder.

**4. Utilities; Taxes.** Basic utilities are provided to the Building at no extra charge to Lessee, including natural gas, electricity, high-speed wi-fi, alarm monitoring, garbage service, bottled water service, bathroom cleaning and stocking, and water/sewer. Lessee shall pay when due all personal property taxes assessed on Lessee's personal property. Lessor is responsible for payment of real property taxes on the Property. All subtenants of the Property are expected to keep utility expenses as low as possible. Lessee will only be responsible for any excessive use of utilities, as determined by Lessor in its reasonable discretion. Any charges by Lessor for Lessee's excessive use of utilities will be due within ten (10) days after notice from Lessor is received by Lessee. Lessee shall deposit *all* trash in Lessor's designated trash receptacles for the Building. Lessee shall pay to Lessor on demand for the costs of removal from the Premises and the Building of any refuse and rubbish of Lessee in excess of that ordinarily accumulated in a typical Building occupancy. Lessee shall comply with any and all recycling programs required by Law (defined below) or generally imposed on all tenants by Lessor.

**5. Lessee's Insurance.** Lessee, at its sole cost and expense, shall secure and maintain throughout the Term (a) commercial general liability insurance, insuring both Lessor and Lessee against death and personal injuries to one or more persons and damage to property occurring on the Premises or the Property or in connection with Lessee's use and occupancy of the Premises in an amount equal to not less than One Million and 00/100 DOLLARS (\$1,000,000) combined single limit per occurrence, (b) fire, casualty and extended coverage insurance covering all equipment and personal property of Lessee on or about the Premises, insuring Lessee for full insurable value thereof on a replacement cost basis, and (c) worker's compensation insurance if required by Law. Prior to the Commencement Date, Lessee shall furnish to Lessor a certificate of insurance evidencing such coverage with Lessor and Master Lessor Property Owner named as additional insureds, which certificate shall contain a provision to the effect that such coverage may not be canceled, materially changed or not renewed without at least ten (10) days' prior written notice to Lessor. Lessee acknowledges Lessor is not responsible for carrying insurance covering Lessee's property.

**6. Waiver of Subrogation.** Lessee shall secure appropriate clauses in, or endorsements upon, each insurance policy obtained by Lessee which cover or are applicable to the Premises or the personal property, fixtures and equipment located therein, pursuant to which the insurance companies waive subrogation or permit the insureds, prior to any loss, to agree with a third party to waive any claim they might have against said third party without invalidating the coverage under the insurance policies. Lessee's waiver of subrogation or permission for waiver of any claim shall extend to Lessor and the Lessor Related Parties (defined below). Lessee releases Lessor and the Lessor Related Parties in respect of any claim which they might otherwise have against them for loss, damage or other casualty occurring during the Term and covered under a fire insurance policy with extended coverage endorsement in the form normally used in respect of similar property in the Portland, Oregon, metropolitan area.

## **7. Subordination.**

**7.1 General.** This Lease, and all rights of Lessee hereunder, are and shall be subject and subordinate to any ground leases or master leases covering the Property and/or the Building now or hereafter existing, including, without limitation, the Master Lease, and to all mortgages, trust deeds and other financing and security instruments (“Mortgages”), which may now or hereafter affect the Property and/or the Building, and to all renewals, modifications, replacements and extensions of such master leases and Mortgages. This Section shall be self-operative, and no further instrument of subordination shall be required. In confirmation of such subordination, Lessee shall execute, acknowledge, and deliver to Lessor any instrument that Lessor may reasonably request to evidence such subordination within ten (10) days after a request therefor. If the interest of Lessor under this Lease is transferred, whether through possession, foreclosure or delivery of a new lease or deed, then Lessee shall recognize the party succeeding to Lessor’s rights and obligations (the “Successor Lessor”) as the Lessor under this Lease and shall promptly execute and deliver any instrument that such Successor Lessor may reasonably request to evidence such attornment. Upon such attornment, Lessee’s rights hereunder shall continue in full force and effect as a direct Lease between the Successor Lessor and Lessee upon all of the terms, conditions and covenants as set forth in this Lease so long as Lessee is not in default.

**7.2 Master Lease.** This Lease is subject and subordinate to the Master Lease and to the rights of present and future lenders of Master Lessor. Lessee agrees for the benefit of Master Lessor and any of its lenders not to make any claim against Master Lessor regarding this Lease, the Premises, or the property other than those claims arising by reason of the negligence or intentional misconduct of Master Lessor. Lessee agrees to indemnify and defend Master Lessor and its lenders from any claim arising at the Premises through the fault of Lessee. Without limiting the foregoing, Lessee agrees to attorn to Master Lessor in the event of termination of the Master Lease.

**8. Permitted Use; Right To Sublease; Alterations.** Lessee will use the Premises only for Distillery operations including, but not limited to, blending, bottling and warehousing and for no other purpose without Lessor’s prior written consent, which may be withheld in Lessor’s sole discretion. Lessee has the right to sublease, with written consent from Lessor, as needed for operations so long as it does not change the permitted use. Lessee shall not commit waste on the Premises or the Property. No alterations, additions or improvements shall be made to the Premises, and no equipment or fixtures shall be installed in the Premises, without Lessor’s prior written consent, which may be withheld in Lessor’s sole discretion. Use of the Premises and the Property shall be subject to rules and regulations adopted by Lessor from time to time. Lessee shall not, without the prior written consent of Lessor, use any apparatus, machinery or device in or about the Premises which will cause any noise, vibration, fumes or electronic interference or which will overload the floors or structure of the Premises. Lessee shall not at any time use or occupy, or suffer or permit anyone to use or occupy the Premises, or permit anything to be done in the Premises, in any manner which: (a) violates the certificate of occupancy for the Premises or for the Building; or (b) causes or is liable to cause injury to the Premises or the Building or any equipment, facilities or systems therein; or (c) constitutes a violation of all laws, codes, ordinances, rules, statutes, regulations, orders and other requirements of public authorities (“Laws”) or the requirements of insurance bodies; or (d) impairs or tends to impair the character, reputation or appearance of the Building; or (e) impairs or tends to impair the proper and economic maintenance, operation and repair of the Building and/or its equipment, facilities or systems; or (f) annoys or inconveniences or tends to annoy or inconvenience other tenants or occupants of the Property; or (g) generates, uses, releases, stores, or deposits on or about the Premises any environmentally hazardous or toxic substances, chemical materials, wastes, pollutants, chemicals, gases, oils, or contaminants, as defined by any Law or the exposure to or release of which is regulated by any Law (collectively, “Hazardous Materials”). Notwithstanding the foregoing, lessee may handle, store, use or dispose of products containing quantities of Hazardous Materials necessary for the use of the Premises for business purposes; provided that lessee shall always handle, store, use, and dispose of any such Hazardous Materials in a safe and lawful manner.

**9. Hazardous Substances.** Lessee shall keep the Premises, the Building and the common areas of the Property free from contamination by or from any Hazardous Materials.

**10. Compliance With Laws.** Lessee shall comply with all requirements of duly constituted public authorities, and with the terms of any laws applicable to Lessee or to Lessee’s use of the Premises, the Building and the common areas of the Property, and Lessee shall indemnify, defend and save Lessor harmless from any and all penalties, fines, costs or other damages, including without limitation, attorney’s fees, resulting from its failure to do so. Lessee shall not carry on any unlawful business in or about the Premises, and shall not carry on any business or activity which would endanger the Premises or any portion thereof from fire or cause a forfeiture of any fire insurance that Lessor has or may have on the Building.



**11. Liability.** Neither Lessor nor its manager, members or employees shall be liable for any injury to any person while on the Premises, the Building or the Property or for damage to property while located on the Premises, the Building or the Property, whether owned or leased by Lessor, Lessee or third parties, whether caused by or resulting from any act, omission or negligence of Lessor or any of its respective agents, servants, or employees, or by other tenants of the Building, or by fire, or by any other casualty or condition existing on or resulting to the Premises, the Building or the Property during the Term (except for acts caused by the willful misconduct of Lessor or Lessor's agents or employees), nor shall Lessor nor its manager, members or employees be liable in any claim for damages by reason of inconvenience or interruption to the business of Lessee, irrespective of the cause therefor (except for acts caused by willful misconduct of Lessor or Lessor's agents or employees). Lessee shall maintain all of the insurance policies and coverages referred to in this Lease against any loss or liability on account of any such claim.

**12. Indemnification.** Lessee shall defend (through counsel reasonably acceptable to Lessor), indemnify, and hold harmless Lessor and all parties to the Master Lease (the "Lessor Related Parties") from and against any and all claims, losses, liabilities, damages, response costs and expenses of any nature, including, without limitation, an attorneys' fees and expenses whatsoever, arising out of or in any way related to (a) the conduct or management of the Premises or any business therein, or any condition created (other than by Lessor or the Lessor Related Parties) in or about the Premises; (b) any act, omission or negligence of Lessee or any of its agents, affiliates, members, employees, visitors, invitees or contractors (collectively, the "Lessee Related Parties"); (c) any accident, injury or damage whatever (unless caused by Lessor's or the Lessor Related Parties' negligence or intentional act) occurring in, at or upon the Premises; or (d) any breach or default by Lessee in the full and prompt payment and performance of Lessee's obligations under this Lease; together with all costs, expenses and liabilities incurred or in connection with each such claim or action or proceeding brought thereon, including, without limitation, all attorneys' fees and expenses the generation, release, storage, or deposit of Hazardous Materials on the Property by Lessee or by any Lessee Related Party including, but not limited to: (i) claims of third parties, including governmental authorities, for damages, response costs, injunctive or other relief; (ii) the cost, expense or loss to Lessor of any injunctive relief, including preliminary or temporary injunctive relief, applicable to Lessor or the Premises; (iii) the expense, including fees of attorneys, engineers, paralegals and experts for identifying and reporting the existence of Hazardous Materials to any agency of the State of Oregon or the United States as required by applicable Laws; and (iv) any and all expenses or obligations, incurred before, during and after any trial or appeal therefrom or any administrative proceeding or appeal therefrom whether or not taxable as costs, including, without limitation, attorneys' and paralegal fees, witness fees (expert and otherwise), deposition costs, copying and telephone charges and other expenses, all of which shall be paid by Lessee promptly after Lessor incurs the obligation to pay such amounts.

**13. Assignment** Lessee may not assign or transfer this Lease, or sublet the Premises, without Lessor's prior written consent, which may be withheld by Lessor in its sole discretion.

**14. Surrender; Holdover.** On expiration or early termination of this Lease, Lessee shall surrender the Premises broom clean and free of all debris and in the same condition as at the Commencement Date, subject only to reasonable wear from ordinary use. Lessee shall remove all of its personal property, and shall remove any alterations or improvements made by Lessee if required by Lessor, and Lessee shall repair all damage resulting from such removal. Failure to remove shall be an abandonment of the property, and Lessor may remove or dispose of it in any manner without liability, and recover the cost of removal and other damages from Lessee. If Lessee fails to vacate the Premises when required, including failure to remove all its personal property, Lessor may elect to either: (i) continue to treat Lessee as a tenant from month to month, subject to the provisions of this Lease, except that Rent shall be twice the Rent being charged when the Lease term expired; or (ii) eject Lessee from the Premises (using self-help or 'otherwise) and recover damages caused by wrongful holdover.

**15. AS-IS.** The Premises are leased to Lessee AS IS and in the condition now existing, with no alterations or other work to be performed by Lessor. Lessee has inspected the Premises and is satisfied with the size, location and condition of the Premises. Lessee acknowledges that Lessor does not warrant that it will install or operate any security alarm system or provide other security for the Premises.

**16. Right of Entry.** Lessor shall have the right to enter the Premises at any time to confirm Lessee's compliance with this Lease and make any necessary repairs, and in the event of an emergency.

**17. Lessee's Property.** All unattached business and trade fixtures, machinery and equipment, communications equipment and office equipment which are installed in the Premises by or for the account of Lessee without expense to Lessor and which can be removed without structural damage to the Building and all furniture, furnishings (excluding window coverings) and other articles of movable personal property owned by Lessee and located in the Premises ("Lessee's Property") shall be and remain the property of Lessee, may be removed by Lessee at any time during the Term, and shall be removed prior to the termination date of this Lease; provided, that if any of Lessee's Property is removed, Lessee shall repair or pay the cost of repairing any damage to the Premises or to the Property resulting from the installation and/or removal thereof.

**18. Lessee's Obligations.** Lessee shall, at its expense, throughout the Term, take good care of the Premises, the fixtures and appurtenances therein and Lessee's Property. Lessee, at its expense, shall promptly replace all scratched, damaged or broken doors in and about the Premises and shall keep the Premises broom-clean and in good condition. Lessee shall be responsible for the cost of all repairs, interior and exterior, structural and non-structural, ordinary and extraordinary, in and to the Premises and the Building and the facilities and systems thereof, the need for which arises out of the moving of Lessee's Property in or out of the Building; or the act, omission, misuse or neglect of Lessee or any of its subtenants or its or their employees, agents, contractors or invitees. Lessee shall reimburse Lessor for all such costs within ten (10) days after receipt of notice from Lessor of such expenditures, including a copy of the invoice(s).

**19. Abandonment.** Any items of Lessee's Property which shall remain in the Premises after the termination of this Lease, at the option of Lessor, may be deemed to have been abandoned, and in such case such items may be retained by Lessor, and Lessor may deal with Lessee's Property in such manner as Lessor shall determine, at Lessee's expense.

## **20. Casualty; Condemnation.**

**20.1 General.** If the Building shall be destroyed or damaged by fire or other casualty to the extent that more than ten percent (10%) of the Building, as determined by Lessor, is rendered untenable, or if the cost of restoration is greater than the insurance proceeds paid to Lessor, Lessor may, at its election, terminate this Lease by notice to Lessee. Such notice shall be effective thirty (30) days after receipt thereof by Lessee. If Lessor does not so terminate the Lease, the Lease shall remain in full force and effect and Lessor shall be responsible for restoration of the Building. Any restoration by Lessor shall not include replacement of furniture, equipment or other items designated as Lessee's Property. Lessee shall be responsible for restoration of Lessee's Property.

### **20.2 Condemnation.**

**20.2.1 Total Condemnation.** If the whole of the Building or the Premises shall be taken by condemnation or in any other manner for any public or quasi-public use or purpose, (including a sale under threat of condemnation) this Lease shall terminate as of the date of vesting of title on such taking (the "Date of Taking"), and Rent shall be prorated and adjusted as of Date of Taking.

**20.2.2 Partial Condemnation.** If a part of the Building shall be so taken, this Lease shall be unaffected by such taking, except that:

(a) Lessor may, at its option, terminate this Lease by giving Lessee notice to that effect within thirty (30) days after the Date of Taking; and

(b) If twenty percent (20%) or more of the Premises shall be so taken and the remaining area of the Premises shall not be reasonably sufficient for Lessee to continue feasible operation of its business, Lessee may terminate this Lease by giving Lessor notice to that effect within thirty (30) days after the Date of Taking.

(c) If the Lease is terminated pursuant to this Section 20.2, the Lease shall terminate on the date that notice of termination from the Lessor or Lessee to the other is given, and Rent shall be prorated and adjusted as of such termination date. Upon a partial taking of the Premises where the Lease is not terminated pursuant to this Section 20.2, this Lease shall continue in force as to the remaining part of the Premises, and Rent shall be adjusted according to the rentable area remaining.

**20.2.3 Award.** Lessor shall be entitled to receive the entire award or payment in connection with any taking without deduction therefrom for any estate vested in Lessee by this Lease and Lessee shall receive no part of such award. Lessee shall have no claim against Lessor or the condemning authority for the unexpired portion of the Term. Nothing contained in this Section 20.2.3 shall be deemed to prevent Lessee from making a separate claim proceeding for the value of any of Lessee's Property which is included in the taking.

**21. Default and Remedies.** Any of the following shall constitute a default by Lessee under this Lease (time of performance being of the essence of this Lease): (i) Lessee's failure to pay Rent or any other payment under this Lease within five (5) days after written notice from Lessor; provided, however, that Lessor shall not be required to give such written notice more than twice in any 12-month period, (ii) Lessee's failure to comply with any other provision of this Lease within fifteen (15) days following written notice from Lessor specifying the noncompliance, (iii) Lessee's insolvency, assignment for the benefit of its creditors, commencement of proceedings under any provision of any bankruptcy or insolvency law, or the appointment of a receiver for Lessee's properties, or (iv) Lessee's vacation or abandonment of the Premises without the written consent of Lessor. Upon any default, Lessor shall have the right to the following remedies, which are intended to be cumulative and in addition to any other remedies provided under applicable law or under this Lease: (a) Lessor may at its option terminate this Lease, without prejudice to its right to damages for Lessee's breach, (b) with or without termination, Lessor may enter and retake possession of the Premises by any means (including self-help) and may use or relet the Premises without accepting a surrender or waiving the right to damages, (c) Lessor may recover all damages caused by Lessee's default, including but not limited to an amount equal to delinquent Rent and future Rent lost because of the default.

**22. Estoppel Certificates.** Each party agrees that at anytime requested by the other party, with not less than ten (10) days' prior notice, to execute and deliver to the other a statement certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the Lease is in full force and effect as modified and stating the modifications), certifying the dates to which the Rent has been paid, stating whether or not, to the best knowledge of the signer, the other party is in default in performance of any of its obligations under this Lease, and, if so, specifying each such default of which the signer shall have knowledge, and stating whether or not, to the best knowledge of the signer, any event has occurred which with the giving of notice or passage of time, or both, would constitute such a default, and, if so, specifying each such event; it being intended that any such statement delivered pursuant hereto shall be deemed a representation and warranty to be relied upon by the party requesting the certificate and by others with whom such party may be dealing, regardless of independent investigation. Lessee shall also include in any such statement such other information concerning this Lease as Lessor may reasonably request.

**23. Applicable Law.** This Lease shall be construed and interpreted under the laws of Oregon.

**24. Deposit.** Lessee shall deliver to Lessor a security deposit in the amount of \$6,400 ("Security Deposit") in 3 equal monthly payments in the first 3 months (February, March and April 2017) with the execution of this Lease. The Security Deposit may be commingled with other Funds of Lessor and shall not bear interest. In the event of the failure of Lessee to perform any of its obligations under this Lease, then Lessor, at its option, may apply the Security Deposit or as much as may be necessary, to compensate Lessor for loss or damage sustained by Lessor due to Lessee's breach. Should the Security Deposit or any part thereof be so applied by Lessor, then within five (5) days after written demand from Lessor, Lessee shall remit funds to Lessor to restore the Security Deposit to the original amount. If Lessee is not in default of this Lease at termination, Lessor shall return the unapplied portion of the Security Deposit to Lessee, except for any amount necessary to return the Premises to the condition it was originally delivered or to pay any amounts owed to Lessor hereunder. In the event of an assignment of the Master Lease and this Sublease, Lessor shall have the right to transfer the Security Deposit to the assignee to be held under the terms of this Lease, and Lessor shall thereupon be released from all liability for the return of the Security Deposit; Lessee agrees to look solely to the Assignee for the return of the Security Deposit.

**25. Rules and Regulations.** Lessee shall and shall cause its employees to comply with Lessor's Rules and Regulations, a copy of which is attached hereto as Exhibit B. Violations may result in the revocation of amenities and fines as set forth in the Rules and Regulations. Updates to the Rules and Regulations may be adopted by Lessor at any time in Lessor's reasonable discretion and Lessee shall comply with all such updates from and after receipt of a copy of the updated Code of Conduct, except to the extent that the Rules and Regulations directly conflict with the terms of this Lease (in which case the Lease terms shall control). Lessor shall not be liable to Lessee for violation of the Rules and Regulations by any other tenant or its employees, agents, invitees or licensees. If there is a conflict between any provision of this Lease and a provision of the Rules and Regulations, the conflicting provision in the Lease shall control.

**26. Successors and Assigns.** Except as otherwise expressly provided in this Lease, the obligations of this Lease bind and benefit the successors and assigns of the parties.

**27. Force Majeure.** The obligations of Lessee hereunder shall in no way be affected, impaired or excused, nor shall Lessor have any liability whatsoever to Lessee, because: Lessor is unable to fulfill, or is delayed in fulfilling, any of its obligations under this Lease. by reason of strike, other labor trouble, governmental preemption of priorities or other controls in connection with a national or other public emergency or shortages of fuel, supplies or labor resulting therefrom, terrorism, threat of terrorism, or any other cause, whether similar or dissimilar, beyond Lessor's reasonable control; or of any failure or defect in the supply, quantity or character of electricity, water or other utilities furnished to the Premises, by reason of any requirement, act or omission of the public utility or others serving the Building with electric energy, oil, gas or water, or for any other reason whether similar or dissimilar, beyond Lessor's reasonable control.

**28. Lessee Representations.** If Lessee is a corporation or other entity, Lessee hereby represents, covenants and warrants that Lessee is duly formed and validly existing under the Laws of its state of formation; Lessee has full right and authority to enter into this Lease and to perform all Lessee's obligations hereunder; and each person (and both of the persons if more than one signs) signing this Lease on behalf of Lessee is duly and validly authorized to do so.

**29. Non-Waiver.** No provision of this Lease shall be deemed to have been waived by Lessor unless such waiver is in writing signed by Lessor. Lessor's waiver of a breach of any term or condition of this Lease shall not be deemed a waiver of any subsequent breach. Acceptance of any Rents or other payments shall not be deemed a waiver of such breach.

**30. Square Footage Calculations Approximate.** The parties acknowledge and agree that any calculations of square footage in the Premises and in the Property are approximations. No recalculation of square footage shall affect the obligations of Lessee under this Lease including, without limitation, the amount of Rent payable by Lessee.

**31. Time.** Time is of the essence of this Lease.

**32. Financial Information.** Within ten (10) days following any written request from Lessor, Lessee shall furnish current and complete financial statements to Lessor, certified by Lessee as accurate and current, showing with reasonably sufficient detail Lessee's and any guarantor's financial condition. Lessor agrees to use such information solely for purposes of the Lease and in connection with the ownership, management, financing and disposition of Lessor's property.

**33. Attorneys' Fees.** If Lessor incurs attorney fees because of a default by Lessee, Lessee shall pay all such fees whether or not litigation is filed. In the event a suit, action, arbitration, or other proceeding of any nature whatsoever, including without limitation any proceeding under the U.S. Bankruptcy Code, is instituted, or the services of an attorney are retained, to interpret or enforce any provision of this Lease or with respect to any dispute relating to this Lease, the prevailing or non-defaulting party shall be entitled to recover from the losing or defaulting party its attorneys', paralegals', accountants', and other experts' fees and all other fees, costs, and expenses actually incurred and reasonably necessary in connection therewith. In the event of suit, action, arbitration, or other proceeding, the amount of such costs, fees, and expenses shall be determined by the judge or arbitrator, shall include fees and expenses incurred on any appeal or review, and shall be in addition to all other amounts provided by law.

**34. Severability.** If any portion of this Lease is held to be illegal, invalid or unenforceable under present or future law effective during the Term, the remainder of this Lease shall not be affected thereby.

**35. Further Assurances.** Each of the parties shall promptly execute and deliver such additional documents and shall do such acts that are reasonably necessary, in connection with the performance of its respective obligations hereunder, to carry out the intent of this Lease.

**36. Security.** Lessor has no duty to provide security for any portion of the Premises. To the extent Lessor elects to provide any security, Lessor is not warranting the effectiveness of any security personnel, *services*, procedures or equipment and Lessee shall not rely on any such personnel, services, procedures or equipment. Lessor shall not be liable for failure of any such security personnel, services, procedures or equipment to prevent or control, or to apprehend anyone suspected of, personal injury or property damage in, on or around the Premises.

**37. Lessor's Work.** Lessor will either install visqueen style plastic on the ceiling of the rented premises or repaint the ceiling (lessor will choose which at its sole discretion), as shown in exhibit C, if access is provided by lessee. Lessor will complete the work within 60 days of lease execution.

**38. Option to Renew.** Lessor grants Lessee the right to extend the term of the Lease for two (2) additional periods of one (1) year each on the same terms and conditions contained in the Lease, except that Base Rent for the First and Second Extended Terms shall be at current leasing rates for NW Flex Space. Lessee must provide written notice of exercising the option to renew no less than three (3) months prior to the end of the current lease term.

**39. Complete Agreement.** This Lease constitutes the entire agreement of the parties and supersedes all prior written and oral agreements and representations and there are no implied covenants or other agreements between the parties except as expressly set forth in this Lease.

Lessor:

NW Flex Space LLC, an Oregon limited liability company

By: [Signature] Date 2/1/17

Name: Jimmy Bruce

Title: President

Address: 3901 SE Naef Rd., Portland, OR 97267

Lessee:

Motherload, an Oregon Limited Liability Corporation

By: [Signature] Date: 2/1/17

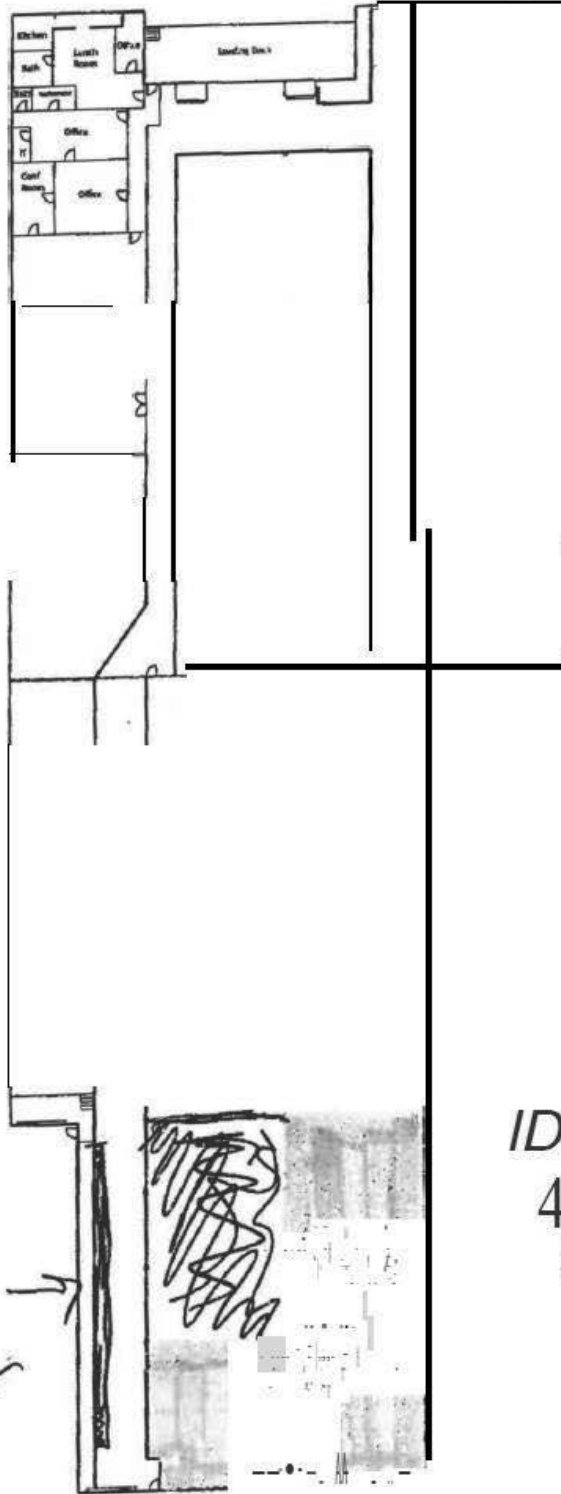
Name: Allen Beardsall

EXHIBIT A

DEPICTION OF PREMISES

NW Flex Space Main St. Exhibit A

February  
January 1st 2017



Motherlode LLC

~ 475  
feet  
Pallet  
Pool  
Space

ID b')=  
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EXHIBIT B

RULES AND REGULATIONS

### Sublease Consent

In accordance with the lease between NW Flex Space LLC (lessor) and Motherlode LLC (lessor), NW Flex Space LLC consents to Motherlode subleasing to Lamie Inc for the purposes of establishing an Alternating Premise Distilled Spirits Plant license for Lamie Inc, a Motherlode client. NW Flex Space LLC reserves the right to revoke this sublease consent if the terms of the lease or code of conduct is violated.

The use is in accordance with the permitted use granted to Motherlode for the operation of its business and makes no change to the original lease or premises.

NW Flex Space LLC  
3901SE Naef Rd.  
Portland, OR

Jimmy Bruce, Managing Member

Date



**Sublease Consent**

In accordance with the lease between NW Flex Space LLC (lessor) and Motherlode LLC (lessor) NW Flex Space LLC consents to Motherlode subleasing to Eastside Distillery for the purposes of establishing an Alternating Premise Distilled Spirits Plant license for Eastside Distillery, a Motherlode client. NW Flex Space LLC reserves the right to revoke this sublease consent if the terms of the lease or code of conduct is violated.

The use is in accordance with the permitted use granted to Motherlode for the operation of its business and makes no change to the original lease or premises.

NW Flex Space LLC  
3901 SE Naef Rd.

Jimmy Bruce, Managing Member

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1. **Obstruction of Ingress/Egress and Common Areas.** The halls, passages, exits, entrances, and loading docks of the Building shall not be obstructed by any of the tenants or used for any purpose either than for ingress to and egress from their premises. Tenant shall not suffer or permit the obstruction of any common areas, including conference room, kitchen, breakroom, meeting areas, and reception/lounge areas.
2. **Parking.** The parking areas shall be used only for parking vehicles no longer than full size passenger automobiles. The maintenance of vehicles in the parking areas or Common Areas is prohibited. Tenant shall be responsible for seeing that all its employees, agents and invitees comply with the applicable parking rules, regulations, laws and agreements.
3. **Managing Waste.** Tenants shall commit no act of waste or permit the accumulation of waste in or around the Building. Waste that exceeds the amount available in the garbage or recycling receptacles provided by NW Flex Space, is the responsibility of the tenant.
4. **Securing the Building and Preventing Waste.** Each tenant shall see that the doors of the premises are closed and locked and that all water faucets or apparatus, cooking facilities, and warehouse equipment are shut off before the tenant or employees leave the premises at night, so as to prevent waste or damage. For any default or carelessness in this regard the tenant shall be responsible for any damage sustained by other tenants or occupants of the Building or NW Flex Space. Tenants shall keep the doors to the building corridors closed at all times except for ingress and egress.
5. **Janitorial, Vendor or Contractor Services.** No tenant shall employ any person other than NW Flex Space's janitorial or contractor services for cleaning or repairing the premises, unless otherwise approved by NW Flex Space. No tenant shall cause any unnecessary labor because of carelessness or indifference in the preservation of good order and cleanliness.
6. **Usage of Common Area .** Break room, kitchen, conference room, reception and lounge areas shall be maintained in safe and clean condition. No tenants will be permitted to disproportionately use the common areas or the data services.
7. **Signage.** A sign, placard, picture, name, advertisement, or notice visible from the exterior of any tenant's premises shall not be inscribed, painted, affixed, or otherwise displayed by any tenant on any part of the building without the consent of NW Flex Space. All signage, placards and pictures posted by NW Flex Space are to be referenced by the tenant for informational and safety purposes.
8. **General Property Condition.** Tenants shall be responsible for damage done to seeded areas grass, shrubs and trees around the building, such as digging, uprooting, trampling, etc.
9. **Smoking.** Smoking is prohibited in the interiors of the Building on the property, as well as areas immediately adjacent to any ingress and egress to the Building. Tenants are required to restrict their smoking activities to the designated location.
10. **Utilizing Dock High and Grade Level Roll-Up Doors.** To avoid damage to NW Flex Space or tenant property, tenants must unlock side latches before rolling up any dock high or grade level door. Tenants must ensure doors are up completely before driving any vehicles in or out of warehouse and must regard the bumper guards when backing up a trailer.
11. **Keys.** NW Flex Space will furnish each tenant, free of charge, one fob to access the Premises. NW Flex Space will charge \$10 for any additional fobs. No tenant shall have any fobs or keys made without the prior consent of NW Flex Space. No tenant shall alter any lock or install a new or additional lock or any bolt on any door of the premises without the prior consent of NW Flex Space. The tenant shall in each case furnish NW Flex Space with a key for any lock. Each tenant, upon the termination of the tenancy, shall return all fobs and keys to the Building that have been furnished to the tenant.
12. **Flammables, Pollutants, Heating/Air Conditioning and Pets.** No tenant shall use or keep in the premises or the building any kerosene, gasoline, or inflammable or combustible fluid or material other than limited quantities reasonably necessary for the operation or maintenance of equipment, and may not, without NW Flex Space's prior approval, use any method of heating or air conditioning other than that supplied by NW Flex Space. No tenant shall use or keep any foul, noxious, or hazardous gas or substance in the premises, or permit or suffer the premises to be occupied or used in a manner offensive or objectionable to NW Flex Space or other occupants of the Building. Pets are prohibited in the building unless prior consent has been given by NW Flex Space.

13. **Right to Prevent Access.** NW Flex Space reserves the right to exclude from the building between the hours of 6 p.m. and 7 a.m., at all hours on Saturdays and Sundays, and legal holidays any person who does not present a proper access card or other identification as a tenant or an employee of a tenant, or who does not otherwise present proper authorization by a tenant for access to the premises. Each tenant shall be responsible for all persons for whom it authorizes access and shall be liable to NW Flex Space for all acts of these persons. NW Flex Space shall in no case be liable for damages for any error with regard to the admission to or exclusion from the building of any person. No tenant and no employee or invitee of any tenant shall go on the roof of the building.

14. **Warehouse and Office Partitions.** Tenants shall not deface or alter in any way the walls, partitions or other surfaces of the Premises or the Building without consent from NW Flex Space.

15. **Restroom Facilities.** The toilets, urinals, wash bowls, and other restroom facilities shall not be used for any purpose other than that for which they were constructed. No foreign substance of any kind shall be placed in them, and the expense of any breakage, stoppage, or damage resulting from the violation of this rule shall be borne by the tenant who, or whose employees or invitees, have caused it. Contact NW Flex Space for restroom supply replenishment.

16. **Permitted Sale of Goods or Merchandise.** Except with the prior consent of NW Flex Space, no tenant shall sell, or permit the sale at retail, of any goods or merchandise to the general public in the premises, nor shall the premises of any tenant be used for any business or activity other than that specifically provided for in the tenant's lease.

17. **Odor and Noise/Music.** Tenants shall not make or permit any noise or odors that annoy or interfere with other tenants or persons having business within the Building. The use of musical instruments, radios, televisions, and stereos shall not be operated so as to harass, annoy or inconvenience any other tenant.

18. **Konica Printer Usage.** Tenants are permitted to print or copy up to 300 black and white pages, free of charge. Color copies are not permitted. The tenant will be charged an overage fee of \$0.15 per page for printing or copying more than the allotted amount, or in color. Hyperlinks in blue are considered a color copy.

19. **Forklift, Scissor Lift, and Sweeper Machine.** The onsite forklift is to be shared proportionately by all tenants. The scissor lift and sweeper machine are to be used by NW Flex Space personnel only unless authorized. For forklift certifications or repair, please contact NW Flex Space.

20. **Replenishment of Supplies.** Contact NW Flex Space if purified water, propane tanks, bathroom or break room supplies need to be replenished.

21. **Cleaning Spills.** Tenants have access to cleaning supplies in the designated utility closet for cleaning spills. Refer to map in the break room for utility closet location.

22. **Severe Weather, Roof leaks, and Emergency Situations.** Notify NW Flex Space immediately in the event of damage caused by severe weather or roof leaks, as well as any emergency situations on or near the property.

23. **First Aid and Fire Safety.** First aid kits are located in each bathroom and below the sink in the kitchen. For information on fire safety and the Building's evacuation plan, tenants may refer to placard posted in the break room.

24. **Amendments.** NW Flex Space reserves the right to revise or make other rules and regulations as may be deemed advisable for the safety, care and cleanliness of the premises, and for the preserving of good order therein.

**NW Flex Space, LLC.**  
3901 SE Naef Rd.  
Portland, Oregon 97267  
971.677.6327  
[Jimmy@nwflexspace.com](mailto:Jimmy@nwflexspace.com)

October 30th, 2018

Grover Wickersham  
Eastside Distilling (Motherload)  
10100 SE Main St, Milwaukie, OR 97222

Re: Lease Amendment # 5, Additional Space Lease

Dear Grover:

Reference is made to that certain lease effective February 1st, 2017 between NW Flex Space, LLC as lessor and Eastside Distilling (aka Motherload), as lessee for the premises known as 10100 SE Main St, Milwaukie, OR 97222. It is mutually recognized and agreed upon by both parties that said lease is being modified for the fifth time.

This Amendment #5 is as follows:

- 1) Lease Term. Additional space is leased to run concurrently with lease term.
- 2) Additional Space: Eastside Distilling (fka Motherload) agrees to expand their current lease as follows:
  - 4,000 square feet of as-is warehouse space located at 10100 SE Main St, Milwaukie, OR 97222

**\*See attached site plan "Exhibit A" depicting space**
- 3) Base Rent. The base rent will increase by \$3,750 effective November 1st, 2018 bringing over all rent to \$25,175
- 4) Security Deposit: No additional deposit required at this time.

All other terms and conditions of the lease remain unchanged and in full effect.

Please acknowledge by signing and dating this Amendment #5, and returning one executed copy to us.

Sincerely,

\_\_\_\_\_  
Jimmy Bruce, Managing Member  
NW Flex Space, LLC.

\_\_\_\_\_  
Grover Wickersham, Chairman/CEO  
Eastside Distilling

**OFFICE LEASE**

**1001 SE WATER AVENUE**

**BETWEEN**

**Eastside Distilling Inc,**  
a Nevada corporation Tenant

**AND**

**Eastbank Commerce Center, LLC,**  
an Oregon limited liability company

Landlord

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**OFFICE LEASE**

**Basic Lease Terms.**

A. EFFECTIVE DATE OF LEASE: September 21, 2017

B. TENANT: **Eastside Distilling Inc,**  
a Nevada corporation

**Addresses For Notices:**

Eastside Distilling Inc.  
Att'n General Manager  
1001 SE Water Ave., Suite 390  
Portland, OR 97214  
Facsimile: \_\_\_\_\_  
Email: \_\_\_\_\_

C. LANDLORD: **Eastbank Commerce Center, LLC,**  
an Oregon limited liability company

**Addresses For Notices:**

c/o Beam Development  
75 SE Yamhill, Suite 201  
Portland, OR 97214  
Attn: Jonathan Malsin  
Email: [jonathan@beamdevelopment.co111](mailto:jonathan@beamdevelopment.co111)

With copy to:  
Brix Law LLP  
75 SE Yamhill, Suite 202  
Portland, OR 97214  
Attn: Brad Miller  
Email: [bmilleri@BrixLaw.com](mailto:bmilleri@BrixLaw.com)

**Address for payment of Rent:**

c/o Beam Development  
75 SE Yamhill, Suite 201  
Portland, OR 97214

D. PREMISES: Approximately 3,050 rentable square feet with an address of 1001 SE Water Avenue, Suite 390, Portland, Oregon 97214, as shown on the attached Exhibit "A."

E. BUILDING: The building located at 1001 SE Water Avenue, Portland, OR 97214 commonly known as the Eastbank Commerce Center.

F. BUILDING AREA: Approximately 55,274 rentable square feet

G. TENANT'S PROPORTIONATE SHARE: 5.52%. The percentage is obtained by dividing the rentable square feet of the Premises by the total number of rentable square feet of the Building. Landlord may modify Tenant's Proportionate Share if the Building size is increased or decreased, as the case may be.

H. TENANT'S PERMITTED USE OF PREMISES: General office use, and for no other purpose.

I. TERM OF LEASE: Anticipated Commencement Date: October 15, 2017.  
Expiration Date: Last day of the month that is twenty-six (26) months after the Commencement Date (defined below) of the Lease.

J. INITIAL MONTHLY BASE RENT: \$5,718.75.

K. BASE RENT:

Period (Months)	Monthly Base Rent
1-2	Abated
3 -12	\$5,718.75
13-24	\$5,890.31
25-26	\$6,067.02

L. PREPAID RENT:

\$5,718.75, applicable to month three (3) after the Commencement Date.

M. SECURITY DEPOSIT:

\$6,067.02.

N. PARKING:

During the Term of the Lease, Tenant shall be permitted to use four (4) reserved parking spaces. All parking arrangements with Tenant shall be addressed by separate agreement and shall be subject to the provisions of Section 4.4.

L. BROKER(S):

Landlord was not represented by a real estate broker with respect to this Lease.  
Tim Budelman of Norris & Stevens, Inc. representing Tenant.

## OFFICE LEASE

For valuable consideration, Landlord and Tenant covenant and agree as follows:

### 1. PREMISES; DELIVERY

#### 1.1 Lease of Premises.

Landlord leases to Tenant the Premises described in the Basic Lease Terms and shown as Suite 390 on Exhibit "A" (the "Premises") subject to the terms and conditions of this Lease.

#### 1.2 Delivery of Possession and Commencement.

Should Landlord be unable to deliver possession of the Premises on the Anticipated Commencement Date stated in the Basic Lease Terms, Landlord shall have no liability to Tenant for delay in delivering possession. The term of the Lease shall commence on the date the Premises are delivered to Tenant in the condition required under this Lease, which shall be deemed to have occurred when Landlord's Work (defined below) has been substantially completed (the "Commencement Date"). The Premises shall be delivered to Tenant in **"as is" condition and without any representation or warranty subject only to the improvements to be performed** by Landlord in accordance with Exhibit "B" ("Landlord's Work"). The terms "substantial completion," "substantially complete," and words of similar import (whether or not spelled with initial capitals) as used herein shall mean the date of substantial completion of Landlord's Work such that Tenant may commence the installation of any of Tenant's equipment and occupy the Premises for the conduct of its business (subject to the completion of any additional construction to be performed by Tenant). Landlord's Work shall be deemed substantially complete notwithstanding the fact that minor details of construction, mechanical adjustments or decorations which do not materially interfere with Tenant's use and enjoyment of the Premises remain to be performed (items normally referred to as "punch list" items). The existence of any "punch list" items shall not postpone the Commencement Date. Tenant's occupancy of the Premises shall constitute conclusive acceptance of the amount of square footage stated herein, and of the condition of the Premises. The Expiration Date of this Lease shall be the date stated in the Basic Lease Terms. Upon ascertaining the date of the Commencement Date, Landlord shall deliver to Tenant a written confirmation in the form attached hereto as Exhibit "E" ("Lease Confirmation") of the Commencement Date. The Lease Confirmation shall be binding upon Tenant unless Tenant objects to the notice in writing delivered to Landlord within five (5) days of Tenant's receipt of said Lease Confirmation.

The rentable areas of the Premises and the Building specified in Section I. I are approximate. Tenant is satisfied with Landlord's measurement of the rentable areas of the Premises and of the Building.

#### 1.3 Early Access.

Tenant shall have the right to occupy the Premises approximately seven (7) days after the mutual execution of this Lease. Such early access to the Premises by Tenant shall be solely for the purpose of installing Tenant's cabling, furniture, fixtures, and equipment in the Premises and shall be subject to the following conditions: (i) prior to Tenant's entry into the Premises, Tenant provides Landlord with proof that Tenant has the insurance that Tenant is required to maintain under this Lease, (ii) prior to Tenant's entry into the Premises, Tenant provides Landlord with such evidence as reasonably required that Tenant has received all required governmental approvals to enter the Premises, (iii) prior to Tenant's entry into the Premises, Tenant provides Landlord with contractor's licenses, insurance and bonds for all contractors entering the Premises in connection with any work to be performed on by Tenant in the Premises, and (iv) Landlord shall have the right to terminate or suspend Tenant's early access at any time that Landlord determines that such early access interferes with the performance of the Landlord's Work.

#### 1.4 Option to Extend Term.

Landlord hereby grants Tenant the right to extend the Term of the Lease for one (1) additional period of three (3) years (such extended period is hereinafter referred to as the "Extended Term") on the same terms and conditions contained in the Lease, except that (i) Base Rent for an Extended Term shall be as set forth hereinbelow, (ii) no additional options to extend shall apply following the expiration of applicable Extended Term (other than as expressly set forth above), and (iii) Landlord shall have no obligation to make any **improvements to the Premises or contribute any amounts therefor. Written notice of Tenant's exercise of its option to extend** ("Option to Extend") the Term of this Lease for the Extended Term must be given to Landlord no less than six (6) months prior to the date the Term of the Lease would otherwise expire. If Tenant is in default under this Lease, Tenant shall have no Option to Extend the Term of this Lease until such default is cured within the cure period set forth in this Lease for such default, if any; provided, that the period of time within which said Option to Extend may be exercised shall not be extended or enlarged by reason of Tenant's inability to exercise said Option to Extend because of a default. In the event Tenant validly exercises its Option to Extend the Term of this Lease as herein provided, Base Rent shall be adjusted as of the commencement date of the Extended Term as follows (but in no event shall it be less than the Base Rent for the month immediately prior to the commencement of the Extended Term):

(a) Not later than six (6) months prior to the commencement of an Extended Term, Landlord shall provide Tenant with Landlord's determination of the fair market Base Rent for such Extended Term, including periodic increases as dictated by the current market ("Landlord's Determination of Base Rent for Extended Term"). Tenant shall provide notice to Landlord within ten (10) days after receipt of such notice from Landlord as to whether Tenant accepts Landlord's Determination of Base Rent for Extended Term. In the event Tenant does not agree to Landlord's Determination of Base Rent for Extended Term, Landlord and Tenant shall attempt to agree upon Base Rent for the Premises for the Extended Term, such rent to be the fair market Base Rent installment of rent for the Premises for the Extended Term, as defined in Subsection (c) below. If the parties are unable to agree upon the Base Rent for the Extended Term by the date three (3) months prior to the commencement of the Extended Term, then within ten (10) days thereafter each party, at its own cost and by giving notice to the other party, shall appoint a real estate appraiser with at least five (5) years full-time commercial real estate appraisal experience in the area in which the Premises are located to appraise and set Base Rent for the Extended Term. If a party does not appoint an appraiser within ten (10) days after the other party has given notice of the name of its appraiser, the single appraiser appointed shall be the sole appraiser and shall set Base Rent for the Extended Term. If each party shall have so appointed an appraiser, the two (2) appraisers shall meet promptly and attempt to set the Base Rent for the Extended Term. If the two (2) appraisers are unable to agree within thirty (30) days after the second appraiser has been appointed, they shall attempt to select a third appraiser meeting the qualifications herein stated within ten (10) days after the last day the two (2) appraisers are given to set Base Rent. If the two (2) appraisers are unable to agree on the third appraiser within such ten (10) day period, either of the parties to this Lease, by giving five (5) days' notice to the other party, may apply to the Arbitration Service of Portland for the selection of a third appraiser meeting the qualifications stated in this Section. Each of the parties shall bear one-half (1/2) of the cost of appointing the third appraiser and of paying the third appraiser's fee. The third appraiser, however selected, shall be a person who has not previously acted in any capacity for either party.

(b) The fair market Base Rent shall be fixed by the appraisers in accordance with the following procedures. Each party-appointed appraiser shall state, in writing, such appraiser's determination of the fair market Base Rent supported by the reasons therefor and shall make counterpart copies for the other party appointed appraiser and any neutral appraiser. The party-appointed appraisers shall arrange for a simultaneous exchange of their proposed fair market Base Rent determinations. The role of any neutral appraiser shall be to select whichever of the two (2) proposed determinations of fair market Base Rent most closely approximates the neutral appraiser's own determination of fair market Base Rent. The neutral appraiser shall have no right to propose a middle ground or any modification of either of the two (2) proposed determinations of fair market Base Rent. The determination of fair market Base Rent the neutral appraiser chooses as that most closely approximating the neutral appraiser's determination of the fair market Base Rent shall constitute the decision of the appraisers and shall be final and binding upon the parties. The appraisers shall have no power to modify the provisions of this Lease.

(c) For purposes of the appraisal, the term "fair market Base Rent" shall mean the price that a ready and willing tenant would pay, as of the Extended Term commencement date, as a base rent to a ready and willing landlord of premises comparable to the Premises, in terms of size, quality and comparable term, in their then improved state, in the Portland, Oregon market, if such premises were exposed for lease on the open market for a reasonable period of time; including any rent increases over the Extended Term. In no event shall there be deducted from such fair market rental the value of any concessions, including without limitation, tenant **improvements, commission and/or "down time."**

(d) Any neutral appraiser's decision shall be made not later than thirty (30) days after the submission by the appraisers of their proposals with respect to the fair market Base Rent. The parties have included these time limits in order to expedite the proceeding, but they are not jurisdictional, and the neutral appraiser may for good cause allow reasonable extensions or delays, which shall not affect the validity of the award. Absent fraud, collusion or willful misconduct by the neutral appraiser, the award shall be final, and judgment may be entered in any court having jurisdiction thereof. The Option to Extend the Lease hereby granted is personal to the entity executing this Lease as tenant and is not transferable; in the event of any assignment or subletting under this Lease, the Option to Extend the Lease shall automatically terminate and shall thereafter be null and void.

#### **1.5 Right of First Offer.**

If at any time during the initial Term of the Lease space in Suites 360 or 370 of the Building as shown on Exhibit "D" (collectively and individually, the "First Offer Space") is available for lease or is about to become available for lease (provided such space shall not be deemed available for lease until it has already been leased to a third party after the date of this Lease or if it is subject to any existing options of existing tenants of the Building) and so long as Tenant is not in default of this Lease, Landlord shall notify Tenant of the availability of such space and the terms upon which Landlord is willing to lease such space to Tenant (the base rent per sq. ft., and the general terms shall be consistent with the then prevailing-market for premises comparable to the Premises, in terms of size, quality and comparable term, in their then-improved state, in the Portland, Oregon market, provided the base rent shall be no lower than that for the initial Premises for the month in which the expansion of the Premises to include the First Offer Space shall occur (the "Expansion Space Commencement Date"). If Tenant timely accepts Landlord's offer, if, as of the Expansion Space Commencement Date, the Term of the Lease is set to expire less than twenty-four (24) months later, the Term of the Lease with respect to the initial Premises and the First Offer Space shall be extended such that the Term of the Lease expires twenty-four (24) months following the Expansion Space Commencement Date. Tenant shall have five (5) business days to accept Landlord's offer. If Tenant fails to accept Landlord's offer within such five (5) business day period, Landlord shall be free to lease such space any time during the term of this Lease free and clear of any rights of Tenant; provided however, once such space has been leased to a third party and thereafter becomes available for lease, the provisions of this Right of First Offer shall then again apply. The right of first offer contained herein shall not apply to any renewal or extension of the term of the Lease and shall be personal to the entity executing this Lease as tenant.

## **2. RENT PAYMENT**

### **2.1 Base Rent.**

Tenant shall pay to Landlord the Base Rent for the Premises and any additional rent provided herein, without deduction or offset. At the same time as execution of the Lease, Tenant shall pay any prepaid rent stated in the Basic Lease Terms. Rent is payable in advance on the first day of each month commencing on the Commencement Date of this Lease. Tenant shall have a five (5) day grace period from the first day of the month within which to pay the Base Rent and any additional rent. Rent for any partial month during the Lease term shall be prorated to reflect the number of days during the month that Tenant occupies the Premises. Additional rent means amounts determined under Section 20 of this Lease and any other sums payable by Tenant to Landlord under this Lease. Rent not paid when due shall bear interest at the rate of nine percent (9%) per annum, until paid. Landlord may at its option impose a late charge of the greater of \$.05 for each \$1 of rent or \$50 for rent payments made more than ten (10) days late in lieu of interest for the first month of delinquency. Tenant acknowledges that late payment by Tenant to Landlord of any rent or other sums due under this Lease will cause Landlord to incur costs not contemplated by this Lease, the exact amount of such costs being extremely difficult and impracticable to ascertain, and that such late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of any such late payment and is not a penalty. Neither imposition nor collection nor failure to impose or collect such late charge shall be considered a waiver of any other remedies available for default. In addition to such late charge, an additional charge of \$75 shall be recoverable by Landlord for any returned checks.

## 2.2 Abated Rent and Other Inducement Provisions.

As reflected above, Tenant shall have no obligation to pay monthly Base Rent for the first two (2) full months after the Commencement Date (the "Free Rent Period") resulting in an abatement of monthly Base Rent in the aggregate amount of \$11,437.50. In the event of a default by Tenant under the terms of this Lease which results in early termination pursuant to the provisions hereof during such Free Rent Period, Tenant shall not be entitled to any such rent abatement after the date of termination nor shall Tenant be entitled to assert any right to rent abatement after such termination against any sums due Landlord. The rent abatement granted under this Section and any other cash and allowance which is granted to Tenant (collectively, "Inducement Provisions") is solely for the benefit of the entity executing this Lease as tenant and is not transferable to any assignee or subtenant. In the event of a default by Tenant under the terms of this Lease which results in early termination pursuant to the provisions hereof, then as a part of the recovery to which Landlord shall be entitled shall be included a portion of such rent which was abated under the provisions of this Section and the cash and any allowance other all other Inducement Provisions, which portion shall be determined by multiplying the total amount of rent, cash and allowance which was abated or granted under this Lease by a fraction, the numerator of which is the number of months remaining in the term of this Lease at the time of such default and the denominator of which is the number of months during the term of this Lease that Tenant is obligated to pay monthly Base Rent. For the avoidance of doubt, during the Free Rent Period Tenant shall be obligated to pay Tenant's Proportionate Share of operating expenses and real property taxes.

## 3. SECURITY DEPOSIT

Upon execution of the Lease, Tenant shall pay to Landlord the amount stated in the Basic Lease Terms as a Security Deposit. Landlord may apply the Security Deposit to pay the cost of performing any obligation which Tenant fails to perform within the time required by this Lease, but such application by Landlord shall not waive Landlord's other remedies nor be the exclusive remedy for Tenant's default. If the Security Deposit is applied by Landlord, Tenant shall on demand pay the sum necessary to replenish the Security Deposit to its original amount. In no event will Tenant have the right to apply any part of the Security Deposit to any rent or other sums due under this Lease. If Tenant is not in default at the expiration or termination of this Lease, Landlord shall return the entire Security Deposit to Tenant, within thirty (30) days, except for the portion designated in the Basic Lease Terms, if any, which Landlord shall retain as a non-refundable cleaning fee. If Tenant is in default at the expiration or termination of this Lease, Landlord may retain such portion of the Security Deposit as needed to cure the default and shall promptly return the balance, if any, to Tenant. Landlord's obligations with respect to the Security Deposit are those of a debtor and not of a trustee, and Landlord can commingle the Security Deposit with Landlord's general funds. Landlord shall not be required to pay Tenant interest on the Security Deposit. Landlord shall be entitled to immediately endorse and cash Tenant's Security Deposit; however, such endorsement and cashing shall not constitute Landlord's acceptance of this Lease. In the event Landlord does not accept this Lease, Landlord shall return said Security Deposit. If Landlord sells its interest in the Premises during the term hereof and deposits with or credits to the purchaser the unapplied portion of the Security Deposit, thereupon Landlord shall be discharged from any further liability or responsibility with respect to the Security Deposit.

## 4. USE

### 4.1 Use.

Tenant shall use the Premises for Tenant's Permitted Use stated in the Basic Lease Terms and for no other purpose. In connection with Tenant's use of the Premises (including, without limitation, any alteration of the Premises), Tenant shall at its expense promptly comply with all applicable laws, ordinances, rules, and regulations ("Laws") and shall not annoy, obstruct, or interfere with the rights of other tenants. Tenant shall not allow any objectionable fumes, noise, light, vibration, radiation, or electromagnetic waves to be emitted from the Premises. If any such sound or vibration is detectable outside of the Premises, Tenant shall provide **such insulation as is required to muffle such sound or vibration and render it undetectable at Tenant's cost.** Tenant shall not conduct any activities that will increase Landlord's insurance rates. Tenant shall pay before delinquency all taxes, assessments, license fees and public charges levied, assessed or imposed upon its business operations and all trade fixtures, leasehold improvements, merchandise and other personal property **in or about the Premises. Tenant shall not use the Premises for any uses that will cause any increase in** insurance rates in the Building. Notwithstanding anything to the contrary in this Lease, in no event shall any **portion of the Premises be used for any marijuana-related business, cannabusiness, or any other business** related to controlled substances as defined in the Federal Controlled Substances Act (including, but not **limited to, the cultivation, manufacture, processing, accounting, financial transactions, other ancillary services, storage or sale of cannabis or cannabis-related products**).

#### 4.2 Equipment.

Tenant shall install in the Premises only such equipment as is customary for Tenant's Permitted Use and shall not overload the floors or electrical circuits of the Premises or Building or alter the plumbing or wiring of the Premises or Building. Landlord must approve in advance the location of and manner of installing any wiring **or electrical, heat generating, climate sensitive, or communication equipment or exceptionally heavy articles**. All telecommunications equipment, conduit, cables and wiring, additional dedicated circuits, and any additional air conditioning required because of heat generating equipment or special lighting installed by Tenant shall be installed and operated at Tenant's expense and, at Landlord's written request shall be removed by Tenant at Tenant's sole cost. Tenant shall have no right to install any equipment on or through the roof of the Building, or use or install or store any equipment or other items outside of the interior boundary of the **Premises**.

#### 4.3 Signs and Other Installations.

No signs, awnings, or other apparatus shall be painted on or attached to the Building or anything placed on **any glass or woodwork of the Premises or positioned so as to be visible from outside the Premises, including** any window covering (i.e., shades, blinds, curtains, drapes, screens, or tinting materials) without Landlord's written consent. All signs installed by Tenant shall comply with Landlord's standards for signs and all applicable codes and all signs and sign hardware shall be removed upon termination of this Lease with the sign location restored to its former state. Any material violating this provision may be removed and disposed by Landlord without compensation to Tenant, and Tenant shall reimburse Landlord for the cost of the same upon request. Subject to Landlord's final approval as to the specific design, location, and size of such signage, Tenant may install, at Tenant's sole cost and expense, Tenant-branded signage on the door and window of the entry to the Premises. Landlord shall, at Landlord's sole cost and expense, place Tenant's name on the directory of the Building. Notwithstanding the above, and subject to Landlord's reasonable approval of the design, location, and size of such signage, Landlord consents to Tenant placing a neon sign in its third floor window for "Portland Potato" or "Portland Potato Vodka," as permitted by the city sign code and all other governmental regulations, provided such signage shall not be placed within three (3) feet of the **window line**.

#### 4.4 Parking.

All parking spaces shall be assigned to tenants and other parties pursuant to a separate written agreement with Landlord. This Lease does not cover any parking spaces or rights to use any parking spaces except as indicated in Section N of the Basic Lease Terms. Except to the extent of the negligence or willful misconduct of Landlord or Landlord's agents, employees or contractors, Landlord shall not be responsible for money, jewelry, automobiles or personal property lost in or stolen from the parking areas regardless of whether such **loss or theft occurs when the parking areas are locked or otherwise secured. Without limiting the terms of** the preceding sentence, Landlord shall not be liable for any loss, injury or damage to persons using the parking areas or automobiles or other property therein, it being agreed that, to the fullest extent permitted by law, the use of the parking spaces shall be at the sole risk of Tenant and its employees. If Tenant and Landlord enter into a parking agreement covering parking spaces in the Building, then any default by Tenant under such agreement beyond any applicable cure period shall, at Landlord's option, constitute an event of default under this Lease. A copy of the separate parking agreement is attached hereto as Exhibit "F."

## 5. UTILITIES, SERVICES, SECURITY

### 5.1 Utilities and Services.

Landlord will furnish water and electricity to the Building at all times and will furnish heat and air conditioning, at building standard levels, during the normal Building hours as established by Landlord. Tenant shall pay for all charges for electricity, natural gas and water furnished to the Premises. If Tenant does not pay any of these charges directly, Tenant shall pay Landlord for such charges and the amount payable by Tenant will be based upon consumption as sub-metered to the Premises by Landlord, or if not sub-metered, upon an equitable allocation made by Landlord, which allocation will be binding absent manifest error. Tenant shall be responsible for paying, as additional rent, the monthly charges allocable to the Premises for the HYAC maintenance contracts entered into by Landlord from time to time. Any additional rent provided for in this Lease shall become due with the next monthly installment of Base Rent unless otherwise provided. Janitorial service for the Building's common areas will be provided in accordance with the regular schedule of the Building, which schedule may change from time to time. Tenant shall provide Tenant's own janitorial service for the Premises unless Landlord and Tenant otherwise agree in writing that Landlord will provide such service to Tenant as part of operating expenses for the Building. Tenant shall be responsible for, and promptly pay when due, any and all charges for utility services used in the Premises and for all other services required for Tenants use of the Premises (including without limitation, all data and telephone services). Tenant shall comply with all government laws or regulations regarding the use or reduction of use of utilities on the Premises. Interruption of services or utilities shall not be deemed an eviction or disturbance of Tenant's use and possession of the Premises, render Landlord liable to Tenant for damages, or relieve Tenant from performance of Tenant's obligations under this Lease. Landlord shall take all reasonable steps to correct any interruptions in service caused by defects in utility systems within Landlord's reasonable control. Tenant shall provide its own surge protection for power furnished to the Premises. Tenant shall cooperate with Landlord and the utility service providers at all times as reasonably necessary, and shall allow Landlord and utility service providers, reasonable access to the pipes, lines, **feeders, risers, wiring, and any other machinery within the Premises. Tenant shall not contract or engage any other utility provider without prior written approval of Landlord.**

### 5.2 Data and Information Sharing for Environmental Management and Extra Usage.

Tenant shall be required to furnish to Landlord energy and water consumption data for all energy and water types used on the Premises for which utility accounts or consumption meters are owned by Tenant. Landlord and Tenant agree to provide all reasonable and accurate information that may be required to pursue green building certification of the Premises. If Tenant does not pay for utilities directly and Tenant uses excessive amounts of utilities because of operation outside of ordinary business hours of Monday through Friday from 7:00 am to 6:00 pm and Saturday 8:00 am to Noon ("Ordinary Building Hours"), high demands from office machinery and equipment, nonstandard lighting, or any other cause, Landlord may impose a reasonable charge for supplying such extra utilities, which charge shall be payable monthly by Tenant in conjunction with rent payments. Landlord reserves the right to install separate meters for any such utility and to charge Tenant for the cost of such installation.

### 5.3 Security Measures for the Premises.

Landlord may (but shall have no obligation) adopt security measures regarding the Premises, and Tenant shall cooperate with all such security measures. Landlord may, in Landlord's sole and absolute discretion, modify the type or amount of security measures provided at any time without notice.

Tenant may not install alarm boxes, foil protection tape, or other security equipment on the Premises without Landlord's prior written consent. Tenant may, at Tenant's sole cost and expense, install a supplemental security system within the Premises (such as a card-key system) with Landlord's written consent not to be unreasonably withheld; *provided that* such consent may be conditioned on, among other things, that: (i) the plans and specifications for any such system shall be subject to Landlord's reasonable approval, (ii) any such system must be compatible with any existing systems of the Building, (iii) Tenant's obligation to indemnify, defend and hold Landlord harmless shall also apply to Tenant's use and operation of any such system, (iv) the installation of such system shall otherwise be subject to the terms and conditions of Section 6 below (and Exhibit "B", if installed as a part of the Tenant improvements), and (v) notwithstanding anything to the **contrary in this Lease, Tenant shall remove such system upon the expiration or earlier termination of this Lease** and repair all damage caused by such removal. Tenant shall at all times provide Landlord with a contact person who can disarm the security/surveillance system and who is familiar with the functions of such system in the event of a malfunction, and Tenant shall provide Landlord with the alarm codes or other **necessary information required to disarm such system in the event Landlord must enter the Premises in an emergency** and Landlord shall not have any liability for accidentally setting off Tenant's security system. The determination of the extent to which such supplemental security equipment, systems and procedures are reasonably required shall be made in the sole judgment, and shall be the responsibility of, the Tenant.



## 5.4 Fiber Optic.

Tenant shall have the right to select an alternative telecom provider for its data and telecom connectivity in the Building; *provided that* (i) such telecom provider enters into a license agreement with the Landlord which license agreement shall be subject to Landlord's prior written approval, (ii) Tenant assumes all costs and expenses related to the license agreement, including, without limitation, the costs of installation of fiber and electrical feeds, including chases and conduits in the risers in the Building (collectively, the "Cabling"), and (iii) the telecom provider's use will not interfere with or adversely impact the Building or the use or occupancy of office space leased by any tenant of the Building. Together with Tenant's request for a new telecom provider, Tenant shall submit to Landlord evidence acceptable to Landlord in its sole discretion that the installation of the Cabling by the telecom provider is in compliance with all applicable laws and will not impede the operation of the Building or its systems in any material respect and if so as to the latter, that Tenant will be responsible to correct and remediate such impediment at its sole cost and expense as a condition precedent to such approval by Landlord. Without limiting the generality of the foregoing, Tenant shall not **commence or allow the telecom provider to commence any installation or operation of the Cabling until the** proposed location of and specifications for the Cabling have been approved in writing by Landlord. Landlord shall have no obligation to design, install, construct, use, operate, maintain, repair, replace or remove the Cabling or to have any other responsibility or liability in connection therewith or the operations thereof. The use of the Cabling and all areas outside the Premises shall be subject to all terms and conditions of the Lease **as if within the Premises, including, without limitation, insurance and indemnification obligations in this** Lease. Landlord shall not be liable for any loss or damage suffered by Tenant or others because of any interruption in or failure of utilities, including electrical power, to the Cabling. Tenant acknowledges and agrees that it shall accept the areas in which Tenant installs its Cabling and piping in their "As Is" condition. Landlord makes no representation respecting the condition of these areas or their suitability for operation and installation of the Cabling.

## 6. MAINTENANCE, REPAIR, ALTERATIONS

### 6.1 Maintenance and Repair.

6.1.1 Landlord's obligation with respect to maintenance and repair of the Building shall be limited to: (A) the structural portions of the Building, (B) the exterior walls of the Building, including glass and glazing (provided that the cleaning of the interior faces of exterior glazing within the Premises shall be Tenant's responsibility), (C) the roof, (D) the mechanical, electrical, plumbing and life safety systems leading to the Premises, and (E) the common areas. Landlord shall have the right but not the obligation to undertake work of repair that Tenant is required to perform hereunder and that Tenant fails or refuses to perform in a timely and efficient manner. All costs incurred by Landlord in performing any such repair for the account of Tenant shall be repaid by Tenant to Landlord upon demand, together with a reasonable administrative fee.

**6.1.2 Tenant shall maintain and repair the Premises in good condition, including, without limitation, maintaining and repairing all walls, floors, and ceilings, all interior doors, partitions, and windows, and all Premises systems, fixtures, and equipment that are not the maintenance responsibility of Landlord, as well as damage to the Building caused by Tenant, its agents, employees, contractors, or invitees.**

6.1.3 Landlord shall have no liability for failure to perform required maintenance and repair unless written notice is given by Tenant and Landlord fails to commence efforts to remedy the problem within a reasonable time and diligently pursue such remedy to completion. Landlord shall have the right to erect scaffolding and other apparatus necessary for the purpose of making repairs or alterations to the Building, and Landlord shall have no liability for interference with Tenant's use because of such work. Work may be done during normal business hours. Tenant shall have no claim against Landlord for any interruption of services or interference with Tenant's occupancy caused by Landlord's maintenance and repair or any claim of constructive or other **eviction of Tenant.**

**6.1.4 Landlord's cost of repair and maintenance shall be considered "operating expenses" for the purposes of Section 20, except that repair of damage caused by negligent or intentional acts or breach of this Lease by Tenant, its contractors, agents or invitees shall be at Tenant's expense.**

Landlord represents and warrants that the plumbing, mechanical, electrical, safety, HVAC, and other serving the Premises shall be in good working order on the Commencement Date.

## 6.2 Alterations.systems

6.2.1 Tenant shall not make any alterations to the Premises that affect the structure of the Building or any Building system (electrical, plumbing, mechanical or life safety), or install any wall or floor covering without Landlord's prior written consent which may be withheld in Landlord's sole discretion. With respect to any other alteration requested by Tenant, Landlord's consent shall not be unreasonably withheld. Should Landlord consent in writing to Tenant's alteration of the Premises, Tenant shall contract with a contractor approved by Landlord for the construction of such alterations (which contractor shall comply with the insurance provisions set forth in this Lease), shall secure all appropriate governmental approvals and permits, and shall complete such alterations with due diligence in compliance with the plans and specifications approved by Landlord and in a good and workmanlike manner. All such construction shall be performed in a manner which will not interfere with the quiet enjoyment of other tenants of the Building. Any such alterations, wiring, cables, or conduit installed by Tenant shall at once become part of the Premises and belong to Landlord except for removable machinery and unattached movable trade fixtures. Landlord may at its option require that Tenant remove any alterations, wiring, cables or conduit installed by or for Tenant and restore the Premises to the original condition upon termination of this Lease. If Tenant seeks Landlord's consent to perform an alteration, then at the time Landlord provides its approval of same, Landlord shall notify Tenant as to whether Landlord will require Tenant to remove such alteration upon the expiration or earlier termination of this Lease. If Tenant makes an alteration without asking Landlord whether Landlord will require such alteration to be removed at the expiration or sooner termination of this Lease, Landlord may **at its option, require that Tenant remove such alterations and repair any damage in connection therewith.** Landlord shall have the right to post notices of nonresponsibility in connection with work being performed by Tenant in the Premises. Work by Tenant shall comply with all laws then applicable to the Premises. Tenant shall not allow any liens to attach to the Building or Tenant's interest in the Premises as a result of its activities or any alterations. Landlord may perform alterations to or change the configuration of the Building and common areas. At the conclusion of any alteration, (A) Tenant shall provide Landlord with as-built drawings of such alterations, and (B) certify that the "record-set" of as-built drawings are true and correct, **which certification shall survive the expiration or termination of this Lease.**

6.2.2 Throughout the term of the Lease and notwithstanding the provisions of Section 18 below, Landlord shall have a continuing right (but shall not be obligated) to make alterations and/or improvements to the common areas and any other portions of the Building for any purposes that Landlord deems necessary, in its reasonable business judgment, including, without limitation, alterations or improvements that will affect the operation, design, use or aesthetic of the Building. Landlord is authorized to prioritize sustainability requirements over minimizing upfront costs of property improvements. Landlord shall make reasonable efforts to complete all such alterations and improvements so as to minimize, to the extent feasible, disturbance to Tenant. Without limiting the generality of the foregoing, Landlord reserves the right to grant such easements, rights and dedications as Landlord deems necessary or desirable and to cause the recordation of parcel maps and **covenants, conditions and restrictions affecting the Premises and Building, as long as such easements, rights, dedications, maps and covenants, conditions and restrictions do not materially and adversely interfere with** the use of the Premises by Tenant. At Landlord's request, Tenant shall join in the execution of any of the **aforementioned documents.**

## 7. INDEMNITY, INSURANCE

### 7.1 Indemnity.

Tenant shall indemnify, defend, and hold harmless Landlord and its managing agents and employees from **any claim, liability, damage, or loss occurring in, on, or about the Premises, or any cost or expense in** connection therewith (including attorney fees), arising out of (a) any damage to any person or property **occurring in, on, or about the Premises, (b) use by Tenant or its agents, invitees or contractors of the Premises** and/or the Building, and/or (c) Tenant's breach or violation of any term of this Lease. This indemnity obligation shall survive the expiration or sooner termination of this Lease. Notwithstanding the forgoing, Tenant shall have no obligation to indemnify, defend or hold harmless Landlord for any claim, damage or loss caused in whole or in part by the intentional or grossly negligent acts of Landlord, its employees or agents or by other tenants in the building.

## 7.2 Insurance.

Tenant shall carry liability insurance, on an occurrence basis, with limits of not less than Two Million Dollars (\$2,000,000) combined single limit bodily injury and property damage which insurance shall have an endorsement naming Landlord and Landlord's managing agent and lender, if any, and any other entity reasonably required by Landlord, as an additional insured, cover the liability insured under Section 7 of this Lease and be in form and with companies reasonably acceptable to Landlord. Such insurance shall provide that it is primary insurance and not "excess over" or contributory with any other valid, existing and applicable insurance in force for or on behalf of Landlord. The policy shall not eliminate cross-liability and shall contain a severability of interest clause. Tenant, at its cost, shall maintain on all of its personal property, tenant improvements (whether constructed by Landlord or Tenant), in, on, or about the Premises, a policy of "Broad Form" insurance, to the extent of at least full replacement value without any deduction for depreciation. **Tenant, at its cost, shall maintain such other insurance as Landlord may reasonably require from time to time.** Not more frequently than once each year, if, in the opinion of Landlord's lender or of the insurance consultant, the amount of public liability and property damage insurance coverage at that time is not adequate, Tenant shall increase the insurance coverage as required by either Landlord's lender or Landlord's insurance consultant. **Prior to occupancy, Tenant shall furnish a certificate evidencing such insurance which shall state** that the coverage shall not be canceled or materially changed without thirty (30) days' advance notice to Landlord and Landlord's managing agent, if any. Tenant shall furnish to Landlord a renewal certificate at least thirty (30) days prior to expiration of any policy.

**Tenant shall also maintain workers' compensation insurance in accordance with the laws of the state in which** the Premises are located with employer's liability insurance in an amount not less than \$1,000,000 and business income and extra expense insurance with limits not less than one hundred percent (100%) of all income and charges payable by Tenant under this Lease for a period of twelve (12) months.

Should Tenant engage the services of any contractor to perform work in the Premises, Tenant shall ensure that such contractor carries commercial general liability, business automobile liability, umbrella/excess liability (following form1), worker's compensation and employers' liability coverages in substantially the same amounts as are required of Tenant under this Lease. Contractor shall include Landlord, its trustees, officers, directors, members, agents and employees, Landlord's mortgagees and Landlord's representatives as additional insureds on the liability policies required hereunder. All policies required to be carried by any contractor shall be issued by and binding upon an insurance company licensed or authorized to do business in the state in which the Building is located with a rating of at least "A-: X" or better as set forth in the most current issue of Best's Insurance Reports, unless otherwise approved by Landlord. Certificates of insurance, acceptable to Landlord, evidencing the existence and amount of each insurance policy required hereunder shall be delivered to Landlord prior to the commencement of any work in the Premises. Further, each policy will contain provisions giving Landlord and each of the other additional insureds with at least thirty (30) **days' prior written notice of any cancelation, non-renewal or material change in coverage.** The above requirements shall apply equally to any subcontractor engaged by contractor.

## 8. DAMAGE, WAIVER OF SUBROGATION

### 8.1 Fire or Casualty.

“Major Damage” means damage by fire or other casualty to the Building or the Premises which causes the Premises or any substantial portion of the Building to be unusable, or which will cost more than twenty-five percent (25%) of the pre-damage value of the Building to repair, or which is not covered by insurance. In case of Major Damage, Landlord may elect to terminate this Lease by notice in writing to Tenant within thirty (30) days after such date. If this Lease is not terminated following Major Damage, or if damage occurs which is not Major Damage, Landlord shall promptly restore the Premises to the condition existing just prior to the damage. Tenant shall promptly restore all damage to tenant improvements or alterations installed or paid for by Tenant or pay the cost of such restoration to Landlord if Landlord elects to do the restoration of such improvements. Unless the casualty was caused by Tenant, rent shall be reduced from the date of damage until the date restoration work being performed by Landlord is substantially complete, with the reduction to be in proportion to the area of the Premises not usable by Tenant. Notwithstanding the foregoing, in the event of Major Damage, Landlord, within thirty (30) days of the date of such damage, shall use commercially reasonable efforts to cause a general contractor selected by Landlord to provide Landlord with a written estimate of the amount of time required, using standard working methods, to substantially complete the repair **and restoration of the Premises and any common areas necessary to provide access to the Premises** (“Completion Estimate”). Landlord shall promptly forward a copy of the Completion Estimate to Tenant. If the Completion Estimate indicates that the Premises or any common areas necessary to provide access to the Premises cannot be made tenantable within two hundred seventy (270) days from the date the repair is started (when such repairs are made without the payment of overtime or other premiums), then either party shall have the right to terminate this Lease upon written notice to the other within ten (10) business days after Landlord’s delivery of the Completion Estimate; provided, however, if the Lease is not terminated under this Section and Landlord reasonably believes at any time during the performance of the repairs that the repairs will not be completed within thirty (30) days of the estimated completion date set forth the Completion Estimate, Landlord shall notify Tenant, and either party may terminate this Lease within ten (10) days of the date of Landlord’s notice.

### 8.2 Waiver of Subrogation.

Tenant shall be responsible for insuring its personal property and trade fixtures located on the Premises and **any alterations or tenant improvements it has made to the Premises. Neither Landlord, its managing agent** nor Tenant shall be liable to the other for any loss or damage caused by any of the risks that are covered by property insurance or could be covered by a customary broad form of property insurance policy, or for any business interruption, and there shall be no subrogated claim by one party’s insurance carrier against the other party arising out of any such loss. Subject to the other provisions of this Lease, if damage is caused by a risk that is not covered by property insurance or could be covered by a customary broad form of property insurance policy and such damages is caused by the other party or its agents, employees, contractors or invitees, nothing contained herein shall be deemed to preclude a party from making a claim against the other with respect to such damages.

## 9. EMINENT DOMAIN

If a condemning authority takes title by eminent domain or by agreement in lieu thereof a portion sufficient to render the Premises unsuitable for Tenant’s use, then either party may elect to terminate this Lease effective on the date that possession is taken by the condemning authority. If this Lease is not terminated, then rent shall be reduced for the remainder of the term in an amount proportionate to the reduction in area of the Premises caused by the taking. All condemnation proceeds (except those specifically allocated to Tenant’s furniture, fixtures, and equipment, if any) shall belong to Landlord, and Tenant shall have no claim against Landlord for these condemnation proceeds because of the taking. Nothing herein is intended to prevent Tenant from separately seeking and retaining condemnation proceeds from the condemning authority that are available for tenants, including but not limited to relocation costs.

## 10. ASSIGNMENT AND SUBLETTING

Tenant shall not assign or encumber its interest under this Lease or sublet all or any portion of the Premises without first obtaining Landlord's consent in writing. This provision shall apply to all transfers by operation of law, and to all mergers and changes in control of Tenant, all of which shall be deemed assignments for the purposes of this Section. Tenant's request for Landlord's consent to an assignment or sublease shall be accompanied by a copy of the proposed agreements between Tenant and the proposed assignee or subtenant. Tenant shall provide Landlord with (1) any additional information or documents reasonably requested by Landlord, within ten (10) days after receiving Tenant's notice, and (2) an opportunity to meet and interview the proposed assignee or subtenant, if requested. No assignment shall relieve Tenant of its obligation to pay rent or perform other obligations required by this Lease, and no consent to one assignment or subletting shall be a consent to any further assignment or subletting. If Tenant proposes a subletting for which Landlord's consent is required, Landlord shall have the option of terminating this Lease and dealing directly with the proposed subtenant. Notwithstanding the foregoing, Landlord may at its sole discretion withhold consent to the subletting of the Premises to an existing occupant of the Building, to any prospective tenant with which the Landlord or Landlord's agents have negotiated within the previous six (6) months, where the prospective tenant is a government entity or a labor union, or where any sublease will require any changes to any building systems. Tenant shall not advertise at a rate which is less than the Building's listed rate. If Landlord does not terminate this Lease, Landlord shall not unreasonably withhold its consent to any assignment or subletting provided the proposed Tenant is compatible with Landlord's normal standards for the Building. If an assignment or subletting is permitted, fifty percent (50%) of any net profit, or net value of any other consideration received by Tenant as a result of such transaction shall be paid to Landlord promptly following its receipt by Tenant. Tenant shall pay any costs incurred by Landlord in connection with a request for assignment or subletting, including reasonable attorney fees, not to exceed \$750.

## II. DEFAULT, REMEDIES

### II.1 Default.

Any of the following shall constitute an "Event of Default" by Tenant under this Lease (time of performance being of the essence of this Lease):

- II.1.1 Tenant's failure to pay rent or any other charge under this Lease when due or within any grace period provided in this Lease.
- 11.1.2 Tenant's failure to comply with any other term or condition within twenty (20) days following written notice from Landlord specifying the noncompliance. If such noncompliance cannot be cured within the twenty (20)-day period, this provision shall be satisfied if Tenant commences correction within such period and thereafter proceeds in good faith and with reasonable diligence to complete correction as soon as possible but not later than ninety (90) days after the date of Landlord's notice.
- II.1.3 Failure of Tenant to execute the documents described in Section 16.1 or 16.3 within the time required under **such Sections; failure of Tenant to provide or maintain the insurance required of Tenant pursuant hereto; or** failure of Tenant to comply with any Laws as required pursuant hereto within twenty-four (24) hours after written demand by Landlord, if non-compliance possess a substantial risk of damage to the Premises or Building or bodily injury.
- 11.1.4 Tenant's insolvency, business failure, or assignment for the benefit of its creditors. Tenant's commencement of proceedings under any provision of any bankruptcy or insolvency law or failure to obtain dismissal of any petition filed against it under such laws within the time required to answer; or the appointment of a receiver for all or any portion of Tenant's properties or financial records.
- 11.1.5 Assignment or subletting by Tenant in violation of Section I.0.

### II.1.2 Remedies for Default

Upon occurrence of an Event of Default as described in Section II.1, Landlord shall have the right to the following remedies, which are intended to be cumulative and in addition to any other remedies provided under applicable law or under this Lease:

- 11.2.1 Landlord may at its option terminate this Lease, without prejudice to its right to damages for Tenant's breach. With or without termination, Landlord may retake possession of the Premises (using self-help or otherwise) and may use or relet the Premises without accepting a surrender or waiving the right to damages. Following such retaking of possession, efforts by Landlord to relet the Premises shall be sufficient if Landlord follows its usual procedures for finding tenants for the space at rates not less than the current rates for other comparable space in the Building. If Landlord has other comparable vacant space in the Building, prospective tenants may be placed in such other space without prejudice to Landlord's claim to damages or loss of rentals from Tenant.

11.2.2 Landlord may recover all damages caused by Tenant's default which shall include an amount equal to rentals lost because of the default, amortized Lease commissions paid for this Lease, and the amortized cost of any tenant improvements installed by or paid for by Landlord. Landlord may sue periodically to recover damages as they occur throughout the Lease term, and no action for accrued damages shall bar a later action for damages subsequently accruing. Landlord may elect in any one action to recover accrued damages plus damages attributable to the remaining term of the Lease. Such damages shall be measured by the difference between the rent under this Lease and the reasonable rental value of the Premises for the remainder of the term, discounted to the time of judgment at the prevailing interest rate on judgments.

### **I 1.3 Landlord's Right To Cure Default.**

Landlord may, but shall not be obligated to, make any payment or perform any obligation which Tenant has failed to perform under this Lease. All of Landlord's expenditures shall be reimbursed by Tenant upon demand with interest from the date of expenditure at the rate of nine percent (9%) per annum. Landlord's right to correct Tenant's failure to perform is for the sole protection of Landlord and the existence of this right shall not release Tenant from the obligation to perform all of the covenants herein required to be performed by Tenant, or deprive Landlord of any other right which Landlord may have by reason of default of this Lease by Tenant, whether or not Landlord exercises its right under this Section.

## **12. SURRENDER, HOLDOVER**

On expiration or early termination of this Lease, Tenant shall deliver all keys to Landlord and surrender the Premises vacuumed, swept, and free of debris and in the same condition as at the commencement of the term subject only to reasonable wear from ordinary use. Tenant shall remove all of its furnishings and trade fixtures that remain its property and any alterations, cables, or conduits if required by Section 6.2, and shall repair all damage resulting from such removal. Failure to remove shall be an abandonment of the property, and, following ten (10) days' written notice, Landlord may remove or dispose of it in any manner without liability, and recover the cost of removal and other damages from Tenant. If Tenant fails to vacate the Premises when required, including failure to remove all its personal property, Landlord may elect either: (i) to treat Tenant as a tenant from month to month, subject to the provisions of this Lease except that rent shall be one-and-one-quarter times the total rent being charged when the Lease term expired, and any option or other rights regarding extension of the term or expansion of the Premises shall no longer apply; and/or (ii) to eject Tenant from the Premises (using self-help or otherwise) and recover all damages (including, without limitation, consequential damages) caused by wrongful holdover.

## **13. RULES AND REGULATIONS**

Tenant shall abide by and adhere to the operating rules and regulations set forth in the attached Exhibit "C" and any other rules and regulations as Landlord may from time to time reasonably institute. Any default or breach of such rules and regulations shall be deemed a default under this Lease and Landlord shall be entitled to exercise all rights and remedies available to Landlord as set forth in this Lease. Landlord shall not be liable to Tenant for the failure of any other tenant or any of its assignees, subtenants or their respective agents, employees, representatives, invitees or licensees to conform to such rules and regulations. Landlord shall use commercially reasonable efforts to enforce all rules and regulations fairly.

## **14. ACCESS**

### **14.1 Access.**

Tenant's officers and employees or those having business with Tenant may be required to identify themselves or show passes in order to gain access to the Building. Landlord shall have no liability for permitting or refusing to permit access by anyone. **IN ALL EVENTS, LANDLORD SHALL NOT BE LIABLE TO TENANT, AND TENANT HEREBY WAIVES ANY CLAIM AGAINST LANDLORD, FOR (I) ANY UNAUTHORIZED OR CRIMINAL ENTRY OF THIRD PARTIES INTO THE PREMISES OR THE BUILDING, (II) ANY DAMAGE TO PERSONS, OR (III) ANY LOSS OF PROPERTY IN OR ABOUT THE PREMISES OR THE BUILDING, BY OR FROM ANY UNAUTHORIZED OR CRIMINAL ACTS OF THIRD PARTIES, REGARDLESS OF ANY ACTION, INACTION, FAILURE, BREAKDOWN, MALFUNCTION AND/OR INSUFFICIENCY OF THE ACCESS**

**CONTROL PROVIDED BY LANDLORD, IF ANY.** Landlord may regulate access to any Building elevators and may (but shall have no obligation) adopt security measures regarding the Building as Landlord, in its sole and absolute discretion, deems appropriate. In addition, Landlord may, in Landlord's sole and absolute discretion, modify the type or amount of security measures provided at any time without notice. Landlord shall have the right to enter upon the Premises at any time by passkey or otherwise to determine Tenant's compliance with this Lease, to perform necessary services, maintenance and repairs or alterations to the Building or the Premises, to post notices of non-responsibility, or to show the Premises to any prospective tenant or purchasers. Except in case of emergency, such entry shall be at such times and in such manner as to minimize interference with the reasonable business use of the Premises by Tenant. Tenant acknowledges that it has neither received nor relied upon any representation or warranty made by or on behalf of Landlord with respect to the safety or security of the Premises or the Building or any part thereof or the extent or effectiveness of any security measures or procedures now or hereafter provided by Landlord, and further acknowledges that Tenant has made its own independent determination with respect to all such matters.

#### **14.2 Furniture and Bulky Articles.**

Tenant shall move furniture and bulky articles in and out of the Building or make independent use of any elevators only at times approved by Landlord following at least 24 hours' written notice to Landlord.

#### **15. Notices.**

All notices between the parties relating to this Lease must be in writing and sent to the parties at the address set forth in the Basic Lease Terms. Any such notices must be sent either by (a) overnight delivery using a nationally-recognized courier (e.g., Fed Ex, Airborne Express or UPS) and delivery charges prepaid, in which case notice shall be deemed given one (1) business day after deposit with such courier, (b) facsimile, email, PDF file or other generally-recognized electronic means, in which case notice shall be deemed given upon transmission *provided* a copy of such electronic transmission is sent within one (1) day after electronic transmission by overnight delivery using a nationally-recognized courier and delivery charges prepaid, or (c) personal delivery or mailed by U.S. certified mail and postage or equivalent charges prepaid, in which case notice shall be effective upon receipt provided that if any party refuses delivery, such notices shall be deemed given when mailed or, if made by personal delivery, upon delivery. Any notice sent by facsimile, email, PDF file or other electronic transmission after 5:00 p.m. local time where the Premises are located shall be deemed given the next business day. A party's address may be changed by written notice to the other party; provided, however, that no notice of a change of address shall be effective until actual receipt of such notice. Notice to Tenant may always be delivered to the Premises. Rent shall be payable to Landlord at the address set forth in the Basic Lease Terms for rent payments, but shall be considered paid only when received by Landlord.

#### **16. SUBORDINATION AND ATTORNMENT, TRANSFER OF BUILDING, ESTOPPELS**

##### **16.1 Subordination and Attornment.**

This Lease shall be subject to and subordinate to any mortgages, deeds of trust, ground lease, master lease, and land sale contracts (hereafter collectively referred to as "encumbrances") and to any covenants, conditions and restrictions ("CC&Rs"), in each such case applicable to encumbrances and CC&Rs now existing against the Building. At Landlord's option this Lease shall be subject and subordinate to any future encumbrance, ground lease, master lease or CC&Rs hereafter placed against the Building (including the underlying land) or any modifications of existing encumbrances, and Tenant shall execute such documents as may reasonably be requested by Landlord or the holder of the encumbrance to evidence this subordination within ten (10) days of request therefor. If any encumbrance is foreclosed, then if the purchaser at foreclosure **sale gives to Tenant a written agreement to recognize Tenant's Lease, Tenant shall attorn to such purchaser** and this Lease shall continue.

##### **16.2 Transfer of Building.**

If the Building is sold or otherwise transferred by Landlord or any successor, Tenant shall attorn to the purchaser or transferee and recognize it as the landlord under this Lease, and, provided the purchaser or transferee assumes all obligations under this Lease thereafter accruing, the transferor shall have no further liability hereunder for obligations accruing after the date of transfer.

##### **16.3 Estoppels.**

Either party will within ten (10) days after notice from the other execute, acknowledge, and deliver to the other party a certificate certifying whether or not this Lease has been modified and is in full force and effect; whether there are any modifications or alleged breaches by the other party; the dates to which rent has been paid in advance, and the amount of any Security Deposit or prepaid rent; and any other facts that may reasonably be requested. If requested by the holder of any encumbrance, or any underlying lessor, Tenant will agree to give such holder or lessor notice of and an opportunity to cure any default by Landlord under this Lease.

**17. ATTORNEY FEES**

In any litigation arising out of this Lease, including any bankruptcy proceeding, the prevailing party shall be entitled to recover attorney fees at trial and on any appeal or petition for review. If Landlord incurs attorney fees because of a default by Tenant, Tenant shall pay all such fees whether or not litigation is filed. If Landlord employs a collection agency to recover delinquent charges, Tenant agrees to pay all collection agency and other fees charged to Landlord in addition to rent, late charges, interest, and other sums payable under this Lease.

**18. QUIET ENJOYMENT**

Landlord warrants that as long as Tenant complies with all terms of this Lease, it shall be entitled to possession of the Premises free from any eviction or disturbance by Landlord or parties claiming through Landlord. This covenant of quiet enjoyment shall in no event entitle Tenant to any claims against Landlord arising out of any construction noise that may fi-om time to time occur during the term of this Lease, including, without limitation, construction noise for the performance of tenant improvements.

**19. LIMITATION ON LIABILITY**

Notwithstanding any provision in this Lease to the contrary, neither Landlord nor its managing agent or employees shall have any liability to Tenant for loss or damages to Tenant's property fi-om any cause (unless the result of Landlord's gross negligence or willful misconduct), nor arising out of the acts of other tenants of the Building or third parties, nor any liability for consequential damages, nor liability for any reason which exceeds the value of Landlord's interest in the Building.

**20. ADDITIONAL RENT**

**20.I Additional Rent: Operating Expenses and Real Estate Taxes.**

Tenant shall pay as additional rent Tenant's Proportionate Share of operating expenses and real property taxes for the Building. Effective January I of each year Landlord shall estimate the operating expenses and real property taxes. Monthly rent for that year shall be increased by one-twelfth of Tenant's Proportionate Share of operating expenses and real property taxes, provided that Landlord may revise its estimate during any year with reasonable cause and the additional estimate shall be payable as equal additions to rent for the remainder of the calendar year. Following the end of each calendar year, Landlord shall compute Tenant's actual Proportionate Share of operating expenses and real property taxes and bill Tenant for any deficiency or credit Tenant with any excess collected. Tenant shall pay any such deficiency within thirty (30) days after Landlord's billing, whether or not this Lease shall have expired or terminated at the time of such billing.

**20.1.1** As used herein "real property taxes" as used herein shall mean all taxes and assessments of any public authority against the Building and the land on which it is located, the cost of contesting any tax and any form **of fee or charge imposed on Landlord as a direct consequence of owning or leasing the Premises, including** but not limited to, rent taxes, gross receipt taxes, leasing taxes, or any fee or charge wholly or partially in lieu **of or in substitution for ad valorem real property taxes or assessments, whether now existing or hereafter enacted. If a separate assessment or identifiable tax increase arises because of improvements to the Premises,** then Tenant shall pay one hundred percent ( 100%) of such increase.



As used herein, **“operating expenses” shall mean all costs of operating, maintaining, managing, replacing and repairing the Building as determined by standard real estate accounting practice, including, but not limited to:** all water and sewer charges not separately metered and paid by tenants; the cost of natural gas and electricity provided to the Building not separately metered and paid by tenants; janitorial and cleaning **supplies and services for the common areas of the Building; administration costs, management fees not to exceed five percent of gross revenues for the Building; superintendent fees; security services, if any; insurance premiums; licenses, permits for the operation and maintenance of the Building and all of its component elements and mechanical systems; ordinary and emergency repairs and maintenance, and the annual amortized capital improvement cost (amortized over the useful life of the improvement for any capital improvements to the Building.** Without limiting the generality of the foregoing, if Landlord makes an expenditure for a capital improvement to the Building (or any portion thereof) by installing energy-, water-, or labor-saving devices to reduce operating expenses or to comply with any law, rule, regulation or other legal requirement or Green Agency Rating pertaining to the Building, and if, under generally accepted accounting principles, such expenditure is not a current expense, then the cost thereof shall be amortized over a period equal to the useful life of such improvement, determined in accordance with generally accepted accounting principles, and the amortized costs allocated to each calendar year during the term, together with an imputed interest amount calculated on the unamortized portion thereof using an interest rate of eight percent (8%) per annum, shall be treated as an operating expense (a “Permitted Capital Expenditure”). In the event the average occupancy level of the Building for any calendar year was or is not one hundred percent (100%) of full occupancy, then the estimated and actual operating expenses for such year shall be proportionately adjusted by Landlord to reflect those costs which have occurred had the Building been one hundred percent (100%) occupied during such year. Operating Expenses do not include the cost of tenant **improvements. Operating expenses, excluding real estate taxes and insurance premiums, shall not increase** by more than five percent (5%) annually. In no event shall Tenant be required to pay Controllable Expenses in excess of the Controllable Expense Cap. As used herein “Controllable Expenses” are those Operating Expenses for which Landlord has exclusive control over the amount of increase over such Operating

Expenses, and in no event shall Controllable Expenses include insurance premiums and deductibles, utility charges, Real Property Taxes, or Non-Recurring Costs (as defined below). As used herein, the Controllable Expense Cap shall be an amount equal to the amount of the Controllable Expenses for the Building during the calendar year 2017, which cap amount shall be annually increased by five percent (5%) on each January 1st thereafter. “Non-Recurring Costs” shall mean Operating Expenses that are not customarily incurred and budgeted monthly for by owners of comparable projects in the Portland, Oregon area, or are materially in excess of such customary and budgeted monthly costs, such as costs incurred due to unusual weather (i.e. snow and ice removal, wind damage, excessive ground water), labor trouble, shortages in supplies, utility shortages or black-outs and costs that may arise in connection with a force majeure event or costs that do not occur annually.

## **20.2 Disputes.**

If Tenant disputes any computation of operating expenses in Section 20, it shall give notice to Landlord not later than sixty (60) days after the notice from Landlord describing the computation in question. If Tenant fails to give such a notice, the computation by Landlord shall be binding and conclusive between the parties for the period in question. If Tenant gives a timely notice, the dispute shall be resolved by an independent CPA selected by Landlord and approved by Tenant in Tenant’s reasonable discretion, whose decision shall be conclusive between the parties. Each party shall pay one-half of the fee of such CPA for making such determination except that if the adjustment in favor of Tenant does not exceed five percent (5%) of the escalation amounts for the year in question, Tenant shall pay (i) the entire cost of any such third-party determination; and if the decision of the CPA in favor of the Tenant exceeds seven percent (7%) of the amount for the year in question, Landlord shall pay the entire cost of the CPA. If the adjustment in favor of Tenant is between five percent (5%) and seven percent (7%), each party shall pay one-half of the fee of the CPA, The CPA shall not be paid on a contingency-fee basis. Landlord shall promptly credit any sums found owing to Tenant, and if the Lease has expired or been terminated, Landlord shall promptly refund such sums to Tenant. Nothing herein shall reduce Tenant’s obligations to make all payments as required by this Lease. In no event shall Landlord have any liability to Tenant based on its calculation of additional rent or rent adjustments except and only the obligation to cause any correction to be made pursuant to this Section 20.2. Tenant shall maintain as strictly confidential the existence and resolution of any dispute regarding rent charges hereunder.

## 21. HAZARDOUS MATERIALS

Neither Tenant nor Tenant's agents or employees shall cause or permit any Hazardous Material, as hereinafter defined, to be brought upon, stored, used, generated, released into the environment, or disposed of on, in, under, or about the Premises, except reasonable quantities of cleaning supplies and office supplies necessary to or required as part of Tenant's business that are generated, used, kept, stored, or disposed of in a manner that complies with all laws regulating any such Hazardous Materials and with good business practices. Tenant covenants to remove from the Premises (or the Building, if applicable), upon the expiration or sooner termination of this Lease and at Tenant's sole cost and expense, any and all Hazardous Materials brought upon, stored, used, generated, or released into the environment by Tenant, Tenant's principals, agents, employees, contractors, or invitees during the term of this Lease. To the fullest extent permitted by law, Tenant hereby agrees to indemnify, defend, protect, and hold harmless Landlord, Landlord's managing agent and their respective agents and employees, and their respective successors and assigns, from any and all claims, judgments, damages, penalties, fines, costs, liabilities, and losses that arise during or after the term directly or indirectly from the use, storage, disposal, release, or presence of Hazardous Materials on, in, or about the Premises which occurs during the term of this Lease and caused by Tenant, Tenant's principals, agents, employees, contractors, or invitees. Tenant shall promptly notify Landlord of any release of Hazardous Materials in, on, or about the Premises that Tenant or Tenant's agents or employees become aware of during the term of this Lease, whether caused by Tenant, Tenant's agents or employees, or any other persons or entities. As used herein, the term "Hazardous Materials" shall mean any hazardous or toxic substance, material, or waste which is or becomes regulated by any local or state governmental authority or the United States Government. The term "Hazardous Materials" shall include, without limitation, any material or substance that is (i) defined as a "hazardous waste," "extremely hazardous waste," "restricted hazardous waste," "hazardous substance," "hazardous material," or "waste" under any federal, state, or local law, (ii) petroleum, and (iii) asbestos. The provisions of this Section 21, including, without limitation, the indemnification provisions set forth herein, shall survive any termination of this Lease. Landlord represents and warrants to Tenant that to the best of Landlord's knowledge that there are no Hazardous Materials in, on, under, or about the Premises in violation of applicable laws.

## 22. MISCELLANEOUS

### 22.1 Complete Agreement; No Implied Covenants.

This Lease constitutes the entire agreement of the parties and supersedes all prior written and oral agreements **and representations and there are no implied covenants or other agreements between the parties except as expressly set forth in this Lease.** Neither Landlord nor Tenant is relying on any representations other than those expressly set forth herein.

### 22.2 Governing Law.

This Lease shall be construed under the laws of the State of Oregon.

### 22.3 Partial Invalidity.

If any provision of this Lease or the application thereof to any person or circumstance shall to any extent be **held invalid, then the remainder of this Lease or the application of such provision to persons or circumstances** other than those as to which it is held invalid shall not be affected thereby, and each provision of this Lease shall be valid and enforced to the fullest extent permitted by law.

### 22.4 Space Leased AS IS.

Except for the Landlord's work described in Exhibit "B," and subject to the Landlord's warranties and **representation and its general duties of maintenance and repair, the Premises are leased AS IS in the condition** now existing with no alterations or other work to be performed by Landlord.

### 22.5 Captions; Construction

The titles to the Sections of this Lease are descriptive only and are not intended to change or influence the meaning of any Section or to be part of this Lease. All references to "days" in this Lease shall be construed to mean calendar days unless otherwise expressly provided and all references to "business days" shall be construed to mean days on which charter banks are open for business where the Premises are located.

### 22.6 Nonwaiver.

Failure by either party to promptly enforce any regulation, remedy, or right of any kind under this Lease shall not constitute a waiver of the same and such right or remedy may be asserted at any time after the party becomes entitled to the benefit thereof notwithstanding delay in enforcement.

**22.7 Consent.**

Except where otherwise provided in this Lease, either party may withhold its consent for any reason or for **no reason whenever that party's consent is required under this Lease.**

**22.8 Force Majeure.**

If performance by Landlord of any portion of this Lease is made impossible by any prevention, delay, or stoppage caused by governmental approvals, war, acts of terrorism, strikes, lockouts, labor disputes, acts of **God, inability to obtain services, labor, or materials or reasonable substitutes for those items, governmental** actions, civil commotions, fire or other casualty, or other causes beyond the reasonable control of Landlord, performance by Landlord for a period equal to the period of that prevention, delay, or stoppage is excused.

**22.9 Commissions.**

Each party represents that it has not had dealings with any real estate broker, finder, or other person with respect to this Lease in any manner, except for the broker(s) identified in the Basic Lease Terms. Tenant hereby agrees to indemnify, defend and hold Landlord harmless for, from and against all claims for any brokerage commissions, finder's fees or similar payments by any person other than Tenant's broker identified **herein arising from Tenant's acts and all costs, expenses and liabilities incurred in connection with such** claims, including reasonable attorneys' fees and costs. Landlord hereby agrees to indemnify, defend and hold Tenant harmless for, from and against all claims for any brokerage commissions, finder's fees or similar payments by any person arising from Landlord's acts and all costs, expenses and liabilities incurred in connection with such claims, including reasonable attorneys' fees and costs. Landlord shall pay a leasing commission in accordance with a separate agreement between Landlord and Landlord's broker and Tenant's broker.

**22.10 Successors.**

Subject to Section I 0, this Lease shall bind and inure to the benefit of the parties, their respective heirs, successors, and permitted assigns.

**22.11 Financial Reports.**

Within ten (10) days after Landlord's request, Tenant will furnish Tenant's most recent financial statements to Landlord prepared in accordance with generally accepted accounting principles, certified by Tenant or an independent auditor to be true and correct. Tenant will discuss its financial statements with Landlord and will give Landlord access to Tenant's books and records in order to enable Landlord to verify the financial statements. Landlord will not disclose any aspect of Tenant's financial statements except (1) to Landlord's lenders or prospective purchasers of the Building who have executed a sales contract with Landlord, (2) in litigation between Landlord and Tenant, or (3) if required by court order. Notwithstanding the foregoing, so long as Tenant's financial statements are publicly available online, Tenant shall not be required to provide financial statements directly to Landlord.

**22.12 Waiver of Jury Trial.**

To the maximum extent permitted by law, Landlord and Tenant each waive right to trial by jury in any litigation arising out of or with respect to this Lease.

**22.13 Executive Order 13224.**

Tenant hereby certifies all persons or entities holding any legal or beneficial interest whatsoever in Tenant are not included in, owned by, controlled by, acting for or on behalf of, providing assistance, support, sponsorship, or services of any kind to, or otherwise associated with any of the persons or entities referred to or described in Executive Order 13224 - Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism, as amended.

**22.14 Intentionally Deleted.**

**22.15 Confidentiality.**

Landlord and Tenant shall keep the content and all copies of this Lease, all related documents and amendments, and all proposals, materials, information (including but not limited to rental terms, rent **abatement, construction allowance, and any other concessions or terms of the business deal), and matters** relating hereto strictly confidential and shall not disclose, divulge, disseminate or distribute any of the same, or permit the same to occur, except to the extent reasonably required for proper business purposes by **Landlord's or Tenant's employees, attorneys, agents, insurers, auditors, lenders and permitted successors and assigns** (and Landlord shall obligate any such parties to whom disclosure is permitted to honor the confidentiality provisions hereof) and except as may be required by law, securities regulations, or court proceedings. This confidentiality provision shall be binding upon the parties hereto and their respective successor and assigns and shall survive the expiration of this Lease. Tenant and its representatives shall be prohibited from issuing any press release(s) or communicating with the media regarding the proposed or agreed to transaction, in which Tenant has not received prior written authorization from Landlord.

**22.16 Building Name and Signage.**

Landlord shall have the right at any time to install, affix and maintain any and all signs on the interior and exterior of the Building as Landlord may, in its sole discretion, desire. Tenant shall not use the name of the Building or use pictures or illustrations of the Building in advertising or other publicity or for any purpose other than as the address of the business to be conducted by Tenant in the Premises, without the prior written consent of Landlord. Additionally, Landlord shall have the exclusive right at all times during the Lease term to change, modify, add to or otherwise alter the name, number or designation of the Building, and Landlord shall not be liable for claims or damages of any kind which may be attributed thereto or result therefrom.

**22.17 Mold.**

Landlord represents and warrants that to the best of its knowledge the Premises is free from mold. Tenant shall not allow or permit any conduct or omission at the Premises that will promote or allow the production or growth of mold, spores, fungus, or any other similar organism, and shall indemnify and hold Landlord harmless from any claim, demand, cost, and expense (including attorney fees) arising from or caused by Tenant's failure to strictly comply with its obligations under this provision. Similarly, Landlord will maintain and repair the Building as provided in Section 6.1.1 of the Lease and in a manner that strives to prevent the production or growth of mold, spores, fungus, or any other similar organism.

**22.18 Survival of Obligations.**

The provisions of this Lease with respect to any indemnity obligation or any obligation of either party to pay any sum in order to perform any act required by this Lease after the expiration or other termination of this **Lease shall survive the expiration or other termination of this Lease.**

**22.19 Amendments.**

Except as herein otherwise provided, no subsequent alteration, amendment, change or addition to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and executed by both parties.

**22.20 Execution; Counterpart; Signature Transmitted.**

This Lease may be executed simultaneously in one or more counterparts, each of which will be considered an original, but all of which together will constitute one and the same instrument. Signatures transmitted by facsimile, PDF file or other form of electronic transmission and received by the other party shall be sufficient **evidence of the execution hereof by the applicable signatory and such signatures shall be treated as originals.** At the request of a party, the other party will confirm an electronically transmitted signature page by delivering an original signature page to the requesting party.

**22.21 Intentionally Deleted.**

**22.22 Exhibit.**

Exhibits "A" (Floor Plan Showing Premises), "B" (Landlord's Work), "C" (Rules and Regulations), "O" (First Offer Space), and "E" (Lease Confirmation), "F" (Parking Use Agreement) are attached hereto and incorporated as a part of this Lease. Exhibit F, Parking Agreement is attached hereto.

IN WITNESS WHEREOF, the duly authorized representatives of the parties have executed this Lease as of the effective date.

**Eastbank Commerce Center LLC**

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**Eastside Distilling Inc**

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**EXHIBIT A**  
**Floor Plan Showing Premises**

**EXHIBIT "B"**  
**Landlord's Work**

Except as expressly provided below, Tenant is leasing the Premises in its "as is" condition and Landlord shall have no obligation to make any improvements to the Premises or provide Tenant with any improvement allowance. Landlord shall, at Landlord's sole cost and expense and using such Building standard materials and finishes as Landlord determines appropriate in its reasonable discretion, and as "Landlord's Work" perform the following:

- (1) Construct a demising wall between the columns on the east end of the Premises by the kitchenette, as shown on Exhibit A; and
- (2) Patch and paint the walls of the Premises in Building-standard white.

**EXHIBIT "C"**  
**Rules & Regulations**

Tenant covenants and agrees to comply with the following rules and regulations as they may be modified or amended during the term:

**1. Signs.** Unless otherwise permitted in the Lease, no sign, advertisement, display, notice or other lettering shall be exhibited, inscribed, painted or affixed on any part of the outside of the Premises or inside, if visible from the outside, or outside the building of which they form a part, and in no event shall Tenant place any signs, displays or other advertising material on the glass of the leaseline of the Premises. All signs, displays, advertisements, and notices of Tenant shall be professional and maintained by Tenant in good and attractive condition at Tenant's expense and risk. Tenant shall not use handbills for advertising at the Project. Any permanent signs must be approved by Landlord.

**2. Directory.** The bulletin board or directory of the Building will be provided exclusively for the display of the name and location of tenants, and Landlord reserves the right to exclude any other names therefrom.

**3. Access.** The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by any of the tenants or used by them for any purpose other than for ingress to and egress from their respective Premises. The halls, passages, entrances, exits, elevators, stairways, balconies and roof are not for the use of the general public and Landlord shall in all cases retain the right to control thereof and prevent access thereto by all persons whose presence in the judgment of Landlord shall be prejudicial to the safety, character, reputation and interests of the Building or its tenants; provided, however, that nothing herein contained shall be construed to prevent access by persons with whom the Tenant normally deals in the ordinary course of Tenant's business unless such persons are engaged in illegal activities. No Tenant and no employees or invitees of any Tenant shall go upon the roof of the Building

**4. Locks.** Tenant shall not alter any lock or install any new additional locks or any bolts on any door of the Premises without the written consent of Landlord.

**5. Restrooms.** The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from a violation of this rule shall be borne by the Tenant who, **or whose employees, sublessees, assignees, agents, licensees, or invitees, shall have caused it.**

**6. No Defacing Premises.** Tenant shall not overload the floor of the Premises, shall not mark on or drive nails, screw or drill into the partitions, woodwork or plaster (except as may be incidental to the hanging of wall decorations), and shall not in any way deface the Premises or any part thereof.

**7. Safes and Heavy Equipment.** No furniture, freight or equipment of any kind shall be brought into the Building and/or Common Area Facilities without the consent of Landlord and all moving of the same into or out of the Building and/or Common Area Facilities shall be done at such time and in such manner as Landlord shall designate. Landlord shall have the right to prescribe the times and manner of moving all furniture, freight and heavy equipment in and out of the Building and/or Common Area Facilities, including, but not limited to, requirements for the protection of floor coverings, walls and other surfaces during such moves. Landlord will not be responsible for loss of or damage to any such safe or property from any cause and all damage done to the Building and/or Common Area Facilities by moving or maintaining any such safe or other property shall be repaired at the expense of Tenant. There shall not be used in any Premises, or in the public halls of the Building, either by any tenant or others, any hand trucks except those equipped with rubber tires and side guards. Elevators must be padded while moving freight via the elevators. All such heavy equipment shall be subject to the requirements of Rule 26 below.

**8. Janitorial Services.** Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness. Janitorial service for Common Area Facilities shall include ordinary dusting and cleaning by the janitor assigned to such work and shall not include cleaning of carpets or rugs, except normal vacuuming, or moving of furniture and other special services. The work of cleaning personnel shall not be hindered by Tenant after 5.30 p.m. Tenant is responsible for cleaning his or her own Premises. Tenant shall be responsible for transporting waste and rubbish from the Premises to the Building trash room.

**9. Nuisance.** Tenant shall not use, keep or permit to be used or kept any noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, odors and/or vibrations, or interfere in any way with other tenants or those having business in the Building. No animals (other than those aiding the disabled such as "seeing eye" dogs) or birds shall be brought in or kept in or about the Premises or the Building and/or Common Area Facilities. No Tenant shall make or permit to be made any disturbing noises or disturb or interfere with occupants of the Building, or with those having business with such occupants by the use of any musical instrument, radio, phonograph, unusual noise, or in any other way. No Tenant shall throw anything out of doors or down the passageways.



**10. Permitted Use.** No Tenant shall occupy or permit any portion of its Premises to be occupied for the **manufacture or sale of liquor, narcotics, or tobacco in any form, or as a medical office, or as a barber shop or manicure shop** except with prior written consent of Landlord. No Tenant shall advertise for laborers giving an address at the Premises. The Premises shall not be used for lodging or sleeping or for illegal purposes.

**11. Hazardous Materials.** Other than ordinary office supplies and materials used and stored in accordance with applicable laws, ordinances, governmental rules and regulations, Tenant shall not use or keep in the Premises or the Building and/or Common Area Facilities any kerosene, gasoline or inflammable or combustible fluid or material or any Hazardous Materials as defined in Section 1.2.4 of the Lease (including but not limited to asbestos or lead based paints) or use any method of heating or air conditioning other than that supplied by Landlord.

**12. Telephones.** Landlord will direct electricians as to where and how telephone and telegraph wires are to be introduced. No boring or cutting for or stringing of wires will be allowed without the consent of Landlord. The location of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord.

**13. Keys.** A reasonable number of keys (including electronic FOBs and cards) to the locks on the entry doors to the Building and to the Premises shall be furnished by Landlord to Tenant at Tenant's cost, and Tenant shall not make any duplicate keys. All keys to the Building, Premises, rooms and toilet rooms shall be obtained from Landlord's office, and Tenant shall not from any other source duplicate or obtain keys or have keys made. The Tenant, upon termination of the tenancy, shall deliver to Landlord the keys to the Building, Premises, rooms and toilet rooms which shall have been furnished and shall pay Landlord the cost of replacing any lost key or of changing the lock or locks opened by such lost key if Landlord deems it necessary to make such change. If Landlord determines that unusual burdens are created by Tenant's access requirements or practices, Tenant shall (a) bear the cost of such unusual burdens, as determined by Landlord, and (b) if requested by Landlord, make adjustments so that such burdens are reduced to normal levels.

**14. Floor Covering.** No Tenant shall lay linoleum, tile, carpet or other similar floor coverings so that the same shall be affixed to the floor or the Premises in any manner except as approved by Landlord. The expense of repairing any damage resulting from a violation of this rule or removal of any floor covering shall be borne by the Tenant by whom, or by whose contractors, agents, sublessees, licensees, employees or invitees, the floor covering shall have been laid.

**15. Premises Closure.** Tenant shall see that the doors of the Premises are closed and securely locked before leaving the Building and that all water faucets, water apparatus and electricity are entirely shut off before Tenant or Tenant's employees leave the Building. Tenant shall be responsible for any damage to the Building and/or Common Area Facilities or other tenants caused by a failure to comply with this rule.

**16. Disorderly Conduct** Landlord reserves the right to exclude or expel from the Building and/or Common Area Facilities any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations of the Building.

**17. Tenant Requests.** Any requests of Tenant will be considered only upon application at the office of Landlord. Employees of Landlord shall not be requested to perform any work or do anything outside of their regular duties unless under special instructions from Landlord.

**18. Vending Machines.** No vending machine shall be installed, maintained or operated upon the Premises without the written consent of Landlord, which consent shall not be unreasonably withheld.

**19. Bicycles.** Bicycles and other vehicles are not permitted inside the Building or its elevators, except in areas designated by Landlord.

**20. Building Name and Address.** Landlord shall have the right, exercisable upon thirty (30) days prior written notice to Tenant, to change the name and/or the street address of the Building of which the Premises is a part.

**21. Fire Regulations.** Tenant agrees that it shall comply with all fire regulations that may be issued from time to time by Landlord and Tenant also shall provide Landlord with the names of a designated responsible employee to represent Tenant in all matters pertaining to fire regulations.

**22. Tenant Advertising.** Without the written consent of Landlord, Tenant shall not use the name of the **Building and/or Common Area Facilities in connection with or in promotion or advertising the business of Tenant except as Tenant's address.**

**23. Emergency Information.** Tenant must provide Landlord with names and telephone numbers to contact in case of emergency. Tenant must fill out a tenant emergency information sheet and return it to Landlord's office within three (3) days of occupancy.

**24. Installation of Burglar and Informational Services.** If Tenant requires telegraphic, telephonic, burglar alarm or similar services, it shall first obtain, and comply with, Landlord's instructions in their installation.

**25. Deliveries.** The Building freight elevator(s) shall be available for use by all tenants in the Building, subject to such reasonable scheduling as Landlord, in its discretion, shall deem appropriate. No equipment, materials, furniture, packages, supplies, merchandise or other property will be received in the Building or carried in the elevators except between such hours and in such elevators as may be designated by Landlord. Tenant's initial move in and subsequent deliveries of bulky items, such as furniture, safes and similar items shall, unless otherwise agreed in writing by Landlord, be made during the hours of 6:00 p.m. to 6:00 a.m. or on Saturday or Sunday. Deliveries shall be limited as set forth in the Lease. No deliveries shall be made which impede or interfere with other tenants or the operation of the Building.

**26. Floor Loads.** Tenant shall not place a load upon any floor of the Premises which exceeds the load per square foot which such floor was designed to carry and which is allowed by law. Landlord shall have the right to prescribe the weight, size and position of all equipment materials, furniture or other property brought into the Building and/or Common Area Facilities. Heavy objects shall, if considered necessary by Landlord, stand on such platforms as determined by Landlord to be necessary to properly distribute the weight, which platforms shall be provided at Tenant's expense. Business machines and mechanical equipment belonging to Tenant, which cause noise or vibration that may be transmitted to the structure of the Building and/or Common Area Facilities or to any space therein to such a degree as to be objectionable to Landlord or to any tenants in the Building, shall be placed and maintained by Tenant, at Tenant's expense, **on vibration eliminators or other devices sufficient to eliminate noise or vibration. The persons employed to move such** equipment in or out of the Building and/or Common Area Facilities must be acceptable to Landlord. Landlord will not be responsible for loss of, or damage to, any such equipment or other property from any cause, and all damage done to the Building and/or Common Areas by maintaining or moving such equipment or other property shall be repaired at the expense of Tenant

**27. Energy Conservation,** Tenant shall not waste electricity, water or air conditioning and agrees to cooperate fully with Landlord to assure the most effective operation of the Building's heating and air-conditioning and to comply with any governmental energy-saving rules, laws or regulations of which Tenant has actual notice, and shall refrain from attempting to adjust controls. Tenant shall keep corridor doors closed.

**28. No Antennas.** Tenant shall not install any radio or television antenna, loudspeaker or other devices on the roof or exterior walls of the Building and/or Common Area Facilities without obtaining Landlord's prior approval as set forth in the Lease. Tenant shall not interfere with radio or television broadcasting or reception from or in the Building **or elsewhere.**

**29. No Soliciting.** Canvassing, soliciting and distribution of handbills or any other written material, and peddling in the Building and/or Common Area Facilities are prohibited, and Tenant shall cooperate to prevent such **activities.**

**30. Prohibited Uses.** The Premises shall not be used for any improper, immoral or objectionable purpose. No cooking shall be done or permitted on the Premises without Landlord's consent, except that use by Tenant of Underwriters Laboratory approved equipment for brewing coffee, tea, hot chocolate and similar beverages or use of microwave ovens, dishwashers and refrigerators for employee use shall be permitted, provided that such equipment and use is in accordance with all applicable federal, state, county and city laws, codes, ordinances, rules and regulations.

**31. Enforcement of Rules.** Landlord may waive any one or more of these Rules and Regulations for the benefit of Tenant or any other tenant but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of Tenant, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all of the tenants of the Building.

**32. Lease.** These Rules and Regulations are in addition to, and are made a part of, the terms, covenants, agreements and conditions of Tenant's Lease of its Premises in the Building. In the event the Rules and Regulations conflict with any term of the Lease, the terms of the Lease shall control.

**33. Additional Rules.** Landlord reserves the right to make such other Rules and Regulations or amendments hereto as, in its reasonable judgment, may from Time to time be needed for safety and security, for care and cleanliness of the Building and/or Common Area Facilities and for the preservation of good order therein. Tenant agrees to abide by all such Rules and Regulations hereinabove stated and any additional rules and regulations which are adopted.

**34. Observance of Rules.** Tenant shall be responsible for the observance of all of the foregoing rules by Tenant's employees, agents, licensees, sublessees, assigns, and invitees.

**35. Loading Dock and Service Corridor.** The loading dock and service corridor are not for the use of the general public and Landlord shall in all cases retain the right to control thereof and prevent access thereto by all persons whose presence in the judgment of Landlord shall be prejudicial to the safety, character, reputation and interests of the Building or its tenants, or invitees; provided that Tenant or its building-approved contractors shall be able to use the loading dock in its normal course of loading and unloading activities, for articles to be delivered to or received from the Tenant's Premises. Children under the age of 18 are specifically prohibited from being in the loading dock and service corridor area at any time, unless prior written permission is received from Landlord.

**36. Smoking.** As more fully set forth in the Lease, Landlord has designated the entire Building as a smoke free zone, including 20 feet from any Building entry or opening. The Tenant shall not permit smoking in the Premises.

**37. Animals.** Except as allowed herein, no animals, except those assisting handicapped persons, shall be brought into the Buildings or kept in or about the Premises. Dogs are permitted in the Common Area Facilities and the Premises only if on a leash, currently licensed and fully inoculated as required by law. In no event shall any dog be left unattended to in the Common Areas or in the Premises. No dog may engage in any threatening behavior, either to persons or other dogs. All damage caused by any dog will be the responsibility of the Tenant. No dog will be allowed to deposit any waste in or around the Building. Landlord reserves the right to exclude any dog from the Building.

**JS. Window Coverings.** Landlord shall have the right to designate and approve standard window coverings for the Premises and to establish rules to assure that the Building presents a uniform exterior appearance. Tenant shall ensure, to the extent reasonably practicable, that window coverings are closed on windows in the Premises while they are exposed to the direct rays of the sun.

**39. Outside Contractors.** All contractors, contractor's representatives and installation technicians performing work in the Building shall be subject to Landlord's prior approval and shall be required to comply with Landlord's standard rules, regulations, policies and procedures, which may be revised from time to time.

**EASTSIDE DISTILLING, INC.  
5% PROMISSORY NOTE**

\_\_\_\_\_, 2018

1. **General.** For value received, and subject to the terms hereof, EASTSIDE DISTILLING, INC., a Nevada corporation (“Borrower”), hereby promises to pay to the order of \_\_\_\_\_ (“Payee”), the principal amount of \_\_\_\_\_ Dollars (\$\_\_\_\_\_.00). This note is being issued pursuant to the terms and conditions of that certain series of Note and Warrant Agreements dated of even date herewith (or such later date(s) as such agreements may be entered into with additional investors) by and among Borrower, Payee and the other investors set forth therein (collectively, the “Agreement”). Capitalized terms used and not otherwise defined herein shall have the terms set forth in the Agreement.

2. **Term; Payments.** The principal amount of this Note shall be repaid in full, together with any and all accrued and unpaid interest on May 1, 2021 (the “Maturity Date”).

3. **Interest.** Interest shall accrue from the date hereof on any unpaid principal balance of this Note at the rate of five percent (5%) per annum. All interest will be paid monthly in arrears and shall be paid on the last business day of each month.

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

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

(a) Failure of Borrower to pay the principal or interest on this Note, when and as the same shall become due and payable and such failure continues unremedied for thirty (30) days;

(b) The material default, breach or violation of Borrower in the performance or observance of any of the other covenants, agreements or conditions of Borrower contained in this Note or the Agreement and such material default, breach or violation continues unremedied for a period of thirty (30) business days following written notice from Payee to Borrower; or

(c) Any representation or warranty of the Borrower made herein or in any agreement, statement or certificate given in writing pursuant hereto or in connection herewith (including, without limitation, the Agreement), shall be false or misleading in any material respect when made and the breach of which has (or with the passage of time will have) a material adverse effect on the rights of the Payee with respect to this Note or the Agreement.

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

7. **Notices.** All notices and other communications required or permitted under this Note shall be made in accordance with the provisions of the Agreement.

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

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

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

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

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

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

14. **Reimbursement of Expenses.** Borrower agrees to reimburse Payee for its out-of-pocket expenses, including the fees and expenses of its counsel, in connection with the enforcement of the Notes or any of the Transaction Documents.

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

BORROWER:

EASTSIDE DISTILLING, INC.

By: \_\_\_\_\_  
Steve Shum  
Chief Financial Officer

## AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Amended and Restated Employment Agreement (the “**Agreement**”) is entered into as of December 6, 2018 (the “**Effective Date**”), by and between Eastside Distilling, Inc., a Nevada corporation (the “**Company**”), and Robert Manfredonia (“**Executive**”) (collectively, the “**Parties**”). The Parties had entered into (i) an Employment Agreement effective April 2, 2018, and (ii) a First Amendment to Employment Agreement effective October 5, 2018 (the “**Prior Agreements**”). This Agreement shall replace the Prior Agreements, and shall be deemed controlling and effective, except to the extent of representations made in the Prior Agreements, which shall survive indefinitely.

### 1. Duties and Scope of Employment.

(a) Positions and Duties. Executive will serve as President of the Company as of the Effective Date. Executive will render such business and professional services in the performance of his duties, consistent with Executive’s position within the Company, as will reasonably be assigned to him by the Company’s CEO, to whom he shall report, and the Company’s Board of Directors (the “**Board**”).

(b) Employment Term. The term of Executive’s employment shall end three (3) years from the Effective Date, unless the Company terminates Executive for Cause (as defined below) prior to the end of such three-year term. At or about six (6) months before the end of the three-year term, Executive and the Company will negotiate an extension to the term in good faith on mutually agreeable terms. If no agreement to extend the term results from such good-faith negotiations, Executive and the Company will use best efforts to enter into a consulting arrangement for the provision of continuing services to the Company on mutually agreeable terms. The period Executive is employed by the Company under this Agreement is referred to herein as the “**Employment Term.**”

(c) Obligations. During the Employment Term, Executive will devote Executive’s full business efforts and time to the Company and will use good faith efforts to discharge Executive’s obligations under this Agreement to the best of Executive’s ability and in accordance with each of the Company’s corporate guidance and ethics guidelines, conflict of interest policies and code of conduct as may be in effect from time to time. Notwithstanding the foregoing, nothing in this letter shall preclude Executive from devoting reasonable periods of time to charitable and community activities, managing personal investment assets and, subject to approval of the Board which will not be unreasonably withheld, serving on boards of other companies (public or private) not in competition with the Company, provided that none of these activities interferes with the performance of Executive’s duties hereunder or creates a conflict of interest.

(d) Work Location. Executive’s principal place of employment shall be at the Company’s corporate headquarters in Portland, Oregon, subject to business travel as needed to properly fulfill Executive’s employment duties and responsibilities. The Company acknowledges and agrees that Executive’s principal place of residence may be outside of the State of Oregon.

### 2. Compensation.

(a) Base Salary. As of the Effective Date, the Company will pay Executive an annualized base salary of \$150,000 as compensation for his services, subject to review from time to time by the Compensation Committee of the Board (the “**Compensation Committee**”) (such annual salary, as is then effective, to be referred to herein as “**Base Salary**”). All compensation paid to Executive will be paid periodically in accordance with the Company’s normal payroll practices and be subject to the usual, required withholdings.

(b) RSU Grants. The Company will recommend to the Compensation Committee that it grant the Executive \$37,500 worth of RSUs within the first 5 days of the completion of each quarterly period subsequent to the Effective Date. Each award will be immediately vested and will be subject to the terms and conditions of the 2016 Equity Incentive Plan and an award agreement (collectively, the “**Equity Documents**”). Notwithstanding the foregoing, Executive shall not be entitled to any form of equity award unless and until the Compensation Committee or the Board grants Executive the equity award and Executive executes and delivers all applicable award agreements regarding the same.

(c) Bonus. During Executive’s employment, Executive will be eligible to participate in the Company’s biannual bonus plan. Subject to the terms of this Section 2(c), Executive’s target bonus shall be \$100,000 per annum. Actual payments will be determined based on a combination of Company results and individual performance against the applicable performance goals established by the Compensation Committee. For 2018, Executive will receive a pro-rated annual bonus based on the number of days Executive is employed during the year. Executive must remain continuously employed through the bonus payment date to be eligible to receive an annual bonus payment for a previous fiscal year.

3. Employee Benefits and Perquisites. Executive will be eligible to participate in the employee benefit plans and programs generally available to the Company’s senior executives, subject to the terms and conditions of such plans and programs. Executive will be entitled to other benefits and perquisites that are made available to other senior executives of the Company, each in accordance with and subject to the eligibility and other provisions of such plans and programs. The Company reserves the right to amend, modify or terminate any of its benefit plans or programs at any time and for any reason.

4. Expenses. The Company will reimburse Executive for reasonable expenses incurred by Executive in the furtherance of the performance of Executive's duties hereunder, in accordance with the Company's expense reimbursement policy as in effect from time to time. In addition, the company shall provide a \$500 per month car allowance to Executive.

5. Termination of Employment. If Executive's employment with the Company terminates for any reason, Executive will be entitled to any (a) unpaid Base Salary accrued up to the effective date of termination; (b) pay for accrued but unused vacation; (c) benefits or compensation as provided under the terms of any employee benefit and compensation agreements or plans applicable to Executive; and (d) unreimbursed business expenses required to be reimbursed to Executive.

6. Severance and Acceleration.

(a) Termination by the Company Without Cause. If Executive's employment is terminated by the Company without Cause (as defined below), then, subject to Section 7, Executive will receive, in addition to the compensation set forth in Section 5, payment of the aggregate of Executive's Base Salary and continuation of his benefits for six (6) months, such cash amount to be paid out in a lump sum and the benefits to be paid in accordance with the Company's regular payroll practices, except to the extent timing of payments are modified by the 409A provision provided in Section 8 below.

(b) Definition of Cause. For purposes of this Agreement, "Cause" will mean:

(i) Executive's willful and continued failure to perform the duties and responsibilities of his position after there has been delivered to Executive a written demand for performance from the Board which describes the basis for the Board's belief that Executive has willfully and continued to fail to perform his duties and provides Executive with thirty (30) days to take corrective action (for example, Executive's failure to adhere to the pre-arranged and mutually agreed-upon time spent in Portland, Oregon would constitute failure to perform Executive's duties and responsibilities of his position);

(ii) Any act of personal dishonesty taken by Executive in connection with his responsibilities as an employee of the Company with the intention or reasonable expectation that such action will result in the substantial personal enrichment of Executive;

(iii) Executive's conviction of, or plea of *nolo contendere* to, a felony;

(iv) Executive's commission of any tortious act, unlawful act or malfeasance which causes or reasonably could cause (for example, if it became publicly known) material harm to the Company's standing, condition or reputation;

(v) Any material breach by Executive of the Company's standard form of Confidentiality and Proprietary Rights Agreement, in substantially the form attached hereto as Exhibit A (such agreement, the "**Confidentiality Agreement**") or any other improper disclosure by Executive of the Company's confidential or proprietary information;

(vi) A breach of any fiduciary duty owed to the Company by Executive that has or could reasonably be expected to have a material detrimental effect on the Company's reputation or business; or

(vii) Executive (A) obstructing or impeding; (B) endeavoring to influence, obstruct or impede; or (C) failing to materially cooperate with, any investigation authorized by the Board or any governmental or self-regulatory entity (an "**Investigation**"). However, Executive's failure to waive attorney-client privilege relating to communications with Executive's own attorney in connection with an Investigation will not constitute "Cause."

(c) Voluntary Termination or Termination for Cause. If Executive's employment is terminated voluntarily, due to death or disability, or is terminated for Cause by the Company, then (i) all further vesting of Executive's outstanding equity awards will terminate immediately; and (ii) except as set forth in Section 5, all payments of compensation by the Company to Executive hereunder will terminate immediately.



7. Conditions to Receipt of Severance and Acceleration.

(a) Separation Agreement and Release of Claims. The receipt of any severance or other benefits pursuant to Section 6 will be subject to Executive signing and not revoking a separation agreement and release of claims in form and substance reasonably acceptable to the Company in its discretion that becomes effective no later than sixty (60) days following Executive's employment termination date (such date, the "**Release Deadline**"). If the release does not become effective by the Release Deadline, Executive will forfeit any rights to severance under this Agreement. In no event will severance payments be paid or provided until the Release Deadline. Any payments delayed from the date Executive terminates employment through the Release Deadline will be payable in a lump sum without interest on the Release Deadline and all other amounts will be payable in accordance with the payment schedule applicable to each payment or benefit. In the event the termination occurs at a time during the calendar year where the release could become effective in the calendar year following the calendar year in which Executive's termination occurs, then any severance payments under this letter that would be considered Deferred Compensation Separation Benefits (as defined below) will be paid on the first payroll date to occur during the calendar year following the calendar year in which such termination occurs, or, if later, (i) the Release Deadline, (ii) such time as required by the payment schedule provided above that is applicable to each payment or benefit, or (iii) the Delayed Initial Payment Date (as defined below).

(b) Other Requirements. Executive's receipt and retention of severance payments will be subject to Executive executing and continuing to comply with the terms of the Confidentiality Agreement.

8. Section 409A.

(a) Notwithstanding anything to the contrary in this Agreement, no severance pay or benefits payable upon separation that is payable to Executive, if any, pursuant to this Agreement, when considered together with any other severance payments or separation benefits that are considered deferred compensation (together, the "**Deferred Compensation Separation Benefits**") under Section 409A of the Internal Revenue Code (the "**Code**") and the final regulations and official guidance thereunder ("**Section 409A**"), will be payable until Executive has a "separation from service" within the meaning of Section 409A.

(b) Notwithstanding anything to the contrary in this Agreement, if Executive is a "specified employee" within the meaning of Section 409A, any Deferred Compensation Separation Benefits that are payable within the first six (6) months following Executive's separation from service, will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Executive's separation from service (the "**Delayed Initial Payment Date**"). All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if Executive dies following Executive's termination of employment but prior to the six (6) month anniversary of Executive's termination of employment, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of Executive's death and all other Deferred Compensation Separation Benefits will be payable in accordance with the payment schedule applicable to each payment or benefit. Each payment and benefit payable under this Agreement is intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(c) Any amount paid under the Agreement that satisfies the requirements of the "short-term deferral" rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute Deferred Compensation Separation Benefits for purposes of this Agreement. Any amount paid under the Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit will not constitute Deferred Compensation Separation Benefits for purposes of this Agreement. For this purpose, "Section 409A Limit" means the lesser of two (2) times: (i) Executive's annualized compensation based upon the annual rate of pay paid to Executive during Executive's taxable year preceding Executive's taxable year of Executive's termination of employment as determined under Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Executive's employment is terminated.

(d) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. Executive and the Company agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Section 409A.

9. Representations. By executing this Agreement, Executive affirms the representations made in the Prior Agreements and represents that Executive is able to accept this role and carry out the work that it would involve.

10. Confidential Information. Executive reaffirms that certain confidentiality agreement dated as of [INSERT] between the Company and Executive, which remains in full force and effect in accordance with its terms.

11. Assignment. This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors and legal representatives of Executive upon Executive's death, and (b) any successor of the Company. Any such successor of the Company will be deemed substituted for the Company under the terms of this Agreement for all purposes. For this purpose, "successor" means any person, firm, corporation, or other business entity which at any time, whether by purchase, merger, or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of the rights of Executive to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance, or other disposition of Executive's right to compensation or other benefits will be null and void.

12. Notices. All notices, requests, demands and other communications called for hereunder will be in writing and will be deemed given (a) on the date of delivery if delivered personally; (b) one (1) day after being sent overnight by a well-established commercial overnight service, or (c) four (4) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the Parties or their successors at the following addresses, or at such other addresses as the Parties may later designate in writing:

If to the Company:

Eastside Distilling, Inc.  
1001 SE Water Ave, suite 390  
Portland, OR 97214  
Attn: Chief Executive Officer

If to Executive, at the address set forth on the signature page hereto.

13. Severability. If any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable, or void, this Agreement will continue in full force and effect without said provision.

14. Arbitration. The Parties agree that any dispute or controversy arising out of, relating to, or concerning the interpretation, construction, performance, or breach of this Agreement will be settled by arbitration to be held in Multnomah County, Oregon, in accordance with the terms and conditions of the Confidentiality Agreement.

15. Integration. This Agreement, together with the Confidentiality Agreement, and the Equity Documents referenced herein, represents the entire agreement and understanding between the parties as to the subject matter herein and supersedes all prior or contemporaneous agreements whether written or oral. No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in a writing and signed by duly authorized representatives of the parties hereto. In entering into this Agreement, no party has relied on or made any representation, warranty, inducement, promise, or understanding that is not in this Agreement. To the extent that any provisions of this Agreement conflict with those of any other agreement, the terms in this Agreement will prevail.

16. Waiver of Breach. The waiver of a breach of any term or provision of this Agreement, which must be in writing, will not operate as or be construed to be a waiver of any other previous or subsequent breach of this Agreement.

17. Headings. All captions and Section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

18. Tax Withholding; Clawback. All payments made pursuant to this Agreement will be subject to withholding of applicable taxes. Any amounts payable hereunder are subject to any policy (whether currently in existence or later adopted) established by the Company providing for clawback or recovery of amounts that were paid to Executive. The Company will make any determination for clawback or recovery in its sole discretion and in accordance with any applicable law or regulation.

19. Governing Law. This Agreement and any disputes or claims arising hereunder will be construed in accordance with, governed by and enforced under the laws of the State of Oregon without regard for any rules of conflicts of law. Executive expressly consents to the personal jurisdiction of the state and federal courts located in Multnomah County, Oregon for any lawsuit filed there against him by the Company arising from or relating to this Agreement.

20. Acknowledgment. Executive acknowledges that he has had the opportunity to discuss this matter with and obtain advice from his private attorney, has had sufficient time to, and has carefully read and fully understands all the provisions of this Agreement, and is knowingly and voluntarily entering into this Agreement.

21. Counterparts. This Agreement may be executed in counterparts, and each counterpart will have the same force and effect as an original and will constitute an effective, binding agreement on the part of each of the undersigned.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by a duly authorized officer, effective as of the Effective Date.

**COMPANY:**  
**EASTSIDE DISTILLING, INC.**

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Name: Grover Wickersham  
Title: CEO

**EXECUTIVE:**

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Robert Manfredonia

Address: \_\_\_\_\_

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**EXHIBIT A**

**Form of Confidentiality Agreement**

**SUBSIDIARIES OF  
EASTSIDE DISTILLING, INC.**

Big Bottom Distillery, LLC  
Craft Canning + Bottling, LLC  
MotherLode Craft Distillery, LLC

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference of our report dated March 28, 2019 relating to our audits of the consolidated financial statements of Eastside Distilling, Inc. that appear in this Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

*/s/ M&K CPAS, PLLC*

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www.mkacpas.com

Houston, Texas

March 28, 2019

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

I, Grover Wickersham, certify that:

1. I have reviewed this Annual Report on Form 10-K of Eastside Distilling, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under 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. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal 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: March 28, 2019

/s/ Grover Wickersham

Grover Wickersham  
Chief Executive Officer and Director

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

I, Steven Shum, certify that:

1. I have reviewed this Annual Report on Form 10-K of Eastside Distilling, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under 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. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal 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: March 28, 2019

/s/ Steven Shum

Steven Shum  
Chief Financial Officer



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

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

Date: March 28, 2019

By: /s/ Grover Wickersham

Name: Grover Wickersham

Title: Chief Executive Officer and Director

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

Date: March 28, 2019

By: /s/ Steven Shum

Name: Steven Shum

Title: Chief Financial Officer

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## OFFICERS & EXECUTIVE MANAGEMENT

Steve Shum  
*Interim Chief Executive Officer and Chief Financial Officer*

Robert Manfredonia  
*President*

Melissa Heim  
*Executive Vice President Operations and Master Distiller*

Jarrett Catalani  
*Senior Vice President of Sales and Chief Growth Officer*

Tom Wood  
*Vice President of Production*

## CORPORATE HEADQUARTERS

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

## INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

M&K CPAS, PLLC  
Houston, Texas

## CORPORATE COUNSEL

Perkins Coie LLP  
Portland, Oregon

## BOARD MEMBERS

Grover T. Wickersham  
*Executive Chairman of the Board*

Trent D. Davis  
*CEO, Paulson Investment Company, LLC.*

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

David Holmes  
*Founder of Third Floor, LLC.*

Owen Lingley  
*Chairman of Craft Canning + Bottling*

Jack Peterson  
*President, Sandstrom Partners*

Matthew Szot  
*Chief Financial Officer, S&W Seed Company*

## INVESTOR RELATIONS

Lytham Partners, LLC  
Phoenix | New York

## TRANSFER AGENT AND REGISTRAR

Transfer Online  
Portland, Oregon

## ANNUAL MEETING

Our annual meeting of stockholders will be held on August 8, 2019 at 2:00 p.m. local time at our offices at 1001 SE Water Avenue, Suite 390, Portland, Oregon, 97214.

## FORM 10-K

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

## STOCK EXCHANGE LISTING

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

## DIVIDENDS

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

**EASTSIDE**  
**DISTILLING**  
**NASDAQ: EAST**

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