

REFINITIV

DELTA REPORT

10-Q

EAST - EASTSIDE DISTILLING, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 948

█ **CHANGES** 262

█ **DELETIONS** 378

█ **ADDITIONS** 308

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2023** **March 31, 2024**

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

For the transition period from _____ to _____

Commission File No.: **001-38182**

EASTSIDE DISTILLING, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction
of incorporation or organization)

20-3937596

(I.R.S. Employer
Identification No.)

**2321 NE Argyle Street, Unit D
Portland, Oregon 97211**

(Address of principal executive offices)

Registrant's telephone number: **(971) 888-4264**

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

Common Stock, \$0.0001 par value

(Title of Each Class)

EAST

(Trading Symbol)

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 whether the registrant (1) has filed all reports required to be filed 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 days. **day**. **Yes** **No**

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of **November 14, 2023** **May 13, 2024**, **1,561,953** **1,707,751** shares of our common stock **\$0.0001 par value**, were outstanding.

Documents Incorporated by Reference: None

NOTE REGARDING REVERSE STOCK SPLIT

On May 15, 2023, Eastside Distilling, Inc. implemented a one-for-twenty reverse split of its common stock. To facilitate comparative analysis, all statements in this Report regarding numbers of shares of common stock and all references to prices of a share of common stock, if referencing events or circumstances occurring prior to May 15, 2023, have been modified to reflect the effect of the reverse stock split on a pro forma basis.

EASTSIDE DISTILLING, INC.

FORM 10-Q

September 30, 2023 March 31, 2024

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PART I: FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

Eastside Distilling, Inc. and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands, except shares and per share amounts)

	<u>September 30, 2023</u> (Unaudited)	<u>December 31, 2022</u>	<u>March 31, 2024</u> (unaudited)	<u>December 31, 2023</u>
Assets				
Current assets:				
Cash	\$ 358	\$ 723	\$ 336	\$ 403
Trade receivables, net	1,089	876	673	559
Inventories	3,563	4,442	3,189	3,212
Prepaid expenses and other current assets	739	579	498	363
Total current assets	5,749	6,620	4,696	4,537
Property and equipment, net	4,995	5,741	4,571	4,768
Right-of-use assets	2,237	2,988	2,388	2,602
Intangible assets, net	5,473	5,758	4,902	5,005
Other assets, net	326	369	465	568
Total Assets	\$ 18,780	\$ 21,476	\$ 17,022	\$ 17,480
Liabilities and Stockholders' Equity (Deficit)				
Current liabilities:				
Accounts payable	\$ 1,958	\$ 1,728	\$ 2,392	\$ 2,076
Accrued liabilities	709	1,509	739	575
Deferred revenue	53	18	66	88
Current portion of secured credit facilities, related party			2,680	-
Current portion of secured credit facilities, net of debt issuance costs	-	3,442	364	-
Current portion of note payable, related party	92	4,598		
Current portion of notes payable	486	-	8,079	486
Current portion of notes payable, related party			92	92
Current portion of lease liabilities	719	991	903	888
Other current liability, related party	-	725	587	-
Total current liabilities	4,017	13,011	15,902	4,205
Lease liabilities, net of current portion	1,634	2,140	1,596	1,824
Secured credit facilities, related party	2,639	-	-	2,700
Secured credit facilities, net of debt issuance costs	319	-	-	342
Note payable, related party	-	92		
Notes payable, net of current portion	7,517	7,749	-	7,556
Total liabilities	16,126	22,992	17,498	16,627
Commitments and contingencies (Note 13)				
Stockholders' equity (deficit):				
Common stock, \$0.0001 par value; 1,750,000 shares authorized; 1,538,407 and 809,963 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively		-	-	
Preferred stock, \$0.0001 par value; 100,000,000 shares authorized; 2,500,000 Series B shares issued and outstanding as of both September 30, 2023 and December 31, 2022		-	-	

Preferred stock, \$0.0001 par value; 240,000 shares authorized; 200,000 Series C shares issued and outstanding as of September 30, 2023 and 0 issued and outstanding as of December 31, 2022

Common stock, \$0.0001 par value; 6,000,000 shares authorized as of March 31, 2024 and December 31, 2023; and 1,707,751 shares and 1,705,987 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively

Preferred stock, \$0.0001 par value; 100,000,000 shares authorized; 2,500,000 Series B shares issued and outstanding as of both March 31, 2024 and December 31, 2023

Preferred stock, \$0.0001 par value; 240,000 shares authorized; 200,000 Series C shares issued and outstanding as of both March 31, 2024 and December 31, 2023

Preferred stock, value

Additional paid-in capital

Accumulated deficit

Total stockholders' equity (deficit)

Total Liabilities and Stockholders' Equity (Deficit)

	83,185	73,505	83,561	83,559
(80,531)		(75,021)	(84,037)	(82,706)
	2,654	(1,516)	(476)	853
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
\$ 18,780	\$ 21,476	\$ 17,022	\$ 17,480	

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

Eastside Distilling, Inc. and Subsidiaries
Consolidated Statements of Operations
For the Three and Nine Months Ended September 30, 2023 March 31, 2024 and 2022 2023
(Dollars and shares in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,			
	2023		2022		2024	
	2023	2022	2023	2022	2024	2023
Sales	\$ 3,081	\$ 3,064	\$ 8,717	\$ 11,967	\$ 2,487	\$ 2,879
Less customer programs and excise taxes	98	87	220	393	76	26
Net sales	2,983	2,977	8,497	11,574	2,411	2,853
Cost of sales	2,471	2,787	7,318	8,985	2,225	2,212
Gross profit	512	190	1,179	2,589	186	641
Operating expenses:						
Sales and marketing expenses	381	702	1,261	2,078	251	511
General and administrative expenses	832	1,438	3,390	5,116	1,105	1,364
(Gain) loss on disposal of property and equipment	(39)	-	(168)	101	(120)	6
Total operating expenses	1,174	2,140	4,483	7,295	1,236	1,881
Loss from operations	(662)	(1,950)	(3,304)	(4,706)	(1,050)	(1,240)
Other income (expense), net						
Interest expense	(207)	(808)	(862)	(1,976)	(248)	(329)
Loss on debt to equity conversion	(1,321)	-	(1,321)	-	-	-
Other income	34	25	90	125	-	-
Total other income (expense), net	(1,494)	(783)	(2,093)	(1,851)	-	-
Other income (expense)					5	(29)
Total other expense, net					(243)	(358)
Loss before income taxes	(2,156)	(2,733)	(5,397)	(6,557)	(1,293)	(1,598)
Provision for income taxes	-	-	-	-	-	-
Net loss	(2,156)	(2,733)	(5,397)	(6,557)	(1,293)	(1,598)
Preferred stock dividends	(38)	(38)	(113)	(113)	(38)	(38)
Net loss attributable to common shareholders	\$ (2,194)	\$ (2,771)	\$ (5,510)	\$ (6,670)	\$ (1,331)	\$ (1,636)
Basic net loss per common share	\$ (2.00)	\$ (3.59)	\$ (5.93)	\$ (8.76)		
Basic weighted average common shares outstanding	1,097	772	929	761		
Basic and diluted net loss per common share					\$ (0.78)	\$ (2.00)
Basic and diluted weighted average common shares outstanding					1,706	824

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

Eastside Distilling, Inc. and Subsidiaries
Consolidated Statements of Stockholder's Stockholders' Equity (Deficit)
For the Nine Three Months Ended September 30, 2023 March 31, 2024 and 2022 2023
(Dollars and shares in thousands)
(Uaudited)

(Shares and dollars in thousands)	Series B Preferred Stock		Series C Preferred Stock		Common Stock		Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2021	2,500	\$ -			740	\$ -	\$ 72,004	\$ (58,605)	\$ 13,399
Stock-based compensation	-	-	-	-	-	-	2	-	2
Issuance of common stock for services by third parties	-	-	-	-	6	-	119	-	119
Issuance of common stock for services by employees	-	-	-	-	8	-	207	-	207
Issuance of detachable warrants on notes payable	-	-	-	-	-	-	948	-	948
Preferred stock dividends	-	-	-	-	-	-	-	(38)	(38)
Net loss	-	-	-	-	-	-	-	(2,036)	(2,036)
Balance, March 31, 2022	2,500	\$ -		\$ -	754	\$ -	\$ 73,280	\$ (60,679)	\$ 12,601
Stock-based compensation	-	-	-	-	-	-	-	-	-
Issuance of common stock for services by third parties	-	-	-	-	8	-	111	-	111
Issuance of common stock for services by employees	-	-	-	-	1	-	-	-	-
Issuance of detachable warrants on notes payable	-	-	-	-	-	-	506	-	506
Shares issued for cash	-	-	-	-	10	-	197	-	197
Preferred stock dividends	-	-	-	-	-	-	-	(37)	(37)
Net loss	-	-	-	-	-	-	-	(1,788)	(1,788)
Balance, June 30, 2022	2,500	\$ -		\$ -	773	\$ -	\$ 74,094	\$ (62,504)	\$ 11,590
Issuance of detachable warrants on notes payable	-	-	-	-	-	-	136	-	136
Preferred stock dividends	-	-	-	-	-	-	-	(38)	(38)
Net loss	-	-	-	-	-	-	-	(2,733)	(2,733)
Balance, September 30, 2022	2,500	\$ -		\$ -	773	\$ -	\$ 74,230	\$ (65,275)	\$ 8,955

Eastside Distilling, Inc. and Subsidiaries
Consolidated Statements of Stockholder's Equity (Deficit) - Continued
For the Nine Months Ended September 30, 2023 and 2022
(Dollars and shares in thousands)

	Series B Preferred Stock		Series C Preferred Stock		Common Stock		Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2022	2,500	\$ -			810	\$ -	\$ 73,505	\$ (75,021)	\$ (1,516)
Issuance of common stock for services by third parties	-	-	-	-	11	-	83	-	83
Issuance of common stock for services by employees	-	-	-	-	12	-	60	-	60
Preferred stock dividends	-	-	-	-	-	-	-	(38)	(38)
Net loss	-	-	-	-	-	-	-	(1,598)	(1,598)
Balance, March 31, 2023	2,500	\$ -		\$ -	833	\$ -	\$ 73,648	\$ (76,657)	\$ (3,009)
Shares issued for cash	-	-	-	-	135	-	651	-	651
Preferred stock dividends	-	-	-	-	-	-	-	(37)	(37)
Net loss	-	-	-	-	-	-	-	(1,643)	(1,643)
Balance, June 30, 2023	2,500	\$ -		\$ -	968	\$ -	\$ 74,299	\$ (78,337)	\$ (4,038)
Issuance of common stock for services by third parties	-	-	-	-	121	-	373	-	373
Issuance of common stock for services by employees	-	-	-	-	11	-	33	-	33
Shares issued for cash	-	-	-	-	141	-	649	-	649
Debt to equity conversion	-	-	200	-	297	-	7,831	-	7,831
Preferred stock dividends	-	-	-	-	-	-	-	(38)	(38)
Net loss	-	-	-	-	-	-	-	(2,156)	(2,156)
Balance, September 30, 2023	2,500	\$ -	200	\$ -	1,538	\$ -	\$ 83,185	\$ (80,531)	\$ 2,654

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

Eastside Distilling, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2023 and 2022
(Dollars in thousands)
(Unaudited)

	Series B Preferred Stock		Series C Preferred Stock		Common Stock		Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2022	2,500	\$ -	-	\$ -	810	\$ -	\$ 73,505	\$ (75,021)	\$ (1,516)
Issuance of common stock for services by third parties	-	-	-	-	11	-	83	-	83
Issuance of common stock for services by employees	-	-	-	-	12	-	60	-	60
Preferred stock dividends	-	-	-	-	-	-	-	(38)	(38)
Net loss	-	-	-	-	-	-	-	(1,598)	(1,598)
Balance, March 31, 2023	2,500	\$ -	-	\$ -	833	\$ -	\$ 73,648	\$ (76,657)	\$ (3,009)

	2023	2022
Cash Flows From Operating Activities:		
Net loss	\$ (5,397)	\$ (6,557)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation and amortization	1,122	1,104
Bad debt expense	68	126
Other income	(25)	-
(Gain) loss on disposal of assets	(168)	101
Inventory reserve	(8)	(32)
Loss on debt to equity conversion	1,321	-
Stock dividend payable	(113)	(113)
Amortization of debt issuance costs	-	1,225
Interest accrued to secured credit facilities	71	119
Payment of accrued interest on secured credit facilities	(142)	-
Interest accrued for amounts due to related parties	363	-
Payment of accrued interest on amounts due to related parties	(348)	-
Issuance of common stock in exchange for services of related parties	93	206
Issuance of common stock in exchange of services of third parties	456	230
Stock-based compensation	-	3
Changes in operating assets and liabilities:		
Trade receivables, net	(89)	408
Inventories	887	1,567
Prepaid expenses and other assets	(160)	(197)
Right-of-use assets	751	721
Accounts payable	469	881
Accrued liabilities	(661)	899
Other liabilities, related party	556	-
Deferred revenue	35	62
Net lease liabilities	(778)	(602)
Net cash (used in) provided by operating activities	(1,697)	151
Cash Flows From Investing Activities:		
Proceeds from sale of fixed assets	175	12
Purchases of property and equipment	(199)	(2,495)
Net cash used in investing activities	(24)	(2,483)
Cash Flows From Financing Activities:		
Proceeds from issuance of stock	1,300	197
Proceeds from secured credit facilities	56	-
Proceeds from note payable, related party	-	3,500
Payments of principal on notes payable, related party	-	(275)
Payments of principal on secured credit facilities	-	(2,933)
Payments of principal on notes payable	-	(1,001)
Net cash provided by (used in) financing activities	1,356	(512)
Net decrease in cash	(365)	(2,844)
Cash at the beginning of the period	723	3,276
Cash at the end of the period	\$ 358	\$ 432
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$ 1,068	\$ 772
Cash paid for amounts included in measurement of lease liabilities	\$ 1,031	\$ 705
Supplemental Disclosure of Non-Cash Financing Activity		
Debt exchanged for equity	\$ 6,510	\$ -
Accrued interest rolled into notes payable	\$ 241	\$ -

Exchange of assets for services	\$ 42	\$ -
Future proceeds related to installment sales of equipment	\$ 211	\$ -
Issuance of detachable warrants on notes payable	\$ -	\$ 1,590
Right-of-use assets obtained in exchange for lease obligations	\$ -	\$ 527

	Series B Preferred Stock		Series C Preferred Stock		Common Stock		Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, December 31, 2023	2,500	\$ -	200	\$ -	1,706	\$ -	\$ 83,559	\$ (82,706)	\$ 853
Issuance of common stock for services by third parties	-	-	-	-	2	-	2	-	2
Preferred stock dividends	-	-	-	-	-	-	-	(38)	(38)
Net loss	-	-	-	-	-	-	-	(1,293)	(1,293)
Balance, March 31, 2024	2,500	\$ -	200	\$ -	1,708	\$ -	\$ 83,561	\$ (84,037)	\$ (476)

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

Eastside Distilling, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2024 and 2023
(Dollars in thousands)
(Uaudited)

	2024	2023
Cash Flows From Operating Activities:		
Net loss	\$ (1,293)	\$ (1,598)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	306	407
Bad debt expense	(5)	(2)
(Gain) loss on disposal of assets	(120)	6
Write off of obsolete fixed assets	-	54
Inventory reserve	(24)	(19)
Stock dividend payable	(38)	(38)
Amortization of debt issuance costs	13	-
Interest accrued to secured credit facilities	9	78
Payment of accrued interest on secured credit facilities	-	(142)
Interest accrued to notes payable	164	-
Interest accrued to secured credit facilities, related party	61	123
Payment of accrued interest on secured credit facilities, related party	(81)	(141)
Issuance of common stock in exchange for services for third parties	2	83
Issuance of common stock in exchange for services of related parties	-	60
Changes in operating assets and liabilities:		
Trade receivables, net	(108)	-
Inventories	47	471
Prepaid expenses and other assets	68	(390)
Right-of-use assets	214	290
Accounts payable	195	350
Accrued liabilities	164	(104)
Other liabilities, related party	581	279
Deferred revenue	(23)	96
Net lease liabilities	(213)	(291)
Net cash used in operating activities	(81)	(428)
Cash Flows From Investing Activities:		
Proceeds from sale of fixed assets	14	-
Purchases of property and equipment	-	(28)
Net cash provided by (used in) investing activities	14	(28)
Cash Flows From Financing Activities:		
Net cash provided by financing activities	-	-
Net decrease in cash	(67)	(456)
Cash at the beginning of the period	403	723
Cash at the end of the period	\$ 336	\$ 267
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	\$ 81	\$ 323
Cash paid for amounts included in measurement of lease liabilities	158	318
Supplemental Disclosure of Non-Cash Financing Activity		
Future proceeds related to installment sales of equipment	\$ 114	\$ -
Exchange of assets for services	\$ -	\$ 42

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

Eastside Distilling, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023 March 31, 2024
(Unaudited)

1. Description of Business

Eastside Distilling (the “Company” or “Eastside Distilling”) was incorporated under the laws of Nevada in 2004 under the name of Eurocan Holdings, Ltd. In December 2014, the Company changed its corporate name to Eastside Distilling, Inc. to reflect the acquisition of Eastside Distilling, LLC. The Company manufactures, acquires, blends, bottles, imports, markets and sells a wide variety of alcoholic beverages under recognized brands. The Company currently employs 5146 people in the United States.

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

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

2. Liquidity

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

The Company had an accumulated deficit of \$80.5 **84.0** million as of **September 30, 2023** **March 31, 2024**, having incurred a net loss of \$5.4 **1.3** million during the **nine** **three** months ended **September 30, 2023** **March 31, 2024**.

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

Although the Company’s audited financial statements for the year ended **December 31, 2022** **December 31, 2023** were prepared under the assumption that it would continue operations as a going concern, the report of its independent registered public accounting firm that accompanied the financial statements for the year ended **December 31, 2022** **December 31, 2023** contained a going concern explanatory paragraph in which such firm expressed substantial doubt about the Company’s ability to continue as a going concern, based on the financial statements at that time. If the Company cannot continue as a going concern, its stockholders would likely lose most or all of their investment in it.

Eastside Distilling, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023 March 31, 2024
(Unaudited)

3. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying unaudited 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") for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements in accordance with GAAP have been condensed or eliminated as permitted under the SEC's rules and regulations. In management's opinion, the unaudited consolidated financial statements include all material adjustments, all of which are of a normal and recurring nature, necessary to present fairly the Company's financial position as of **September 30, 2023** **March 31, 2024**, its operating results for the three and nine months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** and its cash flows for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**. Interim results are not necessarily indicative of the results that may be expected for an entire fiscal year. The consolidated financial statements include the accounts of Eastside Distilling, Inc.'s wholly-owned subsidiaries, including Craft Canning + Bottling, LLC (doing business as Craft Canning + Printing) and its wholly-owned subsidiary Galactic Unicorn Packaging, LLC (the Company's newly acquired fixed co-packing assets) and MotherLode LLC. All intercompany balances and transactions have been eliminated on consolidation.

Use of Estimates

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

Revenue Recognition

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

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

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

Customer Programs

Customer programs, which include customer promotional discount programs, are a common practice in the alcoholic beverage industry. The Company reimburses wholesalers for an agreed amount to promote sales of products and to maintain competitive pricing. Amounts paid in connection with customer programs are recorded as reductions to net sales in accordance with ASC 606 - *Revenue from Contracts with Customers*. Amounts paid recorded in customer programs totaled **\$0.1** **48,146** million and **\$0.2** **(6,382)** million, the latter due to the reversal of a customer discount for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**, respectively.

Excise Taxes

The Company is responsible for compliance with the Alcohol and Tobacco Tax and Trade Bureau ("TTB") regulations, which includes making timely and accurate excise tax payments. The Company is subject to periodic compliance audits by the TTB. Individual states also impose excise taxes on alcoholic beverages in varying amounts. The Company calculates its excise tax expense based upon units produced and on its understanding of the applicable excise tax laws. Excise taxes totaled **\$0.1** **28,158** million and **\$0.2** **32,136** million for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**, respectively.

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Cost of Sales

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

Sales and Marketing Expenses

Sales and marketing expenses consist of sponsorships, agency fees, digital media, salary and benefit expenses, travel and entertainment expenses. Sales and marketing costs are expensed as incurred. Advertising and marketing expenses totaled \$26,327 and \$0.1 million and \$0.6 million for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022**, 2023, respectively.

General and Administrative Expenses

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

Stock-Based Compensation

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

Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. As of **September 30, 2023** **March 31, 2024**, one distributor customer represented 7% of trade receivables. As of **December 31, 2022** **December 31, 2023**, one distributor represented 15% of trade receivables. Sales to one wholesale customer distributor accounted for 17% of consolidated sales for the **nine** **three** months ended **September 30, 2023** **March 31, 2024**. Sales to one distributor and one wholesale customer accounted for 43% of consolidated sales for the **nine** **three** months ended **September 30, 2022** **March 31, 2023**.

Fair Value Measurements

GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. GAAP permits an entity to choose to measure many financial instruments and certain other items at fair value and contains financial statement presentation and disclosure requirements for assets and liabilities for which the fair value option is elected. As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, 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.

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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.

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None of the Company's assets or liabilities were measured at fair value as of **September 30, 2023** **March 31, 2024** or **December 31, 2022** **December 31, 2023**. However, GAAP requires the disclosure of fair value information about financial instruments that are not measured at fair value. Financial instruments consist principally of trade receivables, accounts payable, accrued liabilities, notes payable, and the secured credit facilities. The estimated fair value of trade receivables, accounts payable, and accrued liabilities approximate their carrying value due to the short period of time to their maturities. As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the principal amounts of the Company's notes approximate fair value.

Items Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities acquired in a business acquisition are valued at fair value at the date of acquisition due to having indefinite lives. The Company, on an annual basis, tests the indefinite life assets for impairment. If an indefinite life asset is found to be impaired, then the Company will estimate its useful life and amortize the asset over the remainder of its useful life.

Inventories

Inventories primarily consist of bulk and bottled liquor and raw materials and are stated at the lower of cost or market. Cost is determined using an average costing methodology, which approximates cost under the first-in, first-out ("FIFO") method. A portion of the Company's finished goods inventory is held by certain independent distributors on consignment until it is sold to a third party. The Company regularly monitors inventory quantities on hand and records write-downs for excess and obsolete inventories based primarily on the Company's estimated forecast of product demand and production requirements. Such write-downs establish a new cost basis of accounting for the related inventory.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to **seven years** **12.5 years**. Amortization of leasehold improvements is computed using the straight-line method over the life of the lease or the useful lives of the assets, whichever is shorter. The cost and related accumulated depreciation and amortization of property and equipment sold or otherwise disposed of are removed from the accounts and any gain or loss is reported as current period income or expense. The costs of repairs and maintenance are expensed as incurred.

Intangible Assets / Goodwill

The Company accounts for certain intangible assets at cost. Management reviews these intangible assets for probable impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these estimated cash flows were less than the carrying amount, an impairment loss would be recognized to write down the asset to its estimated fair value. **The Company performed a qualitative assessment of certain of its intangible assets as of September 30, 2023 and determined that they were not impaired.**

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Long-lived Assets

The Company accounts for long-lived assets, including certain intangible assets, at amortized cost. Management reviews long-lived assets for probable impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If there is an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these estimated cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value. **The Company performed a qualitative assessment of certain of its long-lived assets as of September 30, 2023**

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Comprehensive Income

The Company did not have any other comprehensive income items in either the nine three months ended September 30, 2023 March 31, 2024 or 2022, 2023.

Accounts Receivable Factoring Program

The Company had two accounts receivable factoring programs: one for its spirits customers (the "spirits program") that had a zero balance at September 30, 2023 as of March 31, 2024 and another for its co-packing customers (the "co-packing program") that terminated in August 2023. Under the programs, the Company has had the option to sell certain customer account receivables in advance of payment for 75% (spirits program) or 85% (co-packing program) of the amount due. When the customer remits payment, the Company receives the remaining balance. For the spirits program, interest is charged on the advanced 75% payment at a rate of 2.4% for the first 30 days plus 1.44% for each additional ten-day period. For the co-packing program, interest is was charged against the greater of \$0.5 million or the total funds advanced at a rate of 1% plus the prime rate published in the Wall Street Journal. Under the terms of both agreements, the factoring provider has had full recourse against the Company should the customer fail to pay the invoice. In accordance with ASC Topic 860 – *Transfers and Servicing*, the Company has concluded that these agreements have met all three conditions identified in ASC Topic 860-10-40-5 (a) – (c) and have accounted for this activity as a sale. Given the quality of the factored accounts, the Company has had not recognized a recourse obligation. In certain limited instances, the Company may provide collection services on the factored accounts but does did not receive any fees for acting as the collection agent, and as such, the Company has had not recognized a service obligation asset or liability. The Company factored \$0.70.1 million of invoices and incurred \$20,821 12,244 in fees associated with the factoring programs during the nine three months ended September 30, 2023 March 31, 2023.

Reclassification of Prior Year PresentationRecently Issued Accounting Pronouncements

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

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* ("ASU 2023-09"). ASU 2023-09 seeks to improve transparency in income tax disclosures by requiring consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid disclosures. The updated guidance is effective for consistency with the current year presentation. These reclassifications had no effect Company on January 1, 2025. The Company does not expect the reported results adoption of operations ASU 2023-09 to have a material impact on its financial statements and disclosures.

4. Business Segment Information

The Company's internal management financial reporting consists of Craft C+P, Eastside spirits and corporate. Craft C+P offers digital can printing and co-packing services in Portland, Oregon, allowing it to offer end-to-end production capabilities. Craft C+P operates 13 multiple mobile lines in Washington and Oregon. The spirits brands span several alcoholic beverage categories, including whiskey, vodka, rum, and tequila and are sold on a wholesale basis to distributors in open states, and to brokers in control states. The Company's principal area of operation is in the U.S. and It has one spirits Craft C+P customer that represents 17% 15% of its revenue. Corporate consists of key executive and accounting personnel and corporate expenses such as public company and board costs, as well as interest on debt.

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

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Segment information was as follows for the **nine** three months ended **September 30, 2023** and **2022**; **March 31**:

(Dollars in thousands)	2023	2022
Craft C+P		
Sales	\$ 5,637	\$ 4,381
Net sales	5,558	4,281
Cost of sales	<u>5,378</u>	<u>4,809</u>
Gross profit	180	(528)
Total operating expenses	2,013	2,813
Net loss	(1,812)	(3,273)
Gross margin	3 %	-12 %
Interest expense	\$ 12	\$ 32
Depreciation and amortization	1,008	982
Significant noncash items:		
(Gain) loss on disposal of property and equipment	(171)	113
Stock compensation	-	148
Spirits		
Sales	\$ 3,080	\$ 7,586
Net sales	2,939	7,293
Cost of sales	<u>1,940</u>	<u>4,176</u>
Gross profit	999	3,117
Total operating expenses	1,183	1,963
Net income (loss)	(127)	1,179
Gross margin	34 %	43 %
Depreciation and amortization	\$ 114	\$ 122
Significant noncash items:		
(Gain) loss on disposal of property and equipment	3	(12)
Corporate		
Total operating expenses	\$ 1,287	\$ 2,519
Net loss	(3,458)	(4,463)
Interest expense	\$ 850	\$ 1,944
Significant noncash items:		
Stock compensation	98	498
Loss on debt to equity conversion	1,321	-

Craft C+P's sales increased due to new digital can printing revenues, offset by lower mobile revenues. Spirits' sales in 2022 included bulk inventory sales of \$4.4 million. During the **nine** months ended **September 30, 2023**, the Company undertook restructuring actions to reduce volumes in unprofitable market segments and incrementally restricting actions to lower production costs and improve profitability.

(Dollars in thousands)	2024	2023
Craft C+P		
Sales	\$ 1,849	\$ 1,456
Net sales	1,814	1,477
Cost of sales	<u>1,765</u>	<u>1,578</u>
Gross profit	49	(101)
Total operating expenses	638	749
Net loss	(590)	(884)
Gross margin	3 %	-7 %
Interest expense	\$ -	\$ 4
Depreciation and amortization	270	368
Significant noncash items:		
(Gain) loss on disposal of property and equipment	(120)	6
Spirits		
Sales	\$ 638	\$ 1,423
Net sales	597	1,376
Cost of sales	<u>460</u>	<u>634</u>
Gross profit	137	742
Total operating expenses	234	522
Net income (loss)	(92)	221
Gross margin	23 %	54 %

Depreciation and amortization	\$	36	\$	39
Corporate				
Total operating expenses	\$	364	\$	610
Net loss		(611)		(935)
Interest expense	\$	248	\$	325
Significant noncash items:				
Stock compensation		67		111

5. Inventories

Inventories consisted of the following:

(Dollars in thousands)	March 31, 2024	December 31, 2023
Raw materials	\$ 2,054	\$ 2,253
Finished goods	1,135	959
Total inventories	\$ 3,189	\$ 3,212

(Dollars in thousands)	September 30, 2023	December 31, 2022
Raw materials	\$ 2,424	\$ 3,127
Finished goods	1,139	1,315
Total inventories	\$ 3,563	\$ 4,442

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6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following:

(Dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Prepayment of fixed assets	\$ 332	\$ 346	\$ 125	\$ 52
Prepayment of inventory	157	-	189	89
Future proceeds related to installment sales of equipment				
Other	250	233	184	222
Total prepaid expenses and other current assets	\$ 739	\$ 579	\$ 498	\$ 363

7. Property and Equipment

Property and equipment consisted of the following:

(Dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023	Useful Life (in years)
Furniture and fixtures	\$ 3,641	\$ 4,093	\$ 3,281	\$ 3,410	3.0 - 7.0
Digital can printer	4,342	4,216	3,649	3,649	12.5
Support of digital can printer			695	695	7.0
Leasehold improvements	1,529	1,529	1,529	1,529	3.5 - 5.0
Vehicles	752	222	156	156	5.0
Total cost	10,264	10,060	9,310	9,439	
Less accumulated depreciation	(5,269)	(4,319)	(4,739)	(4,671)	
Total property and equipment, net	\$ 4,995	\$ 5,741	\$ 4,571	\$ 4,768	

Purchases of property and equipment for the three months ended March 31, 2024 and 2023 were \$0 and \$28,098, respectively. Depreciation expense totaled \$0.2 million and \$2.5 million for the nine months ended September 30, 2023 March 31, 2024 and 2022, respectively. Depreciation expense totaled \$0.8 million for both the nine months ended September 30, 2023 and 2022, 2023, respectively.

During the nine months ended September 30, 2023 March 31, 2024, the Company disposed of fixed assets for proceeds of \$0.2 million, including future proceeds of installment sales of \$0.2 million, with a net book value of \$0.3 million resulting in a gain of \$0.1 million. During the nine months ended September 30, 2022 March 31, 2023, the Company disposed of fixed assets resulting in a loss of \$5,901 and wrote off obsolete fixed assets with a net book value of \$0.1 million resulting in a loss on disposal of fixed assets of \$0.1 million.

During the nine months ended September 30, 2022, the Company entered into a master equity lease agreement with Enterprise FM Trust ("Enterprise"). Per the agreement, the Company delivered to Enterprise the titles to certain vehicles resulting in a loss on disposal of \$0.1 million, which is included in the \$0.1 million loss from 2022 above. In return, the Company directly leased the vehicles from Enterprise, which also managed the maintenance of the vehicles. In April 2023, the master equity lease agreement matured and the titles to the vehicles were returned to the Company, which resulted in a gain on disposal of \$0.1 million, which is included in the \$0.1 million gain from 2023 above.

8. Intangible Assets

Intangible assets consisted of the following:

(Dollars in thousands)	September 30, 2023	December 31, 2022
Permits and licenses	\$ 25	\$ 25
Azuña brand	4,517	4,492
Customer lists	2,895	2,895
Total intangible assets	7,437	7,412
Less accumulated amortization	(1,964)	(1,654)
Intangible assets, net	\$ 5,473	\$ 5,758

(Dollars in thousands)	March 31, 2024	December 31, 2023
Permits and licenses	\$ 25	\$ 25
Azuña brand	4,153	4,153
Customer lists	2,895	2,895
Total intangible assets	7,073	7,073
Less accumulated amortization	(2,171)	(2,068)
Intangible assets, net	\$ 4,902	\$ 5,005

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The customer list is being amortized over a seven-year life. Amortization expense totaled \$0.3 million for both the ~~nine~~ three months ended ~~September 30, 2023~~ March 31, 2024 and ~~2022~~ 2023.

The permits and licenses and the Azuña brand have all been determined to have an indefinite life and will not be amortized. The Company, on an annual basis, tests the indefinite life assets for impairment. If the carrying value of an indefinite life asset is found to be impaired, then the Company will record an impairment loss and reduce the carrying value of the asset. As of December 31, 2023, the Company determined that the Azuña assets were impaired and recorded an impairment cost of \$0.4 million. No further impairment charge was recorded during the three months ended March 31, 2024.

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9. Other Assets

Other assets consisted of the following:

(Dollars in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Product branding	\$ 400	\$ 400	\$ 396	\$ 396
Deposits	255	256	248	240
Future proceeds related to installment sales of equipment			179	276
Total other assets	655	656	823	912
Less accumulated amortization	(329)	(287)	(358)	(344)
Other assets, net	\$ 326	\$ 369	\$ 465	\$ 568

As of **September 30, 2023** **March 31, 2024**, the Company had \$0.4 million of capitalized costs related to services provided for the rebranding of its existing product line. This amount is being amortized over a seven-year life.

Amortization expense totaled \$13,750 and \$42,857/14,286 for both the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**, respectively.

The deposits represent office lease deposits.

10. Leases

The Company has various lease agreements in place for facilities, equipment and vehicles. Terms of these leases include, in some instances, scheduled rent increases, renewals, purchase options and maintenance costs, and vary by lease. These lease obligations expire at various dates through 2027. The Company determines if an arrangement is a lease at inception. As the rate implicit in each lease is not readily determinable, the Company uses its incremental borrowing rate based on information available at commencement to determine the present value of the lease payments. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Leases with an initial term of 12 months or less ("short-term leases") are not recorded on the balance sheet and are recognized on a straight-line basis over the lease term. As of **September 30, 2023** **March 31, 2024**, the amount of right-of-use assets and lease liabilities were \$2.2 **2.4** million and \$2.4 **2.5** million, respectively. Aggregate lease expense for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** was \$1.8 **0.3** million, consisting of \$1.0 **0.2** million in operating lease expense for lease liabilities and \$0.8 **0.1** million in short-term lease cost.

Maturities of lease liabilities as of **September 30, 2023** **March 31, 2024** were as follows:

(Dollars in thousands)	Operating Leases	Weighted-Average Remaining
		Ope Le
		(Dollars in thousands)
	2023	2024
	\$ 2024	\$ 80
	2025	80
	2026	0
	2027	0
	2028	0
		Thereafter
		2,63
		Total lease payments
		1514
		Less imputed interest (based on 6.7 6.6% weighted-average discount rate)
		(0)
		Present value of lease liability
		\$ 2,35

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11. Notes Payable

Notes payable consisted of the following:

	September 30, 2023	December 31, 2022
(Dollars in thousands)	486	7,749
Promissory notes payable bearing interest of 6.0%. The notes have a 36-month term with maturity in April 2024. Accrued interest is paid in accordance with a monthly amortization schedule. Amended and restated promissory notes payable bearing interest of 8.0%. The notes mature in April 2025. Accrued interest is paid in accordance with an amortization schedule.	\$ 486	\$ 7,749
	7,517	-

Amended and restated promissory notes payable bearing interest of 8.0%. The notes mature in March 2025. Accrued interest is paid in accordance with an amortization schedule.

Total notes payable	8,003	7,749
Less current portion	(486)	-
Long-term portion of notes payable	\$ 7,517	\$ 7,749

The Company paid \$0.1 million interest on notes for the ~~nine~~ three month ~~2023~~ March 31, 2024 and ~~2022~~, 2023, respec

Maturities on notes payable as of 2023 March 31, 2024 were as follows:

(Dollars in thousands)

2023
2024
2025
2026
2027
2028

Thereafter

12. Secured Credit Facilities

Note Purchase Agreement

On October 7, 2022, the Company entered into a Note Purchase Agreement dated as of October 7, 2022, with Aegis Security Insurance Company ("Aegis"). Pursuant to the Note Purchase Agreement, Aegis purchased from the Company a promissory note in the principal amount of \$1.2 million (the "Note"). Aegis paid for the Aegis Note by causing TQLA to fully satisfy a secured line of credit that the Company issued to TQLA on March 31, 2022. The remaining \$1.2 million was paid in cash to the Company. The Note bears interest at 9.25% per annum and matures on March 31, 2025. The principal amount of the Aegis Note will be paid in cash on March 31, 2025. The Company pledged certain assets to secure its obligations to Aegis under the Note Purchase Agreement.

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On September 29, 2023, the Company entered into a Debt Satisfaction Agreement with Aegis and other parties, pursuant to which the Aegis Note was amended and converted into a new note. The new note, titled *Stockholders Equity – Debt Satisfaction Agreement*, has a principal balance of \$2.6 million and an interest rate of 1.9% per annum, payable quarterly. The note is due on March 31, 2024, and is collateralized by the Company's interest in a special purpose vehicle, The B.A.D. Company, in which Aegis holds a 29% interest. As of September 30, 2023, the principal balance was \$2.6 million and interest expense accrued was \$2.6 million.

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Roth Capital, LLC acted as placement agent, and the Company paid the Placement Agent five percent (5%) of the gross proceeds that it received \$3.1 million in net proceeds after deducting the fee payable to the Placement Agent of the Subscribers in connection with the transaction. The Company used the proceeds to repay prior outstanding working capital and general corporate purposes.

Interest on the Notes accrued at a rate of 12% per annum and was payable either in cash or in shares of common stock at the conversion price in the amount of \$100 and twelve month anniversaries of the issuance date or maturity date of October 18, 2022.

All amounts due under the Notes time after the issuance date, in whole or in part (for fractional shares), at the option of the Company's common stock at a fixed conversion price subject to adjustment as summarized below, initially convertible into the Company's common stock at a fixed conversion price of \$44.00 per share, subject to adjustment for stock splits, consolidations, and other events, among other adjustments. On April 1, 2010, the holders agreed to a reduction of the 6% secured convertible promissory notes in connection with the Company's issuance of a purchase warrant to TQLA covering its loan with a common stock value of \$24.00 per share.

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

The Notes are secured by a subordination agreement in the Company's assets pursuant to the Subordination Agreement entered into between the Company and the Noteholders.

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

On September 29, 2023, the Company entered into a Satisfaction Agreement with the Subscribers, pursuant to which the Maturity Date of the

from November 18, 2022 to March 31, 2023, at 9% per annum. See: *Note 15, Stockholm Satisfaction Agreement*. Principal and interest of 0.4 million was exchanged for equity issued to Subscribers held a 50% ownership interest, which was amended and restated. As of **September 30**, the principal balance was \$0.4 million and interest was \$100,18,367.

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13. Commitments and Contingencies

Legal Matters

On March 1, 2023, Sandstrom filed a complaint in the Circuit Court of the State of Oregon against the Company, alleging that the Company failed to pay for services rendered. Pursuant to an agreement entered into on September 30, 2023, the Company seeks damages of \$285,000, plus interest. The Company believes that it paid for services rendered, and the amount outstanding is minimal. The Company is vigorously defending this matter.

On December 15, 2020, Grove filed a complaint in the United States District Court of Oregon against the Company. Mr. Wickey, President and Chairman of the Board of the Company, filed an action for fraud in the inducement, breach of implied covenant of good faith and fair dealing, interference with economic advantage, and dissemination of false and misleading information. The Company disputes the allegations and is vigorously defending this matter.

The Company is not currently subject to any legal proceedings; however, it could be subject to claims from time to time in the ordinary course of business. Legal proceedings are considered immaterial until they become material. Regardless of the outcome, legal proceedings are time consuming and expensive and can divert management resources.

14. Net Income (Loss) per Common Share

Basic income (loss) per common share is determined by dividing net income (loss) by the weighted average number of common shares outstanding during the period, giving effect to any dilutive items. Potentially dilutive securities include incremental common stock issuable upon exercise of convertible notes and warrants. Potentially dilutive securities excluded from the computation if their effect would be anti-dilutive. Basic income (loss) per common share as of September 30, 2024 and December 31, 2022, 2023.

15. Stockholders' Equity

Reverse Stock Split

All shares and per share information in the financial statements has been adjusted to give effect to the reverse stock split of the Company's common stock on September 29, 2023.

Debt Satisfaction Agreement

On September 29, 2023, the Company entered into a Debt Satisfaction Agreement (the "DSA") with Aegis Capital Fund, LP ("Aegis"), District 2 Capital Fund, LP ("District 2 Capital Fund"), LDI Investments, LLC ("LDI") and TQ Capital, LLC ("TQ Capital"), a special purpose vehicle whose equity is shared by Aegis and LDI. The DSA provides for the conversion of the Company's common stock into shares of the SPV.

Pursuant to the DSA, on September 29, 2023, the Company issued to the SPV 296,722 shares of its common stock and 200,000 shares of its Series A Preferred Stock. The Company and the SPV also executed a Registration Rights Agreement. The Company will register for public resale that portion of the common stock issuable upon conversion of the SPV's stock. In exchange for that equity, the Company's members of the SPV were reduced by a total of 50%. Specifically, the debt was reduced as follows:

- the principal balance of the Securities issued by the Company to Aegion was reduced by \$1.9 million;
- the Company's debt to LDI of \$1.6 million in advances made by LDI to the Company over 10 months was eliminated;
- the aggregate principal balance of the Convertible Promissory Notes issued by the Company to Bigger in April and May of 2023 was reduced by \$1.6 million; and
- the aggregate principal balance of the Convertible Promissory Notes issued by the Company to District 2 in April and May of 2023 was reduced by \$1.6 million.

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Further pursuant to the DSA:

- the maturity date of the secure notes as well as unsecured notes issued held by Bigger and District 2 in the amount of \$7.4 million was deferred to March 31, 2024. The interest rate on all such debt was 6.00% per annum;
- the Company, Aegis, Bigger and District 2 entered into an Intercreditor Agreement, pursuant to which the Company's secured debt obligations of the Company and District 2 were made *pari passu*;

- the Common Stock Purchase Warrant issued by the Company to TQLA LLC on March 21, 2022, which permits TQLA LLC to purchase up to 145,834 shares of the Company's common stock, was amended to prevent any exercise of the Warrant that would result in the portion of the cumulative voting power in the Company that the holder and its affiliates may own after the conversion to 9.99%. The Beneficial Ownership Limitation may be increased to 19.99% by the holder upon 61 days advance notice to the Company.
- Upon the liquidation, dissolution and winding up of the Company, or upon the effective date of a consolidation, merger or statutory share exchange in which the Company is not the surviving entity, the holder of each share of the Series C Preferred Stock shall be entitled to a distribution prior to and in preference of the holders of the common stock.
- In the event the Company declares a dividend payable in cash or stock to holders of any class of stock, the holder of each share of Series C Preferred Stock shall be entitled to receive a dividend equal in amount and kind to that payable to the holder of the number of shares of the Company's common stock into which that holder's Series C Preferred Stock could be converted on the record date for the distribution of common stock. The dividends issued on the Company's outstanding Series B Preferred Stock are excluded from this provision.
- The holders of Series C Preferred Stock shall have no voting rights; except that nothing will limit a holder's voting rights with respect to shares of any other class of the Company's common stock held from time to time.

The DSA mandates that the Company obtain shareholder approval of an increase in the Company's authorized common stock from 1,750,000 shares to 6,000,000 shares. If the increase is not approved by the earlier of the first date on which the Company has no authorized and unissued common stock or March 31, 2024, the Company will be required to pay the SPV liquidated damages of \$0.01 million per month for twelve months or until shareholder approval is obtained, if sooner. Until shareholder approval of the increase in authorized shares is obtained, the Company is not permitted to issue any capital stock or capital stock derivatives, with certain specified exceptions.

Issuance of Common Stock

During the nine months ended September 30, 2023 March 31, 2024, the Company issued 155,554 1,764 shares of common stock to directors and employees for stock-based compensation of \$0.5 2,046 million. The shares were valued for accounting purposes using the closing share price of the Company's common stock on the date of grant within the range of \$1.16 per share and issued at \$3.05 to \$7.40 per share.

During the nine months ended September 30, 2023, the Company sold 276,167 shares of common stock for net proceeds of \$1.3 million in at-the-market public placements.

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

During the year ended December 31, 2022 December 31, 2023, the Company issued 19,265 162,849 shares of common stock to directors and 4,808 shares of its common stock to each of the Subscribers of the 6% Secured Convertible Promissory Notes employees for stock-based compensation of \$0.3 0.7 million. These shares were valued for accounting purposes using the closing share price of the Company's common stock on the date of grant, within the range of \$5.60 1.29 to \$19.20 7.40 per share and issued within the range of \$3.05 to \$7.40 per share.

On April 5, 2022 During the year ended December 31, 2023, the Company sold 10,000 343,495 shares of common stock to its Chief Executive Officer for net proceeds of \$0.2 1.4 million based on the market price of the stock at that date. in at-the-market public placements.

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

Eastside Distilling, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

Issuance of Series B Preferred Stock

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

Eastside Distilling, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2024
(Unaudited)

The Series B Preferred Stock accrues dividends at a rate of 6% per annum, payable annually on the last day of December of each year. Dividends shall accrue from day to day, whether or not declared, and shall be cumulative. Dividends are payable at the Company's option either in cash or "in kind" in shares of common stock; provided, however that dividends may only be paid in cash following the fiscal year in which the Company has net income (as shown in its audited financial statements contained in its Annual Report on Form 10-K for such year) of at least \$0.5 million. For "in-kind" dividends, holders will receive that number of shares of common stock equal to (i) the amount of the dividend payment due such stockholder divided by (ii) the volume weighted average price of the common stock for the 90 trading days immediately preceding a dividend date ("VWAP"). For the year ended **December 31, 2022** December 31, 2023, the Company issued dividends of **23,005** 92,957 shares of common stock at a VWAP of **\$6.60** 1.61 per share. As of **September 30, 2023** March 31, 2024 and **2022**, 2023, the Company accrued **\$0.1** 37,500 million of preferred dividends.

Issuance of Series C Preferred Stock

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

Stock-Based Compensation

On September 8, 2016, the Company adopted the 2016 Equity Incentive Plan (the "2016 Plan"). Pursuant to the terms of the plan, on **January 1, 2022** January 1, 2023 the number of shares available for grant under the 2016 Plan reset to **261,257** 437,993 shares, equal to 8% of the number of outstanding shares of the Company's capital stock, calculated on an as-converted basis, on March 31 of the preceding calendar year, and then added to the prior year plan amount. As of **September 30, 2023** March 31, 2024, there were **2,487** 2,120 options and **355,774** 196,619 restricted stock units ("RSUs") outstanding under the 2016 Plan, with vesting schedules varying between immediate or three (3) years from the grant date.

A summary of all stock option activity as of and for the **nine** three months ended **September 30, 2023** March 31, 2024 is presented below:

	# of Options	Weighted-Average Exercise Price
Outstanding as of December 31, 2022	2,587	\$ 63.20
Options canceled	(100)	91.40
Outstanding as of September 30, 2023	2,487	\$ 62.07
Exercisable as of September 30, 2023	2,487	\$ 62.07
	# of Options	Weighted-Average Exercise Price
Outstanding as of December 31, 2023	2,120	\$ 57.95
Outstanding and Exercisable as of March 31, 2024	2,120	\$ 57.95

The aggregate intrinsic value of options outstanding as of **September 30, 2023** March 31, 2024 was \$0. As of **September 30, 2023** March 31, 2024, all options had vested.

Eastside Distilling, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023
(Unaudited)

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.

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Eastside Distilling, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2024
(Unaudited)

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

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

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

The Company did not issue any additional options during the **nine** **three** months ended September 30, 2023 March 31, 2024.

For the nine months ended September 30, 2023 and 2022, net compensation expense related to stock options was \$0 and \$2,926, respectively.

Warrants

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

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

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

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Eastside Distilling, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2023 March 31, 2024
(Unaudited)

A summary of all warrant activity as of and for the ~~nine~~ three months ended ~~September 30, 2023~~ ~~March 31, 2024~~ is presented below:

	Warrants	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding as of December 31, 2022	<u><u>201,667</u></u>	<u><u>3.8</u></u>	<u><u>\$ 33.40</u></u>	<u><u>\$ -</u></u>
Outstanding as of September 30, 2023	<u><u>201,667</u></u>	<u><u>3.8</u></u>	<u><u>\$ 33.40</u></u>	<u><u>\$ -</u></u>
	Warrants	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding as of December 31, 2023	<u><u>201,667</u></u>	<u><u>3.4</u></u>	<u><u>\$ 34.87</u></u>	<u><u>\$ -</u></u>
Outstanding as of March 31, 2024	<u><u>201,667</u></u>	<u><u>3.4</u></u>	<u><u>\$ 34.87</u></u>	<u><u>\$ -</u></u>

16. Related Party Transactions

The following is a description of transactions since ~~January 1, 2022~~ ~~January 1, 2023~~ as to which the amount involved exceeds the lesser of \$0.1 million or one percent (1%) of the average of total assets at year-end for the last two completed fiscal years, which was ~~\$0.3~~ ~~0.2~~ million, and in which any related person has or will have a direct or indirect material interest, other than equity, compensation, termination and other arrangements.

TQLA, LLC

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

Aegis Security Insurance Company

On October 7, 2022, the Company entered into a Note Purchase Agreement with Aegis. Pursuant to the Note Purchase Agreement, Aegis purchased from the Company a secured promissory note in the principal amount of \$4.5 million (the “Aegis Note”). \$3.3 million of the purchase price was paid to TQLA, LLC to satisfy the a Note purchased from TQLA Note, earlier in 2022. *See discussion of the Aegis transaction in Note 12.* Patrick Kilkenny is the principal owner of Aegis. TQLA LLC is owned by Stephanie Kilkenny, a member of the Company’s Board of Directors, and her husband, Patrick Kilkenny.

LD Investments LLC

During February 2024, LDI advanced the Company \$0.6 million. On September 29 2023, the Company entered into a Secured Promissory Note with LDI in the principal amount of \$1.4 million, representing advances made by LDI to the Company between December 2022 and August 2023. Patrick Kilkenny is the principal owner of LDI.

On September 29, 2023, the Company entered into the DSA with LDI and other creditors. *See: Note 15, Stockholders Equity – Debt Satisfaction Agreement.* The entire principal and interest on the LDI Note million were exchanged for equity issued to the SPV, in which LDI holds a 21% interest.

17. Subsequent Events

Subsequent to ~~September 30, 2023~~ ~~March 31, 2024~~, the Company sold ~~was advanced \$23,546~~ 0.6 shares of common stock for net proceeds of \$37,021 in at-the-market public placements. ~~million~~ from Bigger and District 2.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This section of the Quarterly Report includes "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements give current expectations or forecasts of future events about the company or our outlook and involve uncertainties that could significantly impact results. You can identify forward-looking statements by the fact they do not relate to historical or current facts and by the use of words indicating anticipation or speculation such as "believe," "expect," "estimate," "anticipate," "will be," "should," "plan," "project," "intend," "could" and similar words or expressions.

You should not place undue certainty on these forward-looking statements, which speak only as of the date made. Except as required by law, we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from these forward-looking statements. Factors that could cause our expectations to be unfulfilled include those discussed in Item 1A of Part I of our annual report on Form 10-K for the year ended **December 31, 2022** December 31, 2023 entitled "Risk Factors" as well as factors we have not yet anticipated.

Overview

Eastside Distilling, Inc. (the "Company," "Eastside Distilling," "we," "us," or "our," below) was incorporated under the laws of Nevada in 2004 under the name of Eurocan Holdings, Ltd. In December 2014, we changed our corporate name to Eastside Distilling, Inc. to reflect our acquisition of Eastside Distilling, LLC. We operate in **three** two segments. Our Craft Canning + Printing ("Craft C+P") segment provides digital can printing and to customers in the craft beverage industry operating throughout the Pacific Northwest as well as other states. We also provide mobile canning services to the craft beverage industry in Washington and Oregon. In addition to mobile co-packing these services we offer co-packing services from a single fixed site in Portland, Oregon. Our Spirits segment manufactures, blends, bottles, markets and sells a wide variety of alcoholic beverages under recognized brands in **30** 23 U.S. states. Our corporate segment consists of key accounting personnel and corporate expenses such as public company and board costs, as well as interest on debt. We Across both businesses we employ **51** 46 people in the United States.

Mission-What We Do Mission and Strategy

Our mission is to source, make offer great products and deliver services in the best in class, end-to-end craft spirits brands and product portfolio. In addition, we offer beverage space.

This includes advanced digital can printing decoration with custom graphics and co-packing services with distinct capability and craftsmanship.

Strategy

Craft C+P primarily services craftsmanship serving the craft beer, cider, and kombucha among other beverage segments. Craft C+P offers digital can printing to customers and co-packing services, as well as operates 13 mobile lines in Seattle and Spokane, Washington; and Portland, Oregon. services.

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

Our strategy is to utilize our public company stature to our advantage and position to expand our two distinct businesses – Craft C+P and Spirits. We look to grow Spirits in our regional market where our brand equity and vertically integrate our Craft C+P business to expand our product offerings and improve our competitive position. concentration of investment will have the greatest return. Our spirits portfolio is to be positioned as a leading regional craft spirits provider that develops brands, expands geographic presence growing revenue and cash flow. These two segments are detailed below.

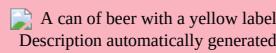
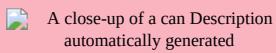
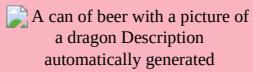
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Segments

Craft Canning + Printing

Digital Can Printing

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



Co-packing Facility

We offer co-packing services for non-alcoholic canned beverages including CBD soda waters in Portland, Oregon through our recent asset acquisition, allowing us to offer end-to-end production capabilities. We are currently the exclusive provider of can printing a mobile co-packing network and one fixed co-packing services for a local CBD and wellness water maker. location.

Mobile Canning

Our mobile cannning business is located in Portland, Oregon. We use extensive proprietary and data-driven quality control measures and a robust clean-in-place procedure in order to provide the best packaging service for our customers. We take great pride in helping local beverage producers expand their distribution reach by using our service to offer industry-top quality and branding. Our greatest asset is the unmatched expertise of our talented group of printing and packaging professionals who show up every day to go above and beyond to get the job done.

Our Craft mobile team offers a variety of services and products, including:

- *High Mobile Canning Capacity* – We operate 13 Wild Goose MC-250 machines, with the capacity to can over 150,000 barrels per year. In addition to the canning lines, we use custom in-house designed fully automated depalletizers and twist rinses.
- *Dedicated Team* – All of our employees are carefully and rigorously trained. A fully insured workforce is ready to take on any and all of the customer's packaging needs. We believe in continuous improvement and we understand the value of our clients' products and dedicate ourselves to making every run a successful run.
- *Quality Control* – Hach Orbispheres measure our dissolved oxygen ("DO") during packaging to ensure the lowest Total Packaged Oxygen for the customer's can. We use luminometers and ATP swabs to ensure sanitation of our equipment. We can provide Zahm & Nagel volume meters to measure carbon dioxide ("CO2") volumes in carbonated products before packaging. As masters of the "double seam" we frequently take on-site measurements with micrometers. We also offer CMC Kuhnke technology to generate even more accurate measurements in the form of visual seam reports.

- *Velcorin and Nitrogen Dosing* – We have both velcorin and nitrogen dosing capabilities that supports microbial control and allows packaging of still products in addition to carbonated and nitrogenated beverages.
- *Pre-printing and Outfeed Labeling* – Bringing on advanced digital can printing technology from Hinterkopf allows us to offer customers both world-class aesthetics and full sustainability in an end-to-end branding and packaging solution, accessible from our smallest to our largest customers. We also provide outfeed labeling and the ability to package customer-provided branded cans of all varieties.
- *Location Flexibility* – We allow our customers to choose the location of canning. We bring our mobile equipment to their facility, or our customers can bring their product to us for co-packing.

Spirits

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

- *Burnside Whiskey Family* – Our Burnside Whiskey Family celebrates the unique attributes of the native Oregon Oak tree (*Quercus garryana*). The unique complexity of each distinct whiskey comes from blending Oregon Oak barrels of differing sizes, char levels, and ages.
- *Portland Potato Vodka* – Our award-winning premium craft vodka is distilled four times to ensure a smooth finish. While most vodka is made from grain, we source award winning premium potato ethanol and blend it with pristine water sourced from Oregon.
- *Hue-Hue (pronounced “way-way”) Coffee Rum* – Premium silver rum is blended with concentrated cold-brewed coffee and a small amount of Demerara sugar. We source fair-trade, single-origin Arabica coffee beans from the Finca El Paternal Estate in Huehuetenango, Guatemala that are lightly roasted for us by Portland Coffee Roasters.
- *Azuñia Tequilas* – Smooth, clean, additive-free tequilas crafted by Rancho Miravalle, a second generation, family-owned-and-operated estate, bursting with authentic flavor from the local terroir of Tequila Valley, Mexico. 100% pure Weber Blue Agave is harvested by hand, roasted in traditional clay hornos, and finished with a natural, open-air fermentation process. It is bottled on-site in small batches using a consistent process to deliver consistent field-to-bottle quality and exclusively exported by Agaveros Unidos de Amatitán.
- *Eastside Brands* – Craft inspired high-quality limited-edition products, which focus on innovation, craftsmanship and curiosity, and creativity.

Recent Developments

During 2023, we grew sales at **March 31, 2024**, Craft C+P and printed over 11 million cans. Digital can printing represents **4.8** million cans compared to 2.5 million during the majority **first quarter** of our revenue as our customer base and excitement grows. Mobile canning sales continue to decrease as we focus on our digital can printing opportunity. **2023**. We have undertaken improved our efficiency and throughput of production compared to the prior year period. In addition, Craft C+P has won significant new business from a restructuring number of our spirits business decreasing overhead costs **beverage manufacturers** during 2024. Spirits did not sell any bulk barrels in the first quarter of 2024 and unproductive sales activities.

We have supplemented cash flow with bulk spirit sales, as we have **saw** total volume decline by **4%** in other quarters. The decline **the quarter**. This is an improvement from the previous twelve months and is driven by strategic pricing moves in sales was partially offset by direct sales of 272 barrels for \$0.7 million during 2023 and nearly 1,500 barrels for \$4.4 million during 2022. **key markets**.

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

Results of Operations

Overview

Three and Nine Months Ended September 30, 2023 March 31, 2024 Compared to the Three and Nine Months Ended September 30, 2022 March 31, 2023

(Dollars in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,					
	2023	2022	Variance	2023	2022	Variance	2024	2023	Variance
	\$ 3,081	\$ 3,064	\$ 17	\$ 8,717	\$ 11,967	\$ (3,250)	\$ 2,487	\$ 2,879	\$ (392)
Sales	\$ 3,081	\$ 3,064	\$ 17	\$ 8,717	\$ 11,967	\$ (3,250)	\$ 2,487	\$ 2,879	\$ (392)
Less customer programs and excise taxes	98	87	11	220	393	(173)	76	26	50
Net sales	2,983	2,977	6	8,497	11,574	(3,077)	2,411	2,853	(442)
Cost of sales	2,471	2,787	(316)	7,318	8,985	(1,667)	2,225	2,212	13
Gross profit	512	190	322	1,179	2,589	(1,410)	186	641	(455)
Sales and marketing expenses	381	702	(321)	1,261	2,078	(817)	251	511	(260)
General and administrative expenses	832	1,438	(606)	3,390	5,116	(1,726)	1,105	1,364	(259)
(Gain) loss on disposal of property and equipment	(39)	-	(39)	(168)	101	(269)	(120)	6	(126)
Total operating expenses	1,174	2,140	(966)	4,483	7,295	(2,812)	1,236	1,881	(645)
Loss from operations	(662)	(1,950)	1,288	(3,304)	(4,706)	1,402	(1,050)	(1,240)	190
Interest expense	(207)	(808)	601	(862)	(1,976)	1,114	(248)	(329)	81
Loss on debt to equity conversion	(1,321)	-	(1,321)	(1,321)	-	(1,321)			
Other income	34	25	9	90	125	(35)			
Other income (expense)							5	(29)	34
Net loss	(2,156)	(2,733)	577	(5,397)	(6,557)	1,160	(1,293)	(1,598)	305
Preferred stock dividends	(38)	(38)	-	(113)	(113)	-	(38)	(38)	-
Net loss attributable to common shareholders	\$ (2,194)	\$ (2,771)	\$ 577	\$ (5,510)	\$ (6,670)	\$ 1,160	\$ (1,331)	\$ (1,636)	\$ 305
Gross margin	17%	6%	11%	14%	22%	-8%	8%	22%	-14%

Segment information is as follows for the three months ended March 31, 2024 and 2023:

(Dollars in thousands)	2024	2023	Variance
Craft C+P			
Sales	\$ 1,849	\$ 1,456	\$ 393
Net sales	1,814	1,477	337
Cost of sales	1,765	1,578	187
Gross profit	49	(101)	150
Total operating expenses	638	749	(111)
Net loss	\$ (590)	\$ (884)	\$ 294
Spirits			
Sales	\$ 638	\$ 1,423	\$ (785)
Net sales	597	1,376	(779)
Cost of sales	460	634	(174)
Gross profit	137	742	(605)
Total operating expenses	234	522	(288)
Net income (loss)	\$ (92)	\$ 221	\$ (313)

Corporate

Total operating expenses	\$ 364	\$ 610	\$ (246)
Net loss	\$ (611)	\$ (935)	\$ 324

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

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Segment information was as follows for the three and nine months ended September 30, 2023 and 2022:

(Dollars in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2023	2022	Variance	2023	2022	Variance
Craft C+P						
Sales	\$ 2,232	\$ 1,876	\$ 356	\$ 5,637	\$ 4,381	\$ 1,256
Net sales	2,177	1,876	301	5,558	4,281	1,277
Cost of sales	1,833	2,000	(167)	5,378	4,809	569
Gross profit	344	(124)	468	180	(528)	708
Total operating expenses	699	866	(167)	2,013	2,813	(800)
Net loss	\$ (350)	\$ (1,001)	\$ 651	\$ (1,812)	\$ (3,273)	\$ 1,461
Gross margin	16%	-7%	23%	3%	-12%	15%
Spirits						
Sales	\$ 849	\$ 1,188	\$ (339)	\$ 3,080	\$ 7,586	\$ (4,506)
Net sales	806	1,101	(295)	2,939	7,293	(4,354)
Cost of sales	638	787	(149)	1,940	4,176	(2,236)
Gross profit	168	314	(146)	999	3,117	(2,118)
Total operating expenses	303	616	(313)	1,183	1,963	(780)
Net income (loss)	\$ (110)	\$ (278)	\$ 168	\$ (127)	\$ 1,179	\$ (1,306)
Gross margin	21%	29%	-8%	34%	43%	-9%
Corporate						
Total operating expenses	\$ 172	\$ 658	\$ (486)	\$ 1,287	\$ 2,519	\$ (1,232)
Net loss	\$ (1,696)	\$ (1,454)	\$ (242)	\$ (3,458)	\$ (4,463)	\$ 1,005

Sales

Sales were \$8.7 million \$2.5 million and \$12.0 million \$2.9 million for the nine months ended September 30, 2023 and 2022, respectively, and \$3.1 million for both the three months ended September 30, 2023 March 31, 2024 and 2022. 2023, respectively.

Craft C+P

Sales increased 27% for both the three and nine months ended September 30, 2023 due to March 31, 2024 attributable to growth in digital can printing sales, partially offset by lower mobile canning sales. We have reduced mobile canning operations service revenues and the sales of undecorated cans that have been replaced with digital printing sales. Craft printed 4.8 million cans in the quarter compared to focus on digital can printing, improving 2.5 million cans in the prior year. The increase was a result of incremental sales to both existing and operating profit new customers and improved throughput of production.

Spirits

Sales Spirits sales decreased for both the three and nine months ended September 30, 2023 due to March 31, 2024. The primary reason for the reduction was significant bulk spirits sales that we completed during 2022. 2023. For the nine months ended September 30, 2023 March 31, 2023, we sold 272 250 barrels for gross proceeds of \$0.7 million \$0.6 million. For In the nine months ended September 30, 2022, we first quarter of 2024, spirits sold nearly 1,500 barrels for gross proceeds 5,684 cases compared to 5,941 in the prior year, which included a large one-time direct-to-retail sale of \$4.4 million.

Sales 164 cases of Burnside. We have focused investment in spirits on profitable sales channels and regions. As a result, tequila sales decreased \$0.1 million through last year and \$0.7 million for the three and nine months ended September 30, 2023, respectively, excluding bulk spirits sales, due to lower marketing spend and increased competition. During the nine months ended September 30, 2023, we undertook restructuring actions to reduce volumes in unprofitable market segments and focusing investment to achieve profitability. into this year.

Customer programs and excise taxes

Customer programs and excise taxes were \$0.2 million \$0.1 million and \$0.4 million \$25,754 for the nine months ended September 30, 2023 and 2022, respectively, and \$0.1 million for both the three months ended September 30, 2023 March 31, 2024 and 2022. 2023, respectively. Craft C+P discounts were higher for the three months ended March 31, 2024 as we on-boarded customers with larger printing runs. Spirits discounts were lower for both the three and nine months ended September 30, 2023 March 31, 2024 due to lower sales volumes. During the second quarter of 2022, as part of Craft's asset acquisition, we offered a discount of \$0.1 million to the beverage maker for our printing and canning services.

Cost of Sales

Cost of sales consists of all direct costs related to both spirits and canning for raw materials, service, labor, overhead, packaging, and in-bound freight charges. Cost of sales were \$7.3 million \$2.2 million and \$9.0 million for the nine months ended September 30, 2023 and 2022, respectively, and \$2.5 million and \$2.8 million \$2.2 million for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

Craft C+P

Cost of sales increased for in the nine months ended September 30, 2023 quarter due to growth higher can volume and incremental inventory costs. We also invested in printing sales spare parts in anticipation of higher volumes and related inventory costs and scrap related to later in the printer, partially offset by decreased labor costs. Cost of sales decreased for the three months ended September 30, 2023 due to labor costs and an adjustment to depreciation based on the digital can printer's hours of production, offset by increased scrap related to the printer. year.

Spirits

Cost of sales decreased for the three and nine months ended September 30, 2023 March 31, 2024 due to lower bulk spirits and distributor sales, in addition to lower tequila volumes. volumes and a shift to a higher mix of vodka sales.

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Gross Profit

Gross profit is calculated by subtracting the cost of products sold and services rendered from net sales. Gross profit was \$1.2 million \$0.2 million and \$2.6 million \$0.6 million for the nine three months ended September 30, 2023 March 31, 2024 and 2022, respectively, and \$0.5 million and 2023, respectively. Bulk sales gross profit was \$0.2 million for the three months ended September 30, 2023 and 2022, respectively. Bulk sales gross profit was \$0.5 million and \$2.4 million for the nine months ended September 30, 2023 and 2022, respectively, and \$0 and \$0.1 million for the three months ended September 30, 2023 and 2022, respectively.

March 31, 2023. Gross margin is gross profit stated as a percentage of net sales. Our gross margin was 14% 8% and 28% for the nine months ended September 30, 2023 and 2022, respectively, and 17% and 6% 22% for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The prior years gross profit was positively impacted by high margins related to bulk spirits sales.

Craft C+P

Craft C+P's gross margin significantly increased for both the three and nine months ended September 30, 2023 March 31, 2024 primarily due to continued rapid growth in can printing activities. Margins were negatively impacted by incremental expense in the quarter required to continue to improve production throughput and related sales. sustain a 24-hour 7 day a week printing schedule. Margins were also negatively impacted by scrap and inflated can prices.

Spirits

Gross margin decreased for the nine three months ended September 30, 2023 March 31, 2024 primarily due to higher sales of bulk spirits gross margins achieved in the prior year, as well as the negative portfolio 2023 and a greater mix with higher sales of low lower margin Portland Potato Vodka. Gross margin decreased for the three months ended September 30, 2023 primarily due to bulk spirits and distributor profits. products in 2024.

Sales and Marketing Expenses

Sales and marketing expenses were \$1.3 million \$0.3 million and \$2.1 million for the nine months ended September 30, 2023 and 2022, respectively, and \$0.4 million and \$0.7 million \$0.5 million for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively, due to lower sponsorship costs and reduced headcount as part of spirits restructuring, headcount.

General and Administrative Expenses

General and administrative expenses were \$3.4 million and \$5.1 million for the nine months ended September 30, 2023 and 2022, respectively, and \$0.8 million \$1.1 million and \$1.4 million for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively, primarily due to decreased professional fees the related costs of closing unprofitable operations, including reducing staff and compensation from reduced headcount. exiting leasing agreements at Craft C+P.

Interest Expense

Interest expense was \$0.9 million and \$2.0 million for the nine months ended September 30, 2023 and 2022, respectively, and \$0.2 million and \$0.8 million \$0.3 million for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. The decrease was primarily due to the amortization of debt issuance costs on agreements that matured during 2022.

Loss on Debt to Equity Conversion

On September 29, 2023, we issued to the SPV 296,722 shares of common stock and 200,000 shares of its Series C Preferred Stock. In exchange for that equity, our debts to the members of the SPV were reduced by a total of \$6.5 million and we recognized a loss on the debt to equity conversion was \$1.3 million for both the three and nine months ended September 30, 2023.

Net Income (Loss)

Net loss was \$5.4 million \$1.3 million and \$6.6 million for the nine months ended September 30, 2023 and 2022, respectively, and \$2.2 million and \$2.7 million \$1.6 million for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

Preferred Stock Dividends

Preferred stock dividends were \$37,500 and \$0.1 million \$37,500 million for the both three and nine months ended September 30, 2023 March 31, 2024 and 2022, respectively, and related to 2023, representing the Series B preferred stock dividend of 6% per annum.

Liquidity and Capital Resources

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

We had an accumulated deficit of \$80.5 million \$84.0 million as of September 30, 2023 March 31, 2024, having incurred a net loss of \$5.4 million \$1.3 million during the nine three months ended September 30, 2023.

On September 29, 2023 we entered into a Debt Satisfaction Agreement with our four principal creditors (the "DSA") March 31, 2024. Pursuant to the DSA, \$6.5 million As of secured debt classified as current liabilities was cancelled in exchange for the issuance of 296,722 shares of common stock and 200,000 shares of Series C Preferred Stock. As a result, as of September 30, 2023 March 31, 2024, we had \$0.4 million \$0.3 million of cash on hand with working capital of \$1.7 million, an increase of \$8.1 million from negative working capital of \$(6.4) million as of December 31, 2022 \$11.2 million.

Our ability to meet our ongoing operating cash needs over the next 12 months depends on receipt asset sales, external financing and improving operating results. The availability of additional external financing which will be largely dependent on improvement in turn depends on our growing performance, including higher digital can printing revenues and improved gross margins and generating positive operating cash flow, primarily through increased sales, profitable operations, and controlling expenses. None of this is assured, at Craft C+P as we currently anticipate recording a net loss for 2023. If we are unable to obtain additional financing, or additional financing is not available on acceptable terms, we may seek to sell assets, reduce operating expenses, reduce or eliminate marketing initiatives and take other measures that could impair well as operational improvements in our ability to be successful. Spirits segment.

We have deferred paying interest in the first quarter of 2024 and are engaged in discussions with creditors to resolve a number of outstanding issues. There can be no assurances that we will successfully conclude these discussions and have the cash resources to fund operations.

Our cash flow results for the ~~nine~~ three months ended ~~September 30, 2023~~ March 31, 2024 and ~~2022~~ 2023 were as follows:

(Dollars in thousands)	2023	2022	2024	2023
Net cash flows provided by (used in):				
Operating activities	\$ (1.7)	\$ 0.2	\$ (0.1)	\$ (0.4)
Investing activities	\$ -	\$ (2.5)	\$ -	\$ -
Financing activities	\$ 1.4	\$ (0.5)	\$ -	\$ -

Operating Activities

Total cash used in operating activities was **\$1.7 million** **\$0.1 million** during the **nine** **three** months ended **September 30, 2023** **March 31, 2024** compared to cash provided of **\$0.2 million** **\$0.4 million used** during the **nine** **three** months ended September 30, 2022. The increase **March 31, 2023** primarily due to decreases in cash used was primarily attributable to our continued net losses, payment of accrued interest and challenges investing in working capital. **losses.**

Investing Activities

Total cash provided by Our investing activities was **\$23,546** during **in the** **nine** **three** months ended September 30, 2023 representing net proceeds from purchases and sales of fixed assets. Total cash used in investing activities was **\$2.5 million** during the nine months ended September 30, 2022 representing our investment in digital can printing equipment. **March 31, 2024 or 2023 were minimal.**

Financing Activities

Total cash provided by There were no financing activities was **\$1.4 million** during the **nine** **three** months ended September 30, 2023 primarily consisted of proceeds from the issuance of stock. Total cash used in financing activities was **\$0.5 million** during the nine months ended September 30, 2022 primarily consisted of **\$2.9 million** of principal payments of our secured credit facilities and **\$1.0 million** of payments on principal of notes payable, offset by the net proceeds from a note payable with a related party of **\$3.2 million** and the issuance of common stock of **\$0.2 million**. **March 31, 2024 or 2023.**

Critical Accounting Policies

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

In connection with the preparation of our financial statements for the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, there was one accounting estimate we made that was subject to a high degree of uncertainty and was critical to our results, as follows:

Intangible Assets

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

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

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

As of December 31, 2022 December 31, 2023, as a result of the review described above, we found the Azuña brand to be impaired and reduced its carrying cost by \$7.5 million \$0.4 million.

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 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, we are not required to provide information required by this item.

ITEM 4 – CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”) that are designed to provide reasonable assurances that the information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

We conducted an evaluation (pursuant to Rule 13a-15(b) of the Exchange Act), under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e)) as of the end of the period covered by this report. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer has concluded that these disclosure controls and procedures were effective as of **September 30, 2023** **March 31, 2024**.

There were no changes in internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended **September 30, 2023** **March 31, 2024**, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION**ITEM 1 – LEGAL PROCEEDINGS**

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

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

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

ITEM 1A – RISK FACTORS

There have been no material changes in our risk factors from those previously disclosed in our annual report on Form 10-K for the year ended ~~December 31, 2022~~ December 31, 2023, except for the following additions:

The B.A.D. Company, LLC owns shares of Series C Preferred Stock that can be converted over time into 1,838,000 shares of common stock, which could depress the market price of our common stock.

On September 29, 2023, the Company issued 296,722 shares of common stock and 200,000 shares of Series C Preferred Stock to The B.A.D. Company, LLC (the “SPV”) in exchange for cancellation by the four members of the SPV of \$6.5 million in debt owed to them by the Company. The 200,000 shares of Series C Preferred Stock can be converted into a total of 1,838,000 shares of the Company’s common stock; provided, however, that Series C Preferred Stock can only be converted if, upon completion of the conversion, the common stock owned by the SPV and its affiliates would be less than 9.9% of the total outstanding common stock. Therefore, since the SPV and its affiliates presently own 19.9% of the outstanding common stock, the SPV cannot convert any of the Series C shares. If in the future, however, the SPV sells common stock and reduces its ownership of the outstanding common stock below 9.9%, it will be able to convert its Series C Preferred shares from time to time and offer the common shares for sale. The possibility of this large number of shares coming into the market over time could have a depressing effect on the market price of our common stock.

If the Company continues is unable to record net losses, remedy its shareholder equity deficiency, its common stock may be removed from Nasdaq.

On ~~April 5, 2023~~ April 8, 2024, the Staff of the Listing Qualifications Department of the Nasdaq Stock Market notified the Company that it had fallen out of compliance with the requirements for continued listing of the Company’s common stock on Nasdaq. Specifically, Nasdaq Listing Rule 5550(b)(1) requires that the stockholders’ equity of a listed company must exceed \$2.5 million. As of ~~December 31, 2022~~ March 31, 2024, the Company had a stockholders’ equity deficit of \$(1.5) million. Subsequently, as of June 30, 2023, the Company’s stockholders’ equity deficit had fallen to \$(4.0) million. On June 8, 2023, the Staff \$0.5 million. Nasdaq has advised the Company that it must increase its ~~it has until~~ May 23, 2024 to submit a plan to restore stockholders’ equity to \$2.5 million by September 30, 2023 sufficient levels or the Company’s common stock would be removed from Nasdaq. The Company can give no assurances that it will be able to submit a sufficient plan on time to be granted an extension.

This Quarterly Report shows that, as of September 30, 2023 On March 7, 2024, the exchange Staff of debt for equity mentioned in the preceding Risk Factor, along with other actions taken by Listing Qualifications Department of the Company’s management, has increased the Company’s stockholders’ equity to \$2.7 million. Nevertheless, if Nasdaq Stock Market notified the Company continues that it no longer complies with Nasdaq’s independent director and audit committee requirements as set forth in Listing Rule 5605. Nasdaq however, has provided a cure period to be unprofitable, its stockholders’ equity may again fall below the requirement for continued listing, which could result in the Company’s common stock being removed from NASDAQ regain compliance prior to the facilities of OTC Markets. Many institutional investors will not provide financing to a company that does not have a listing on Nasdaq or an exchange. Therefore, the delisting earlier of the Company’s common stock from Nasdaq would make it more difficult for next annual shareholders’ meeting or January 22, 2025.

The Company has deferred paying interest to certain creditors in the first quarter of 2024 and is engaged in discussions with creditors to resolve a number of outstanding issues. There can be no assurances that the Company will successfully conclude these discussions and have the cash resources to secure equity-based financing when needed for business fund operations.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered sales of equity securities during the ~~third~~ first quarter of ~~2023~~ 2024 that have not been previously reported.

The Company did not repurchase any of its equity securities that were registered under Section 12 of the Securities Exchange Act during the third quarter of fiscal year ~~2023~~, 2024.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 – OTHER INFORMATION

None

ITEM 6 – EXHIBITS

Exhibit No.	Description
31.1 *	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a).
32.1 *	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Schema Linkbase Document
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EASTSIDE DISTILLING, INC.

Date: November 14, 2023 May 13, 2024

By: /s/ Geoffrey Gwin

Geoffrey Gwin
Chief Executive Officer

Date: November 14, 2023 May 13, 2024

By: /s/ Geoffrey Gwin

Geoffrey Gwin
Chief Financial Officer
(Principal Financial and Accounting Officer)

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Exhibit 31.1

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

I, Geoffrey Gwin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 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 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: November 14, 2023 May 13, 2024

/s/ Geoffrey Gwin

Geoffrey Gwin
Chief Executive Officer and Chief Financial Officer

Exhibit 32.1

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

I, Geoffrey Gwin, Chief Executive Officer and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Eastside Distilling, Inc. on Form 10-Q for the period ended **September 30, 2023** **March 31, 2024** 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 Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Eastside Distilling, Inc.

Date: **November 14, 2023** **May 13, 2024**

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

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