

2017
ANNUAL
REPORT

EASTSIDE DISTILLING

NASDAQ
LISTED
EAST



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

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



Photo by Nick Hubbard/Hubbard Visuals



Photo by Nick Hubbard/Hubbard Visuals

REDNECK RIVIERA ROLLOUT

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

—Grover Wickersham, Chairman & CEO, Eastside Distilling

15 STATES SELL REDNECK RIVIERA



TO OUR SHAREHOLDERS

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

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

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

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

SANDSTROM REBRANDING

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

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

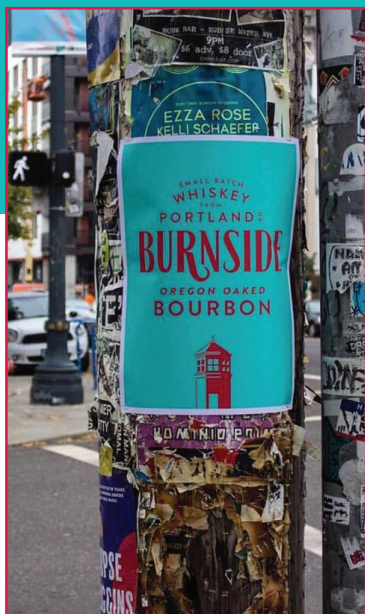


BETTER BRANDING MATTERS

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

—Grover Wickersham, Chairman & CEO, Eastside Distilling

23,471 CASE
SHIPMENTS IN 2017



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

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

REDNECK RIVIERA WHISKEY

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

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

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

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

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



READY-TO-DRINK CANNING

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

—Tom Wood, Vice President of Production, Eastside Distilling

2017 INVESTMENT IN CANNING COMES ONLINE IN 2018



CANNING

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

TAX BREAK

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

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

2017 FINANCIAL RESULTS

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

2018 AND BEYOND

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

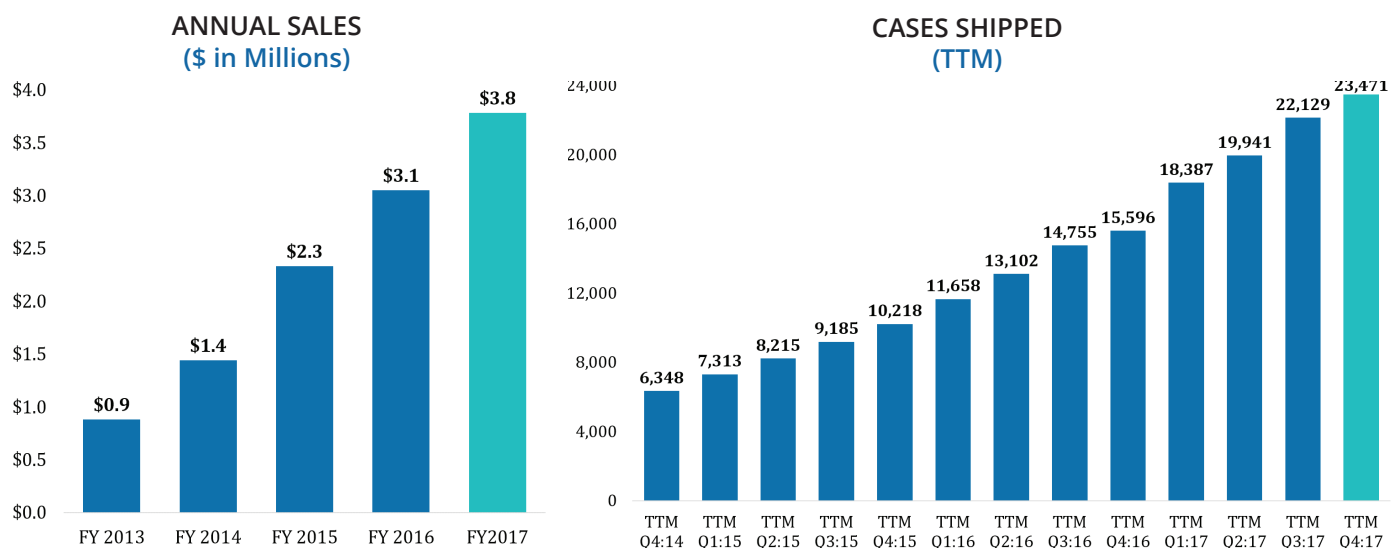
I want to thank my fellow shareholders for their support over the past year. We are highly mindful of the trust you place in us, and we are dedicated to maximizing the value of your investment.

Grover Wickersham,
Chairman of the Board and CEO

COMPANY FINANCIALS

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

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



OFFICERS & EXECUTIVE MANAGEMENT

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

Steve Shum
Chief Financial Officer

Melissa Heim
Executive Vice President Operations and Master Distiller

Jarrett Catalani
Senior VP of Sales and Chief Growth Officer

Tom Wood
Vice President of Production

Kim Davis
Controller

CORPORATE HEADQUARTERS

Eastside Distilling, Inc.
1001 SE Water Ave., Suite 390
Portland, Oregon 97214
www.eastsidedistilling.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

M&K CPAS, PLLC
Houston, Texas

BOARD MEMBERS

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

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

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

Jack Peterson
President, Sandstrom Partners

Shelly A. Saunders
Consultant, Resources Global Professionals

CORPORATE COUNSEL

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

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

TRANSFER AGENT AND REGISTRAR

Pacific Stock Transfer Company
Las Vegas, Nevada

COVER PHOTO CREDITS

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

ANNUAL MEETING

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

FORM 10-K

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

STOCK EXCHANGE LISTING

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

DIVIDENDS

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

CISCO

-1.63%

PRICE \$41.56 / CHANGE -0.69

CSCO / Nasdaq
Listed 1990



-0.50%

PRICE \$56.90 / CHANGE -0.28

amazon

+1.46%

PRICE \$1,458.82 / CHANGE +21.00

amazon

AMZN / Nasdaq
Listed 1997

PRICE \$8



 **Nasdaq**

EAST
NasdaqListed

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