Harbinger Research
Independent Investment Analysis

Coverage Initiation Report

Alcoholic Beverages
Craft Spirits Distilleries

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Brian R. Connell, CFA
Senior Research Analyst
bconnell@harbingerresearch.com

Eastside Distilling, Inc. (ESDI – OTC.QB)

Eastside Distilling is a Locally-Successful Craft Distiller We Believe to be On the Verge of National Success. Solid and Expanding Margins, Rapidly Growing Sales, and Award-winning Products.

Strong Buy

Recent Price: $1.85

Market Data (closing prices, February 11, 2015)

Market Capitalization (mln, US$)	84.2
Enterprise Value (mln, US$)	84.2 + debt - cash
Fully Diluted Shares (000s)	45,513
Avg. Volume (90 day, approx.)	756
Institutional Ownership (approx.)	12.1%
Insider Ownership	54.7%
Exchange	OTC.QB

Balance Sheet Unavailable until 2014 10-K filed

Shareholders' Equity (mln)	
Price/Book Value	
Cash (000s)	
Net Working Capital (000s)	
Long-Term Debt (000s)	
Total Debt to Equity Capital	

Company Overview

Eastside Distilling, located on Portland's famed Distillery Row, is an established, craft distiller with a lineup of innovative, award-winning products, including Burnside Bourbon, Cherry Bomb Whiskey, and Below Deck Rums. The Company is rapidly expanding sales in the Portland area, and though its Blackheath partnership will soon have national distribution. The Company has recently completed a $2.2 million private placement, and trades on the over-the-counter (OTC.QB) market under the symbol ESDI.

Company / Investor Contact Information

Investor Contact
Chris Tyson
Liolios Group, Inc.
20371 Irvine Avenue, Suite A-100
Newport Beach, CA 92660
(949) 574-3860
ESDI@liolios.com. www.liolios.com

Company Contact
Julie Bohn
Executive Assistant to the CEO
Eastside Distilling
1805 SE Martin Luther King Blvd.
Portland, OR 97214
(971) 888-4264
Julie@eastsidedistilling.com
http://www.eastsidedistilling.com

Summary and Investment Opportunity

- **Premium Spirits are the Fastest Growing Segment in the Liquor Industry**

Growth in the purchasing power of the younger generations has led to a revenue growth acceleration in premium spirits. This has allowed completely new brands to become nationally known almost overnight, such as Fireball Whiskey and Tito's Vodka. For example, Fireball's sales grew from $1.9 million in 2011 to $61 million in 2013, demonstrating the power of social/digital marketing and the younger generations' willingness to try and become loyal to new brands of distilled spirits. Eastside Distilling, a craft distiller that has several award winning products, is beginning to experience similarly rapid growth.

- **Many Brands such as Tito's and Fireball began as Small or Craft Distillers**

In the 1990s and early 2000s, some new brands and many brand extensions were developed by the already-successful large producers, such as Diageo and Bacardi. However, in most cases these brand extensions simply re-directed consumption away from the primary brand – for example, consumers of Absolut Vodka switched to a flavored Absolut Vodka – but Absolut's total sales remained flat. Therefore, in more recent years, large spirits companies have begun buying already-successful new brands, rather than developing them in-house. Acquisitions of this type include Beam's purchase of "Pinnacle & Calico Jack" for $605 million and "Skinny Girl" for $90 million. We believe this trend is likely to continue.

- **Eastside Distilling has Succeeded in its Local Market and is going National in 2015**

The Company has it all – several award winning spirits, including four rums, two bourbons, two whiskeys and a vodka; great sales/branding/distribution success in the Portland, OR market; a new facility coming on stream that is 13x the size of its existing location; a partnership with Blackheath, a successful sales and marketing firm; the recent completion of a $2.2 million private placement; and perhaps most importantly, very rapidly growing sales and expanding margins. We believe the Company will extend its successes on the national level over the next one to two years, making it a prime acquisition candidate and a potentially lucrative investment.

We therefore rate ESDI shares a Strong Buy, and set our 12-month price target at $3.56 per share.

P&L (000s)*	**FY'12A***	**FY'13A***	**FY'14E**	**FY'15E**	**FY'16E**	**FY'17E**
Total cases sold	1.6	4.0	8.1	45.1	150.0	300.0
Retail sales (000s)		401	806	1,315	1,400	1,650
Wholesale sales	347	479	644	6,095	20,250	40,500
Total revenues	**347**	**880**	**1,450**	**7,410**	**21,650**	**42,150**
Operating costs	177	348	600	2,303	5,157	6,232
Operating profit	9	91	293	2,297	8,461	20,291
Operating margin	*2.5%*	*10.3%*	*20.2%*	*31.0%*	*39.1%*	*48.1%*
Net profit	7	87	195	1,470	5,415	12,986
Diluted EPS	**$0.000**	**$0.002**	**$0.005**	**$0.032**	**$0.10**	**$0.24**
Diluted shares	40,000	40,000	40,000	45,513	53,468	54,002

**Based on financial data provided by the Company*

Please see analyst certification and required disclosures on page 11 of this report.

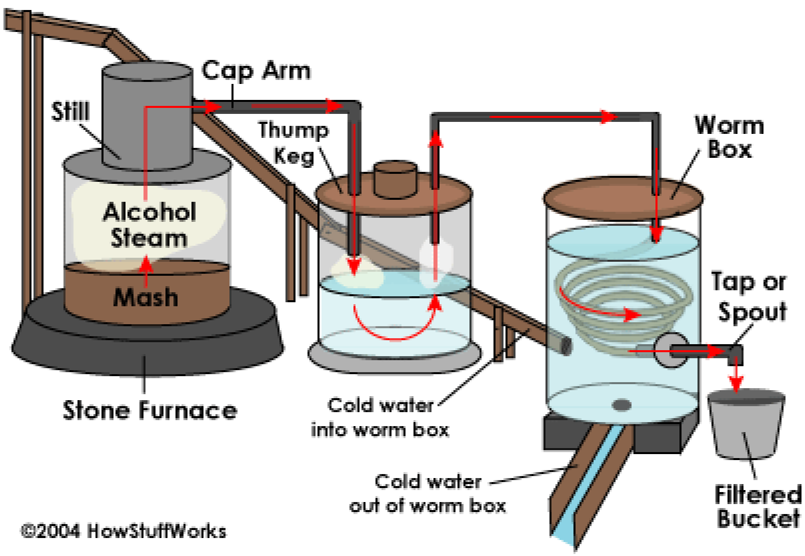
Industry Overview and Analysis

Introduction

Of the three main categories of alcoholic beverages – beer, wine, and spirits – spirits consumption is growing the most quickly. Although this industry is still dominated by the larger distillers (e.g. Diageo), smaller (craft) distillers are proliferating, and rapidly taking market share from the larger players. Early leaders in the craft distilling space include Fireball whiskey and Tito's vodka. Fireball whiskey grew sales from a paltry $1.9 million in 2011 to over $61 million in 2013, and is now available in most bars and liquor stores in America. Tito's has a similar story, rising from the obscurity of a 16 gallon pot-still in 1997 to its current 26-acre operation that produced 850,000 cases and an estimated $85 million in sales in 2012, up 45% vs. 2011 sales. We believe that due to trends in market demand and state-level deregulation, the craft spirits industry is likely to develop in a way similar to the development of the micro-brewing industry some 10-15 years ago.

Spirits Manufacturing

Distilled spirits are manufactured by fermenting grains or sugar-bearing plants (e.g. sugar cane), a process which converts sugars and starches in ethanol, the alcohol found in alcoholic beverages. This alcohol is then distilled from the fermented mix – along with other flavor-bearing fluids – to yield the primary components of an alcoholic beverage. The distillery then further refines the liquid before bottling, to remove unwanted impurities and/or add additional flavoring agents.



Historically, large diversified liquor companies (e.g. Diageo, Brown-Forman, etc.) have developed additional products in-house and launched those products through established distribution channels. However, this strategy has proven ineffective in recent years, and the current trend in the industry is now to purchase brands from up and coming distilleries that have already proven success with the new brand. Recent brand acquisitions include: Brown-Forman's 2007 acquisition of Herradura for $776 million, Diageo's 2008 acquisition of Ketel One for $900 million, and Diageo's 2012 acquisition of Sichuan Swellfun for $1.01 billion.

Spirits Distribution and State Alcohol Laws

In the post-prohibition era, most alcohol has been manufactured and sold under the "three tier" distribution system. Under this system, producers make alcoholic beverages, but can sell them only on a wholesale basis to licensed distributors, who then sell to restaurants, bars, and retail stores. Recently, however, states such as Washington and Oregon have allowed producers to sell directly to the public, giving the producers a higher-margin sales channel and a superior branding opportunity, and providing the public with more retail consumption options.

These new rules allow spirits consumers to enjoy an experience similar to the tasting and touring experience offered by vineyards and some craft breweries.

As of 2014, there are still 18 "control" states where all spirits retailers are state-owned and state-controlled. These states make particularly good customers for smaller craft distillers, since they purchase for their entire state and tend to pay their bills on a timely basis. The 18 monopoly states are: Alabama, Idaho, Iowa, Maine, Maryland (partial, by county), Michigan, Mississippi, Montana, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, West Virginia, and Wyoming. Note that the implementation of the state-control rules vary widely from state to state.

Spirits Retailing

Spirits retailing is a highly regulated industry, and its regulation varies widely from state to state. While all states maintain some degree of control over liquor distribution and sales, the 18 "Control States" basically operate state-owned monopolies in this area. In some other states, liquor may be sold in privately-owned liquor stores, and in other states liquor may be sold in grocery stores along with wine and beer. While we do see a slight trend towards deregulation (or reduced regulation) in some of the more forward-thinking states (e.g. Washington, Oregon, etc.) in general we do not foresee any sea change in the structure of the liquor retailing industry for at least the next five to ten years.

Market Size, Segmentation, and Growth

The market in which the Company operates is best conceptualized in terms of consumer types, product types, and distribution/sales channels.

Consumers

Alcoholic beverages are consumed by a significant portion of the U.S. population, across all age and cultural demographics and at all socioeconomic levels. However, there is significant variation in the consumption patterns of different age groups and ethnicities:

- **Younger Consumers.** Members of "Generation X" and the even younger "Millennials" tend to be more open to trying new brands of alcohol, making them a very important consumer group for up-and-coming craft distillers. They are also far more swayed by electronic advertising than older generations are.

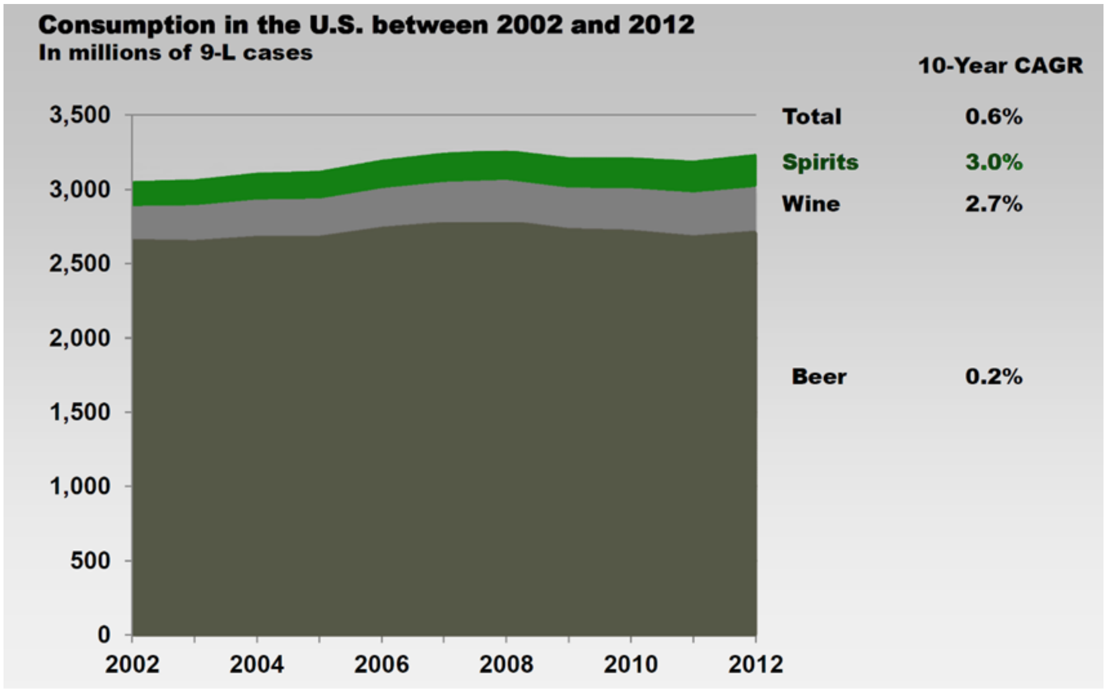
- **Ethnic Consumers.** Many ethnic consumers (Hispanics, African-Americans, and Asians) also have a distinct preference for premium spirits such as those made by the Company. In many of these groups, both personal and professional image are impacted by the choice of alcohol, giving these consumers a bias towards higher-priced, "hip" alcoholic beverages. This makes ethnic consumers an attractive target market for craft distillers.

- **Women.** This group of consumers is one of the fastest growing segments of the alcoholic beverage market. With increased income, education, and independence, women are spending more on alcohol, and tend to prefer sweeter drinks made with premium spirits.

Alcoholic Beverages – Product Types

Alcoholic beverages fall into three categories: beer, wine, and spirits. Although beer is by far the largest segment in terms of annual revenues, wine and spirits sales are growing at a much higher rate than beer sales; spirits sales are growing the most quickly of all.

Within the spirits category, one of the fastest growing segments is flavored spirits (e.g. cinnamon-flavored Fireball whiskey). This is especially favorable for craft distillers that are able to develop and consistently produce the "best" tasting spirits. We strongly feel that this applies to Eastside Distilling, as evidenced by the many taste-awards its various products have earned. While it may be relatively easy to distill an alcohol product, it is extremely difficult to formulate a distillation that has a truly exceptional taste. Those distillers such as the Company that can succeed at this challenge will have a long-term, sustainable competitive advantage in the market.



Source: Beer Institute, Wine Handbook, Liquor Handbook

Industry Structure: Production, Distribution, and Sales

The alcoholic beverage industry has operated under a three-tier system since the Volstead Act (18th constitutional amendment, prohibition) was repealed in 1933 (21st amendment), at which time each state was given the opportunity to structure its own liquor industry by state law. Almost universally, these new state laws created a system under which alcohol producers and consumers were separated by both distributors and retail sales operations.

At this point in time, alcohol production and alcohol distribution are dominated by a few large companies. Because of this, it is relatively easy for large producers to introduce new brands and/or brand-extensions, because they can basically force the large distributors to carry their new products. However, despite the ease with which large producers can bring new products to market, recent history has shown that large producers' new products have been largely unsuccessful, which has led them to focus instead on acquiring already-successful brands.

Smaller producers have a much more difficult time getting their new products to market, since large distributors will typically refuse to carry them until strong consumer demand exists. However, it is difficult to generate strong consumer demand for a product that consumers cannot easily purchase, making this somewhat of a chicken-and-egg problem. Those few smaller producers that have become successful in recent years (e.g. Tito's Vodka, Fireball Whiskey) have done so by employing digital marketing and in-person promotions to "launch" their product(s) in a small market. Then they have expanded with the help of outside consultants to build sales momentum to the point where their products became attractive to the large distributor, finally resulting in national success. We believe the Company is well along this trajectory and is likely to follow in the footsteps of these recently-successful new brands/companies.

Opportunity Overview and Analysis

Company Overview

Eastside Distilling is a rapidly-growing craft spirits distillery founded in 2008, located in the famous Distillery Row of Portland, Oregon. The Company is in the process of moving into a 41,000 square foot facility that has the capacity to produce 1,000,000 cases per year, and represents a 1267% increase over the size of its current facility. It has also recently announced the opening of a 1,200 sq. foot retail store in Clackamas Town Center mall, and plans to open several others in the near future. Eastside manufactures a variety of award-winning spirits, including its Triple-Gold award winning Spiced Rum as well as its Portland Potato Vodka, Burnside Bourbon, and Cherry Bomb Whiskey. It distributes its products in several wholly-owned retail outlets, through retail liquor stores, and through on-site sales made to its tour and tasting room customers. Furthermore, the Company has retained one of the nation's largest providers of back-office, logistics, fulfillment, and distribution services to the alcoholic beverage industry, to manage its distribution and logistics on a fully-outsourced basis. The Company is based in Portland, Oregon, and trades over-the-counter on the OTC.QB under the symbol ESDI. The Company recently became public through an alternative public offering and recently raised $2.2 million dollars in a Regulation D private placement.

Products and Production

The Company has been producing spirits on Portland's famous Distillery Row since 2008, and is currently in the process of moving into a much larger production and touring/tasting facility that will drastically expand its production capacity. This new facility will provide the Company's touring and tasting room customers a superior experience while also allowing the Company to produce and store much larger product volumes.

The Company currently manufactures two bourbons, two whiskeys, one vodka, four rums (the new Spiced Rum just won the triple gold award), and a variety of holiday liqueurs.

Eastside Distilling Product Portfolio

Burnside Bourbon
The Company's Burnside Bourbon has won a variety of taste-related awards, such as the 2012 Gold Medal in the MicroLiquor Spirit Awards and a Gold Medal from the Beverage Tasting Institute, which gave it a 90 point rating and the following description: "*Amber color. Aromas of honeyed fruit cake, charcoal and herbed corn bread with a soft, dryish medium body and a warming praline, pink peppercorn, and slate finish. A solid choice for mixing.*" This 96-proof product is well branded and is a strong seller for the Company. Also, note that bourbon and whiskey is the fastest-growing sub-category of spirits in the United States.

Oregon Oaked Bourbon
This 96-proof spirit consists of Burnside Bourbon that has received an extra 60 days of aging in a heavily-charred Oregon Oak barrel. This additional aging imparts stronger but not overbearing oak flavors to the Bourbon Whiskey.

Portland Potato Vodka
Like many traditionally great European vodka, the Company's Portland Potato Vodka is distilled entirely from potatoes, unlike many recently-introduced vodkas that are based on the fermentation of grains or corn. We agree with the Company's assertion that potato starch is the best basis for a great vodka, and evidently we are not alone: The Company's vodka won a Gold Medal and a rating of 92 points from the prestigious Beverage Tasting institute, and also won a Silver Medal from the American Wine Tasting Institute.

Below Deck Rums
The Company manufactures four varieties of its double-distilled Below Deck Rums: Silver (traditional) rum, Coffee-flavored rum, Ginger-flavored rum, and Eastside's new Spiced Rum, which just recently won a triple-gold award at the MicroLiquor Spirit Awards.

Cherry Bomb Whiskey
This 60-proof spirit has won multiple taste awards including Gold Medals from both MicroLiquor Spirits and the American Wine Society, and its typically served on the rocks or mixed with cola or soda. It is especially appealing to consumers who like Manhattan cocktails.

Marionberry Whiskey
This 60-proof spirit is the Company's newest product, and is made with no artificial flavors or colors – just whiskey and local Marionberries (a blackberry hybrid). This product has a big, fruity flavor and is likely to appeal to younger and female demographics.

Eastside Holiday Liqueurs
These seasonally-produced liquors are big sellers for the Company, and include Holiday Spiced Liqueur, Peppermint Bark Liqueur, and Egg nog "Advocaat" Liqueur. Although only available during and just after the holidays, these liqueurs are quite popular. Note that the Company sells a gift box comprised of all three liqueurs (375 ml bottles) for $49.95.

Retail Sales, Direct
Eastside has for several years now derived a significant portion of its sales from its tasting room, where it sells bottles and cases directly to the public, after individuals have had a chance to tour its facility and taste some of the Company's award-winning spirits. Since the Company earns full retail pricing on these sales, they carry much higher gross margins than the Company's wholesale sales, and they also build additional customer brand

awareness. Notably, touring/tasting customers often continue purchasing the Company's products in restaurants and bars and at other retail stores long after their visit to Eastside Distilling.

In addition, the Company has recently opened one new year-round retail location and this year had two additional holiday-season retail locations within high-traffic shopping malls in the Portland, Oregon metro region. The 1,200 square foot year-round store is dedicated solely to tasting and sales of Eastside products, and our initial observations of 2014 holiday foot traffic levels indicate that all three locations are likely to be very successful both in terms of retail sales and in building local brand awareness and loyalty. The Company plans to develop several additional year-round and holiday-only locations in the near future.

Distribution, Wholesale

The liquor distribution industry is oligopolistic, with a few distributors dominating the market and a large number of smaller distributors and wholesalers operating in the small remaining market segment. This industry structure poses a significant challenge for smaller, new entrants, which typically lack the market demand and capital resources necessary to attract the interest of the larger national distributors. Historically, this has all but prohibited the success of new craft distillers, but recently this has begun to change. The advent of the Internet and social media has allowed new craft distillers to employ grass-roots "Gorilla Marketing" techniques to generate consumer demand at the retail level, which has in turn enticed distributors to carry the new products (such as Fireball Whiskey).

Eastside Distilling has very successfully employed on-site and off-site grass roots marketing to generate demand for its products in its local markets, and now the Company is poised to open up many more state markets and essentially become a national brand. The Company has entered into a sales and marketing agreement with Blackheath Beverage Group (http://bhbeverage.com). This relatively young firm is comprised entirely of former sales and distribution executives from top spirits companies such as Diageo, Southern Wine and Spirits, and Bacardi USA. Blackheath is entirely focused on brand development, new sales, and new distributor relationships. We view this relationship as a big win for the Company.

We are highly encouraged by the Blackheath relationship and believe that with the help of this organization the Company is likely to extend (and perhaps even accelerate) its high annual growth rate for at least several more years. The Company's emergence as a national brand and the sustainability of its likely high future growth rate suggests that, if acquired, Eastside Distilling is likely to command a premium price-to-sales or price-to-EBITDA multiple.

Growth Strategy

Going forward, the Company plans to achieve its growth goals through a variety of strategies:

- Move to its 1,000,000 case/year new production facility in early 2015
- Continue developing relationships with distributors and third-party retail outlets
- Expand use of advertising and personal site visits by salespeople to build demand in the restaurant and bar segment and in the retail liquor store segment of additional geographic markets, such as California and others
- Continue to open retail sales stores and kiosks to build local brand awareness and drive high-margin direct-to-consumer retail sales

Overall, we feel quite sanguine about the Company's growth plans and likely future growth rate, which could very well remain above 50% for several more years (Y-o-Y revenue growth in 2014 was 69.1%). This is not unprecedented, and in fact has recently been accomplished by both Tito's Vodka and Fireball Whiskey. If the Company does develop national brand awareness and loyalty, and is successful in maintaining a high growth rate, we are confident that the Company will become a very attractive acquisition for a major diversified spirits company.

Market Size and Competition

The market for spirits is extremely large and stable in the United States; alcoholic beverages are one of the few industry categories that have historically been almost completely immune to economic downturns. In 2012, Americans consumed 1,860,000 of 9-liter (12-bottle) cases of spirits, representing total wholesale sales of $23.35 billion. Within the spirits category, premium and craft distilled spirits are by far the fastest growing segment. Craft spirits are typically consumed by younger consumers who can often be reached through digital marketing channels.

Competition in the craft spirits business is intense, however. According to CBS news, the number of craft distillers operating in the U.S. expanded from just 50 in 2005 to some 250 in 2012; other sources estimate the number at nearly 600 in 2014. However, most of these operators are basically hobbyists with very small operations, and we believe that unlike most craft distillers Eastside has "turned the corner" and is now becoming a major player that is likely to have a national sales and distribution footprint in the near future. Also, notably, Eastside Distilling is one of the only craft distillers that is public.

Additional competition in this market is coming from the major diversified spirits producers' new product offerings, which tend to be more like craft distillery products than these companies' traditional offerings. However, in our view craft distillers have a better track record at creating successful new products, a view that is bolstered by the current trend for major producers to acquire successful new offering rather than develop them internally.

Leadership Team

Steven Earles, *Chief Executive Officer*
Before joining Eastside, Steven had played a key role in a series of successful start-ups, as well as heading one of the largest land development companies in Southern California.

Lenny Gotter, *Chief Operating Officer*
Lenny founded Eastside to pursue his passion for great spirits. After receiving a degree in economics from the University of Wisconsin, he moved to Portland where he worked in the manufacturing and tech industries.

Risks

In our view, the largest risk to the Company's success would be a breakdown in basic execution, which could occur in sales and marketing, distribution, or production. While we do not view a breakdown in any of these areas to be likely, such a breakdown is possible, and would at a minimum slow the Company's current growth trajectory. We evaluate each risk event below.

Sales and Marketing Risk

This is perhaps the most significant of these risks, as sub-par success at future sales and marketing activities limits demand for the Company's products. Given the Company's initial product successes and planned multi-prong approach to sales and marketing, which includes both internal activities as well as those of Blackheath (bhbeverage.com), we feel that this risk event is unlikely to occur.

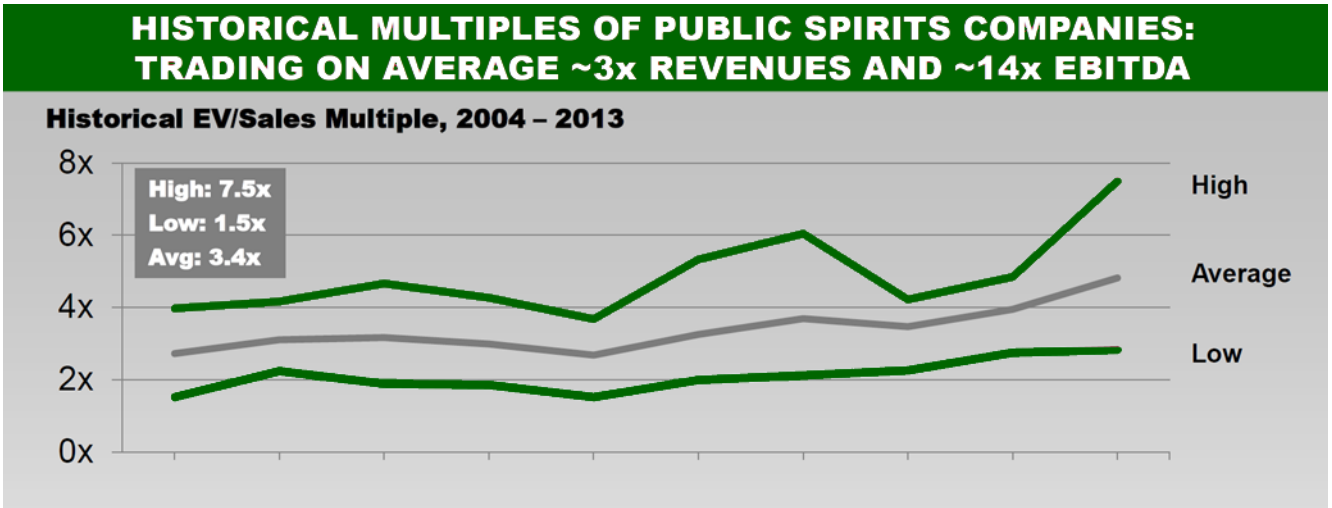
Distribution Risk
This risk event would pose an interesting situation, and in our view is more easily fixed than a sales and marketing problem. In this scenario, production of and demand for the Company's products would be strong, but it would be having problems signing on the large distributors that could fulfill product demand by bringing retail shelf space in sufficient quantity. We believe that should this occur, it would likely be only a temporary situation that would eventually resolve itself, and hence this risk event would have only a minimal and temporary impact on Company valuation. Notably, the Company has already had a high degree of distribution success in Oregon and Washington, and has recently signed Young's (http://www.youngsmarket.com/), one of the nation's leading spirits distributors and brokers. This recent distribution win bodes very well for the Company's future efforts to land additional major distributors.

Production Risk
This risk comes in two flavors: problems involving the production of enough product to satisfy demand, and problems involving maintaining quality while producing much larger product volumes. If the Company were to produce less product but still maintain high quality standards, then this would constitute a temporary problem that would have only limited negative impact on the Company's valuation. However, if the Company rapidly scales up production and provides a low-quality product to its customers, we would view this as a far more damaging scenario that could ultimately cripple or even destroy the value of this business. Obviously, management is keenly aware that maintaining high quality standards is of paramount importance, and thus we feel that this is a very unlikely risk event.

Other risks pertaining to adequate capitalization, state and federal legal compliance, and others are typical of a Company in this stage of development, and hence are already "price in" to our per-share valuation estimates.

Financial Analysis
Since the Company will not be providing updated, post-merger 2014 10-K and 10-Q filings until March or April of 2015, we are not able to complete a balance sheet analysis at this time. However, the Company has provided us with historical sales and expense numbers and given us an accurate shares outstanding number based on its just-closed $2.2 million Regulation D private placement; these numbers have allowed us to develop a forward-looking profit and loss model with which we are comfortable. We have also developed a valuation range model based on low, mid, and high case price-to-sales multiples that assumes an acquisition two to three years from now in 2017.

Valuation and Investment Thesis
We have based our valuation analysis on current price-to-sales multiples found in acquisitions of craft distillers by major spirits companies. Based on Eastside's extremely high historical growth rates and solid product and partnership portfolios, we believe that Eastside will likely command a price-to-sales multiple towards the high end of the range (2.8x sales to 7.0x sales). Based on the Company's current and planned future development, we believe that valuing an acquisition in 2017 is likely the best approach; to adjust likely value in 2017 downwards to reflect an estimate of current value, we have used a 25% annual discount rate in our calculations. Given the Company's current level of success and progress, we feel that a 25% discount rate more than adequately accounts for the risks inherent in our sales and earnings forecasts.



Source: Bloomberg

Based on a 2017 price-to-sales multiple of 6.0x our 2017 revenue estimates, we project Eastside's likely enterprise value in 2017 at $252.9 million; based on a 25% annual discount rate, that equates to a current enterprise value of $161.8 million, or approximately $3.56 per share. **Given that this price target represents a 92% appreciation over ESDI's current share price of $1.85, we are initiating coverage of Eastside Distilling with a Strong Buy rating.**

Present Value Calculation based on likely acquisition prices in 2017. Company likely to command mid-to-high P/S multiple.				
		Enterprise Value '15	Enterprise Value '16	Enterprise Value '17
Low Price/Sales (P/S) multiple	2.8	$75,532,800	$94,416,000	$118,020,000
Average P/S multiple*	**6.0**	**$161,856,000**	**$202,320,000**	**$252,900,000**
High P/S multiple*	7.5	$202,320,000	$252,900,000	$316,125,000
Discount rate used in PV calc.	**25%**			
Share price based on Low P/S multiple		$ 1.66	$ 2.07	$ 2.59
Share price based on Average P/S multiple		**$ 3.56**	**$ 4.45**	**$ 5.56**
Share price based on High P/S multiple		$ 4.45	$ 5.56	$ 6.95
**Source: Bloomberg*				

Conclusion

Eastside Distilling seems to have all the components of a highly successful craft distiller, and in fact seems to be on a trajectory quite similar to that of Fireball and Tito's. The Company has proven itself over several years of profitable, organic growth and is now seeing rapid expansion in demand, production capacity, and both direct retail and traditional retail sales. Given the Company's product successes and awards, and the Company's relationship with Blackheath Beverage Group, the Company seems poised for solid national success. **Therefore, we initiate coverage of Eastside Distilling** (ESDI – OTC.QB) **with a Strong Buy rating, and set our 12-month price target at $3.56 per share.**

Our Rating System

We rate enrolled companies based on the appreciation potential we believe their shares represent. The performance of those companies rated "Speculative Buy" or "Strong Speculative Buy" are often highly dependent on some future event, such as FDA drug approval or the development of a new key technology.

Explanation of Ratings Issued by Harbinger Research

STRONG BUY	We believe the enrolled company will appreciate more than 50% relative to the general market for U.S. equities during the next 12 to 24 months.
BUY	We believe the enrolled company will appreciate more than 30% relative to the general market for U.S. equities during the next 12 to 24 months.
STRONG SPECULATIVE BUY	We believe the enrolled company could appreciate more than 50% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
SPECULATIVE BUY	We believe the enrolled company could appreciate more than 30% relative to the general market for U.S. equities during the next 12 to 24 months, if certain assumptions about the future prove to be correct.
NEUTRAL	We expect the enrolled company to trade between -10% and +10% relative to the general market for U.S. equities during the following 12 to 24 months.
SELL	We expect the enrolled company to underperform the general market for U.S. equities by more than 10% during the following 12 to 24 months.

Analyst Certification

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Analyst Highlight

Brian R. Connell, CFA **Senior Research Analyst**

Mr. Connell has over 15 years' experience in the securities industry, as an equity analyst and portfolio manager, and as the founder and CEO of StreetFusion (acquired by CCBN/StreetEvents), a software company serving the institutional investment community. On the sell-side, Mr. Connell served as the technology analyst for Neovest, an Atlanta-based boutique, and as a Senior Analyst - Internet for Preferred Capital Markets, an investment bank based in San Francisco. Mr. Connell has also held the position of Executive Director of Marquis Capital Management, a technology-focused investment management organization.

Mr. Connell holds degrees in Economics and Psychology from Duke University, and is a CFA Charterholder.