
**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 June 30, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 0-26542

CRAFT BREW ALLIANCE, INC.

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of incorporation or organization)

91-1141254

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

929 North Russell Street

Portland, Oregon 97227

(Address of principal executive offices)

(503) 331-7270

(Registrant's telephone number, including Area Code)

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. Yes No

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

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

Large Accelerated Filer

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

Accelerated Filer

Smaller Reporting Company

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

The number of shares of the registrant's common stock outstanding as of July 30, 2013 was 18,937,241.

CRAFT BREW ALLIANCE, INC.
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CRAFT BREW ALLIANCE, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands, except per share amounts)

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
Assets		
Current assets:		
Cash	\$ 3,886	\$ 5,013
Accounts receivable, net	11,381	10,512
Inventories	14,780	11,749
Deferred income tax asset, net	1,672	1,250
Other current assets	3,617	3,809
Total current assets	35,336	32,333
Property, equipment and leasehold improvements, net	105,328	102,852
Goodwill	12,917	12,917
Intangible and other assets, net	17,305	17,562
Total assets	<u>\$ 170,886</u>	<u>\$ 165,664</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 16,871	\$ 12,255
Accrued salaries, wages and payroll taxes	5,427	5,267
Refundable deposits	8,875	7,896
Other accrued expenses	1,176	1,066
Current portion of long-term debt and capital lease obligations	661	642
Total current liabilities	33,010	27,126
Long-term debt and capital lease obligations, net of current portion	12,049	12,440
Fair value of derivative financial instruments	29	219
Deferred income tax liability, net	17,175	17,156
Other liabilities	553	528
Total liabilities	62,816	57,469
Commitments and contingencies		
Common shareholders' equity:		
Common stock, \$0.005 par value. Authorized 50,000,000 shares; issued and outstanding 18,937,241 and 18,874,256	95	94
Additional paid-in capital	136,466	136,030
Accumulated other comprehensive loss	(18)	(135)
Accumulated deficit	(28,473)	(27,794)
Total common shareholders' equity	108,070	108,195
Total liabilities and common shareholders' equity	<u>\$ 170,886</u>	<u>\$ 165,664</u>

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

CRAFT BREW ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Sales	\$ 52,710	\$ 47,558	\$ 92,091	\$ 89,170
Less excise taxes	3,703	3,294	6,475	6,407
Net sales	49,007	44,264	85,616	82,763
Cost of sales	34,043	30,926	61,709	57,718
Gross profit	14,964	13,338	23,907	25,045
Selling, general and administrative expenses	12,950	12,222	24,710	22,595
Operating income (loss)	2,014	1,116	(803)	2,450
Interest expense	(156)	(165)	(312)	(331)
Interest and other income (expense), net	6	(11)	(17)	(6)
Income (loss) before income taxes	1,864	940	(1,132)	2,113
Income tax provision (benefit)	769	381	(453)	856
Net income (loss)	<u>\$ 1,095</u>	<u>\$ 559</u>	<u>(679)</u>	<u>\$ 1,257</u>
Basic and diluted net income (loss) per share	<u>\$ 0.06</u>	<u>\$ 0.03</u>	<u>\$ (0.04)</u>	<u>\$ 0.07</u>
Shares used in basic per share calculations	<u>18,926</u>	<u>18,857</u>	<u>\$ 18,905</u>	<u>18,851</u>
Shares used in diluted per share calculations	<u>18,992</u>	<u>18,931</u>	<u>18,905</u>	<u>18,921</u>

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

CRAFT BREW ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands)

	<u>For the Three Months Ended June 30,</u>		<u>For the Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net income (loss)	\$ 1,095	\$ 559	\$ (679)	\$ 1,257
Unrealized gains on derivative hedge transactions, net of tax	60	58	117	104
Comprehensive income (loss)	<u>\$ 1,155</u>	<u>\$ 617</u>	<u>\$ (562)</u>	<u>\$ 1,361</u>

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

CRAFT BREW ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$ (679)	\$ 1,257
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,991	3,761
Deferred income taxes	(475)	701
Stock-based compensation	348	311
Other	290	(235)
Changes in operating assets and liabilities:		
Accounts receivable, net	(868)	1,614
Inventories	(3,111)	(1,454)
Other current assets	191	(420)
Accounts payable and other accrued expenses	3,959	2,753
Accrued salaries, wages and payroll taxes	159	355
Refundable deposits	583	413
Net cash provided by operating activities	4,388	9,056
Cash flows from investing activities:		
Expenditures for property, equipment and leasehold improvements	(5,313)	(4,578)
Proceeds from sale of property, equipment and leasehold improvements	-	37
Proceeds from the sale of Fulton Street Brewery, LLC	-	418
Net cash used in investing activities	(5,313)	(4,123)
Cash flows from financing activities:		
Principal payments on debt and capital lease obligations	(316)	(296)
Proceeds from issuances of common stock	114	3
Net cash used in financing activities	(202)	(293)
Increase (decrease) in cash	(1,127)	4,640
Cash:		
Beginning of period	5,013	795
End of period	<u>\$ 3,886</u>	<u>\$ 5,435</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 372	\$ 386
Cash paid for income taxes, net	20	453
Supplemental disclosure of non-cash information:		
Purchases of Property, equipment and leasehold improvements included in Accounts payable	\$ 753	\$ -

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

CRAFT BREW ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The accompanying consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012 (“2012 Annual Report”). These consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements are unaudited but, in the opinion of management, reflect all material adjustments necessary to present fairly our consolidated financial position, results of operations and cash flows for the periods presented. All such adjustments were of a normal, recurring nature. The results of operations for such interim periods are not necessarily indicative of the results of operations for the full year.

Note 2. Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. (“ASU”) 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income (“AOCI”) by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. The adoption of ASU 2013-02 effective January 1, 2013 did not have any effect on our financial position, results of operations or cash flows.

In July 2012, the FASB issued ASU 2012-02, “Intangibles – Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment,” which permits an entity to make a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. Entities are required to test indefinite-lived intangible assets for impairment at least annually and more frequently if indicators of impairment exist. If an entity concludes, based on an evaluation of all relevant qualitative factors, that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it is not required to perform the quantitative impairment test for that asset. Because the qualitative assessment is optional, an entity is permitted to bypass it for any indefinite-lived intangible asset in any period and apply the quantitative test. ASU 2012-02 also permits the entity to resume performing the qualitative assessment in any subsequent period. ASU 2012-02 was effective for impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption was permitted. The adoption of ASU 2012-02 in January 2013 did not have any effect on our financial position, results of operations or cash flows.

Note 3. Cash

Under our cash management system, we utilize a controlled disbursement account to fund cash distribution checks presented for payment by the holder. Checks issued but not yet presented to banks may result in overdraft balances for accounting purposes. As of June 30, 2013, and December 31, 2012, bank overdrafts of \$1.3 million and \$1.1 million, respectively, were included in Accounts payable on our Consolidated Balance Sheets. Changes in book overdrafts from period to period are reported in the Consolidated Statement of Cash Flows as a component of operating activities within Accounts payable and Other accrued expenses.

Note 4. Inventories

Inventories, except for pub food, beverages and supplies, are stated at the lower of standard cost or market. Pub food, beverages and supplies are stated at the lower of cost or market.

We regularly review our inventories for the presence of obsolete product attributed to age, seasonality and quality. If our review indicates a reduction in utility below the product's carrying value, we reduce the product to a new cost basis. We record the cost of inventory for which we estimate we have more than a twelve-month supply as a component of Intangible and other assets on our Consolidated Balance Sheets.

Inventories consisted of the following (in thousands):

	June 30, 2013	December 31, 2012
Raw materials	\$ 3,282	\$ 2,497
Work in process	3,340	3,552
Finished goods	5,152	3,263
Packaging materials	647	544
Promotional merchandise	2,037	1,552
Pub food, beverages and supplies	322	341
	<u>\$ 14,780</u>	<u>\$ 11,749</u>

Work in process is beer held in fermentation tanks prior to the filtration and packaging process.

Note 5. Related Party Transactions**Note Payable**

In connection with our merger with Kona Brewing Company in 2010 (the "KBC Merger"), we assumed an obligation for a promissory note payable ("Related Party Note") to a counterparty that was a significant KBC shareholder and remains a shareholder of Craft Brew Alliance, Inc. The Related Party Note is secured by the equipment comprising a photovoltaic cell generation system ("photovoltaic system") installed at our brewery located in Kailua-Kona, Hawaii. Accrued interest on the Related Party Note is due and payable monthly at a fixed interest rate of 4.75%, with monthly loan payments of \$16,129. Any unpaid principal balance and unpaid accrued interest under the Related Party Note will be due and payable on November 15, 2014. The balance on the Related Party Note was \$257,000 and \$346,000 as of June 30, 2013 and December 31, 2012, respectively.

Transactions with Anheuser-Busch, LLC ("A-B")

Transactions with A-B consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Gross sales to A-B	\$ 44,861	\$ 39,342	\$ 77,127	\$ 72,948
Margin fee paid to A-B, classified as a reduction of Sales	517	482	921	935
Sales to Fulton Street Brewery, LLC ("FSB"), through a contract brewing arrangement, classified in Sales ⁽¹⁾	-	1,107	-	2,485
Handling, inventory management, royalty and other fees paid to A-B, classified in Cost of sales	111	116	211	230
Amounts received from A-B for lost keg fees and forfeited deposits, included as a reduction of Property, equipment and leasehold improvements, net	-	28	-	32

(1) FSB is a wholly-owned subsidiary of A-B.

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Effective September 1, 2012, in the best interest of both parties, we mutually agreed with FSB to end our contract brewing arrangement. Under the termination agreement, we phased out production of FSB branded beers through November 2012 utilizing remaining inventory on-hand. In consideration, FSB is paying us \$70,000 per month through September 2013.

Amounts due to or from A-B were as follows (in thousands):

	June 30, 2013	December 31, 2012
Amounts due from A-B related to beer sales pursuant to the A-B distributor agreement	\$ 7,754	\$ 6,369
Amounts due from FSB related to beer sales pursuant to a contract brewing arrangement	-	260
Amounts due from FSB related to termination agreement	210	630
Refundable deposits due to A-B	(2,659)	(2,472)
Amounts due to A-B for services rendered	(2,163)	(1,974)
Net amount due from A-B	<u>\$ 3,142</u>	<u>\$ 2,813</u>

Operating Leases

We lease our headquarters office space, restaurant and storage facilities located in Portland, Oregon, as well as the land and certain equipment, from two limited liability companies, both of whose members include our current Board Chair and a nonexecutive officer. Lease payments to these lessors were as follows (in thousands):

Three Months Ended June 30,		Six Months Ended June 30,	
2013	2012	2013	2012
\$ 32	\$ 31	\$ 64	\$ 62

We hold lease and sublease obligations for certain office space and the land underlying the brewery and pub location in Kona, Hawaii, with a company whose owners include a shareholder who owns more than 5% of our common stock and a nonexecutive officer. The sublease contracts expire on various dates through 2020, with an extension at our option for two five-year periods. Lease payments to this lessor were as follows (in thousands):

Three Months Ended June 30,		Six Months Ended June 30,	
2013	2012	2013	2012
\$ 105	\$ 100	\$ 211	\$ 199

Note 6. Derivative Financial Instruments

Interest Rate Swap Contracts

Our risk management objectives are to ensure that business and financial exposures to risk that have been identified and measured are minimized using the most effective and efficient methods to reduce, transfer and, when possible, eliminate such exposures. Operating decisions contemplate associated risks and management strives to structure proposed transactions to avoid or reduce risk whenever possible.

We have assessed our vulnerability to certain business and financial risks, including interest rate risk associated with our variable-rate long-term debt. To mitigate this risk, we entered into a five-year interest rate swap contract with Bank of America, N.A. ("BofA") with a total notional value of \$8.7 million as of June 30, 2013 to hedge the variability of interest payments associated with our variable-rate borrowings under our Term Loan with BofA. Through this swap agreement, we pay interest at a fixed rate of 4.48% and receive interest at a floating-rate of the one-month LIBOR, which was 0.19% at June 30, 2013. Since the interest rate swap hedges the variability of interest payments on variable rate debt with similar terms, it qualifies for cash flow hedge accounting treatment. As of June 30, 2013, unrealized net losses of \$29,000 were recorded in Accumulated other comprehensive loss as a result of this hedge, which expired on July 1, 2013. The effective portion of the gain or loss on the derivative is reclassified into Interest expense in the same period during which we record Interest expense associated with the Term Loan. There was no hedge ineffectiveness recognized during the first six months of 2013 or 2012.

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The interest rate swap contract is secured by substantially all of our personal property and by the real properties located at 924 North Russell Street, Portland, Oregon and 14300 NE 145th Street, Woodinville, Washington (“collateral”) under the Loan Agreement with BofA.

The fair value of our derivative instrument is as follows (in thousands):

Fair Value of Liability Derivative		
	June 30, 2013	December 31, 2012
Fair value of derivative financial instrument	\$ 29	\$ 219

The effect of our interest rate swap contract that is accounted for as a derivative instrument on our Consolidated Statements of Operations for the three-month and six-month periods ended June 30, 2013 and 2012 was as follows (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in Accumulated OCI (Effective Portion)	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)
Three Months Ended June 30,			
2013	\$ 98	Interest expense	\$ 94
2012	\$ 93	Interest expense	\$ 97
Six Months Ended June 30,			
2013	\$ 190	Interest expense	\$ 188
2012	\$ 167	Interest expense	\$ 193

See also Note 7.

Note 7. Fair Value Measurements

Factors used in determining the fair value of our financial assets and liabilities are summarized into three broad categories:

- Level 1 – quoted prices in active markets for identical securities as of the reporting date;
- Level 2 – other significant directly or indirectly observable inputs, including quoted prices for similar securities, interest rates, prepayment speeds and credit risk; and
- Level 3 – significant inputs that are generally less observable than objective sources, including our own assumptions in determining fair value.

The factors or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Following are the disclosures related to our financial liability that is recorded at fair value on a recurring basis (in thousands):

Fair Value at June 30, 2013	Level 1	Level 2	Level 3	Total
Derivative financial instrument	\$ -	\$ 29	\$ -	\$ 29
Fair Value at December 31, 2012				
Derivative financial instrument	\$ -	\$ 219	\$ -	\$ 219

The fair value of our interest rate swap is based on quarterly statements from the issuing bank. There were no changes to our valuation techniques during the six months ended June 30, 2013 or 2012.

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We believe the carrying amounts of Cash, Accounts receivable, Accounts payable and Other accrued expenses are a reasonable approximation of the fair value of those financial instruments because of the nature of the underlying transactions and the short-term maturities involved.

We had fixed rate debt outstanding as follows (in thousands):

	June 30, 2013	December 31, 2012
Fixed-rate debt on balance sheet	\$ 1,113	\$ 1,260
Fair value of fixed-rate debt	\$ 1,148	\$ 1,275

We calculate the estimated fair value of our fixed-rate debt using a discounted cash flow methodology. Using estimated current interest rates based on a similar risk profile and duration (Level 2), the fixed cash flows are discounted and summed to compute the fair value of the debt.

Note 8. Segment Results and Concentrations

Our chief operating decision maker monitors net sales and gross margins of our Beer Related operations and our Pubs operations. Beer Related operations include the brewing operations and related beer sales of our Widmer Brothers, Redhook, Kona and Omission beer brands. Pubs operations primarily include our pubs, some of which are located adjacent to our Beer Related operations. We do not track operating results beyond the gross margin level or our assets on a segment level.

Net sales, gross profit and gross margin by segment were as follows (dollars in thousands):

Three Months Ended June 30,

	Beer		
	Related	Pubs	Total
2013			
Net sales	\$ 42,997	\$ 6,010	\$ 49,007
Gross profit	\$ 14,292	\$ 672	\$ 14,964
Gross margin	33.2%	11.2%	30.5%

2012

Net sales	\$ 38,371	\$ 5,893	\$ 44,264
Gross profit	\$ 12,444	\$ 894	\$ 13,338
Gross margin	32.4%	15.2%	30.1%

Six Months Ended June 30,

	Beer		
	Related	Pubs	Total
2013			
Net sales	\$ 74,247	\$ 11,369	\$ 85,616
Gross profit	\$ 22,618	\$ 1,289	\$ 23,907
Gross margin	30.5%	11.3%	27.9%

2012

Net sales	\$ 71,484	\$ 11,279	\$ 82,763
Gross profit	\$ 23,358	\$ 1,687	\$ 25,045
Gross margin	32.7%	15.0%	30.3%

The segments use many of the same assets. For internal reporting purposes, we do not allocate assets by segment and, therefore, no asset by segment information is provided to our chief operating decision maker.

In preparing this financial information, certain expenses were allocated between the segments based on management estimates, while others were based on specific factors such as headcount. These factors can have a significant impact on the amount of gross profit for each segment. While we believe we have applied a reasonable methodology, assignment of other reasonable cost allocations to each segment could result in materially different segment gross profit.

Sales to wholesalers through the A-B Distributor Agreement represented the following percentage of our Sales:

Three Months Ended June 30,		Six Months Ended June 30,	
2013	2012	2013	2012
84.1%	81.7%	82.8%	80.8%

Receivables from A-B represented the following percentage of our Accounts receivable balance:

June 30,	December 31,
2013	2012
68.1%	60.6%

Note 9. Significant Stock-Based Plan Activity and Stock-Based Compensation

Stock-Based Compensation Expense

Total stock-based compensation expense, recognized as a component of Selling, general and administrative expense on our Consolidated Statements of Operations, was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Stock-based compensation expense	\$ 246	\$ 177	\$ 348	\$ 311

At June 30, 2013, we had total unrecognized stock-based compensation expense of \$1.9 million, which will be recognized over the weighted average remaining vesting period of 3.1 years.

Note 10. Earnings (Loss) Per Share

The following table reconciles shares used for basic and diluted earnings (loss) per share ("EPS") and provides certain other information (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Weighted average common shares used for basic EPS	18,926	18,857	18,905	18,851
Dilutive effect of stock-based awards	66	74	-	70
Shares used for diluted EPS	18,992	18,931	18,905	18,921
Stock-based awards not included in diluted per share calculations as they would be antidilutive	38	109	249	78

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report on Form 10-Q includes forward-looking statements. Generally, the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “will,” “may,” “plan” and similar expressions or their negatives identify forward-looking statements, which generally are not historical in nature. These statements are based upon assumptions and projections that we believe are reasonable, but are by their nature inherently uncertain. Many possible events or factors could affect the Company’s future financial results and performance, and could cause actual results or performance to differ materially from those expressed, including those risks and uncertainties described in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012 (“2012 Annual Report”), and those described from time to time in our future reports filed with the Securities and Exchange Commission (the “SEC”). Caution should be taken not to place undue reliance on these forward-looking statements, which speak only as of the date of this quarterly report.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto included herein, as well as the audited Consolidated Financial Statements and Notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our 2012 Annual Report. The discussion and analysis includes period-to-period comparisons of our financial results. Although period-to-period comparisons may be helpful in understanding our financial results, we believe that they should not be relied upon as an accurate indicator of future performance.

Overview

Craft Brew Alliance is an independent craft brewer formed by the union of four unique and pioneering craft beer brands:

- Redhook Ale Brewery founded by Gordon Bowker and Paul Shipman in 1981 in Seattle, Washington;
- Widmer Brothers Brewing founded by brothers Kurt and Rob Widmer in 1984 in Portland, Oregon;
- Kona Brewing Co. founded by father and son team Cameron Healy and Spoon Khalsa in 1994 in Kona, Hawaii; and
- Omission Beer internally developed by our brewing team in 2012 in Portland, Oregon.

Since our formation, we have focused our business activities on satisfying consumers through the brewing, marketing and selling of high-quality craft beers in the United States. Today, as an independent craft brewer, we possess several distinct advantages, unique in the craft beer category. These advantages derive from the combination of our innovative quality craft beers; the strength of our distinct, authentic brand portfolio; our seamless national distribution and national sales and marketing reach; our financial capabilities as a public company; our owned brew pubs; and our bi-coastal breweries.

We proudly brew our craft beers in four company-owned breweries including three mainland breweries located in Portsmouth, New Hampshire; Portland, Oregon; and the Seattle suburb of Woodinville, Washington; and one Hawaii brewery located in Kailua-Kona, Hawaii. We also own and operate a small pilot brewery, primarily used for small batch production and innovative brews, at the Rose Quarter sports arena in Portland, Oregon.

We distribute our beers to retailers through independent wholesalers that are aligned with the Anheuser-Busch, LLC (“A-B”) network. These sales are made pursuant to a Master Distributor Agreement (the “A-B Distributor Agreement”) with A-B. Our agreement with A-B initially allowed us to establish relationships nationwide with these wholesalers. As a result of this distribution arrangement, we believe that, under alcohol beverage laws in a majority of states, these wholesalers own the exclusive right to distribute our beers in their respective markets if the A-B Distributor Agreement expires or is terminated. Redhook and Widmer Brothers beers are distributed in all 50 states and Kona beers are distributed in 36 states. Omission Beer recently became available nationally and we continue to expand into new markets in both the U.S. and internationally. Separate from our A-B wholesalers, we maintain an independent sales and marketing organization with resources across the key functions of brand management, field marketing, field sales, and national retail sales.

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We operate in two segments: Beer Related operations and Pubs. Beer Related operations include the brewing and sale of craft beers from our five breweries, both domestically and internationally. Pubs operations primarily include our five pubs, four of which are located adjacent to our Beer Related operations, other merchandise sales, and sales of our beers directly to customers.

Following is a summary of our financial results:

Six Months Ended June 30,	Net Sales	Net Income (Loss)	Number of Barrels Sold
2013	\$ 85.6 million	\$ (0.7) million	362,900
2012	\$ 82.8 million	\$ 1.3 million	360,400

Results of Operations

The following table sets forth, for the periods indicated, certain information from our Consolidated Statements of Operations expressed as a percentage of net sales⁽¹⁾:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Sales	107.6%	107.4%	107.6%	107.7%
Less excise tax	(7.6)	(7.4)	(7.6)	(7.7)
Net sales	100.0	100.0	100.0	100.0
Cost of sales	69.5	69.9	72.1	69.7
Gross profit	30.5	30.1	27.9	30.3
Selling, general and administrative expenses	26.4	27.6	28.9	27.3
Operating income (loss)	4.1	2.5	(0.9)	3.0
Interest expense	(0.3)	(0.4)	(0.4)	(0.4)
Interest and other income (expense), net	-	-	-	-
Income (loss) before income taxes	3.8	2.1	(1.3)	2.6
Income tax provision (benefit)	1.6	0.9	(0.5)	1.0
Net income (loss)	2.2%	1.3%	(0.8)%	1.5%

(1) Percentages may not add due to rounding.

Segment Information

Net sales, gross profit and gross margin information by segment was as follows (dollars in thousands):

	Three Months Ended June 30,		
	Beer Related	Pubs	Total
2013			
Net sales	\$ 42,997	\$ 6,010	\$ 49,007
Gross profit	\$ 14,292	\$ 672	\$ 14,964
Gross margin	33.2%	11.2%	30.5%
2012			
Net sales	\$ 38,371	\$ 5,893	\$ 44,264
Gross profit	\$ 12,444	\$ 894	\$ 13,338
Gross margin	32.4%	15.2%	30.1%
	Six Months Ended June 30,		
	Beer Related	Pubs	Total
2013			
Net sales	\$ 74,247	\$ 11,369	\$ 85,616
Gross profit	\$ 22,618	\$ 1,289	\$ 23,907
Gross margin	30.5%	11.3%	27.9%
2012			
Net sales	\$ 71,484	\$ 11,279	\$ 82,763
Gross profit	\$ 23,358	\$ 1,687	\$ 25,045
Gross margin	32.7%	15.0%	30.3%

Sales by Category

The following tables set forth a comparison of sales by category (dollars in thousands):

Sales by Category	Three Months Ended June 30,		Dollar Change	% Change
	2013	2012		
A-B and A-B related	\$ 44,344	\$ 38,860	\$ 5,484	14.1%
Contract brewing and beer related ⁽¹⁾	2,356	2,805	(449)	(16.0)%
Excise taxes	(3,703)	(3,294)	(409)	12.4%
Net beer related sales	42,997	38,371	4,626	12.1%
Pubs ⁽²⁾	6,010	5,893	117	2.0%
Net sales	<u>\$ 49,007</u>	<u>\$ 44,264</u>	<u>\$ 4,743</u>	10.7%
Sales by Category	Six Months Ended June 30,		Dollar Change	% Change
	2013	2012		
A-B and A-B related	\$ 76,206	\$ 72,013	\$ 4,193	5.8%
Contract brewing and beer related ⁽¹⁾	4,516	5,878	(1,362)	(23.2)%
Excise taxes	(6,475)	(6,407)	(68)	1.1%
Net beer related sales	74,247	71,484	2,763	3.9%
Pubs ⁽²⁾	11,369	11,279	90	0.8%
Net sales	<u>\$ 85,616</u>	<u>\$ 82,763</u>	<u>\$ 2,853</u>	3.4%

(1) Beer related includes international beer sales.

(2) Pubs sales include sales of promotional merchandise and sales of beer directly to customers.

Shipments by Category

Shipments by category were as follows (in barrels):

Three Months Ended June 30,	2013 Shipments	2012 Shipments	Barrel Change	% Change	Change in Depletions⁽¹⁾
A-B and A-B related	194,900	172,300	22,600	13.1%	12%
Contract brewing and beer related ⁽²⁾	9,300	15,300	(6,000)	(39.2)%	
Pubs	3,000	2,900	100	3.4%	
Total	<u>207,200</u>	<u>190,500</u>	<u>16,700</u>	8.8%	

Six Months Ended June 30,	2013 Shipments	2012 Shipments	Barrel Change	% Change	Change in Depletions⁽¹⁾
A-B and A-B related	339,700	322,600	17,100	5.3%	9%
Contract brewing and beer related ⁽²⁾	17,800	32,500	(14,700)	(45.2)%	
Pubs	5,400	5,300	100	1.9%	
Total	<u>362,900</u>	<u>360,400</u>	<u>2,500</u>	0.7%	

(1) Change in depletions reflects the year-over-year change in barrel volume sales of beer by wholesalers to retailers.

(2) Contract brewing and beer related includes international shipments of our beers.

The increases in sales to A-B and A-B related in the three and six-month periods ended June 30, 2013 compared to the same periods of 2012 were primarily due to increases in shipments, a shift in package mix towards bottle, which has a higher selling price per barrel than draft, and the increase of our revenue per barrel as we trend towards higher-end beers.

The decreases in contract brewing and beer related sales in the three and six-month periods ended June 30, 2013 compared to the same periods of 2012 were primarily due to a \$1.1 million and \$2.5 million decrease, respectively, in contract brewing sales to FSB as a result of the mutually-agreed upon termination of our contract brewing agreement with FSB effective September 1, 2012. Pursuant to this agreement, we phased out production of FSB branded beers by the end of November 2012 utilizing remaining inventory on-hand. In consideration, FSB is paying us \$70,000 per month through September 2013.

Pubs sales were relatively unchanged in the three and six-month periods ended June 30, 2013 compared to the same periods of 2012. This was a result of our Kona Pubs in Hawaii experiencing increased sales as a result of higher guest counts in the three and six-month periods ended June 30, 2013 compared to the same periods of 2012, offset by lower sales at our Redhook Pub in Woodinville, Washington as a result of a twelve-week closure for a full remodel of that location. The Redhook Pub in Woodinville, Washington re-opened at the end of May 2013.

The increases in excise taxes in the three and six-month periods ended June 30, 2013 compared to the same periods of 2012 were due to the increases in shipments.

Shipments by Brand

The following table sets forth a comparison of shipments by brand (in barrels):

Three Months Ended June 30,	2013 Shipments	2012 Shipments	Increase (Decrease)	% Change	Change in Depletions
Kona	74,500	59,400	15,100	25.4%	23%
Widmer Brothers	68,600	67,200	1,400	2.1%	1%
Redhook	56,600	49,400	7,200	14.6%	14%
Total ⁽¹⁾	<u>199,700</u>	<u>176,000</u>	<u>23,700</u>	13.5%	12%

Six Months Ended June 30,	2013 Shipments	2012 Shipments	Increase (Decrease)	% Change	Change in Depletions
Kona	126,300	107,800	18,500	17.2%	23%
Widmer Brothers	120,000	127,700	(7,700)	(6.0)%	(4)%
Redhook	101,600	93,800	7,800	8.3%	10%
Total ⁽¹⁾	<u>347,900</u>	<u>329,300</u>	<u>18,600</u>	5.6%	9%

(1) Total shipments by brand include international shipments and exclude shipments produced under our contract brewing arrangements.

The increases in our Kona brand shipments in the three and six-month periods ended June 30, 2013 compared to the same periods of 2012 were primarily due to the introduction on the mainland of our Big Wave Golden Ale during the third quarter of 2012, as well as expansion of sales of our Kona brands into certain Midwest states at the beginning of 2013, which also contributed to the continued sales growth of our Longboard Lager.

The increase in our Widmer Brothers brand shipments in the three-month period ended June 30, 2013 compared to the same period of 2012 was primarily due to the increase in shipments of our Omission brand family, partially offset by the sales decline for our Hefeweizen beer, which is experiencing pressure from large, multi-national wheat beer competitors, particularly in draft in California. The decrease in our Widmer Brothers brand shipments in the six-month period ended June 30, 2013 compared to the same period of 2012 was primarily due to sales declines of Hefeweizen, partially offset by the increase in shipments of Omission.

The increases in our Redhook brand shipments in the three and six-month periods ended June 30, 2013 compared to the same period of 2012 were primarily the result of launching our new Audible Ale, a craft beer developed in partnership with Dan Patrick, at the Super Bowl in February 2013, as well as further penetration into existing markets, particularly by our Long Hammer IPA.

For each of the brand families discussed above, shipments lagged depletions for the six-month period ended June 30, 2013 as a result of optimizing our supply chain processes, including brewing, during the three-month period ended March 31, 2013 to more closely align with the seasonality of our beer sales.

Shipments by Package

The following table sets forth a comparison of our shipments by package, excluding private label shipments produced under our contract brewing arrangements (in barrels):

Three Months Ended June 30,	2013		2012	
	Shipments	% of Total	Shipments	% of Total
Draft	55,100	27.6%	55,800	31.7%
Packaged	144,600	72.4%	120,200	68.3%
Total	199,700	100.0%	176,000	100.0%

Six Months Ended June 30,	2013		2012	
	Shipments	% of Total	Shipments	% of Total
Draft	102,400	29.4%	109,400	33.2%
Packaged	245,500	70.6%	219,900	66.8%
Total	347,900	100.0%	329,300	100.0%

The shift in package mix from draft to packaged in the three and six-month periods ended June 30, 2013 compared to the same periods of 2012 were primarily the result of the increases in volumes on our Kona and Redhook packaged beers and lower volumes on our Hefeweizen draft beer. Increased competition across the industry as a result of both the entry of large, multi-national brewers into the craft beer segment and the significant increase in small, local breweries nationally, is putting pressure on on-premise draft sales.

Cost of Sales

Cost of sales includes purchased raw materials, direct labor, overhead and shipping costs.

Information regarding cost of sales was as follows (dollars in thousands):

	Three Months Ended June 30,		Dollar Change	% Change
	2013	2012		
Beer Related	\$ 28,705	\$ 25,927	\$ 2,778	10.7%
Pubs	5,338	4,999	339	6.8%
Total	\$ 34,043	\$ 30,926	\$ 3,117	10.1%

	Six Months Ended June 30,		Dollar Change	% Change
	2013	2012		
Beer Related	\$ 51,629	\$ 48,126	\$ 3,503	7.3%
Pubs	10,080	9,592	488	5.1%
Total	\$ 61,709	\$ 57,718	\$ 3,991	6.9%

The increase in Beer Related cost of sales in the three-month period ended June 30, 2013 compared to the same period of 2012 was primarily due to the increase in shipments discussed above as well as the mix shift from draft to packaged product as the per barrel equivalent cost of packaged is higher than draft. These increases were partially offset by the benefit of the increased efficiencies of our breweries, which were primarily the result of optimizing our supply chain processes during the first three months of 2013, including brewing, to more closely align with the seasonality of our beer sales. The increase in the six-month period ended June 30, 2013 compared to the same period of 2012 was primarily due to the mix shift from draft to packaged product, lower year-to-date efficiencies, higher merchandise costs and increased distribution rates.

Pubs cost of sales increased in the three and six-month periods ended June 30, 2013 compared to the same periods of 2012 primarily due to cost increases across various categories, including labor, food, merchandise, rent and administrative costs.

Capacity utilization is calculated by dividing total shipments by approximate working capacity and was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Capacity utilization	77.1%	84.7%	67.5%	80.1%

During 2012, we increased the combined capacity of our production breweries from approximately 900,000 barrels per year to approximately 1,075,000 barrels per year.

Gross Profit

Information regarding gross profit was as follows (dollars in thousands):

	Three Months Ended June 30,		Dollar Change	% Change
	2013	2012		
Beer Related	\$ 14,292	\$ 12,444	\$ 1,848	14.9%
Pubs	672	894	(222)	(24.8)%
Total	\$ 14,964	\$ 13,338	\$ 1,626	12.2%

	Six Months Ended June 30,		Dollar Change	% Change
	2013	2012		
Beer Related	\$ 22,618	\$ 23,358	\$ (740)	(3.2)%
Pubs	1,289	1,687	(398)	(23.6)%
Total	\$ 23,907	\$ 25,045	\$ (1,138)	(4.5)%

Gross profit as a percentage of net sales, or gross margin, was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Beer Related	33.2%	32.4%	30.5%	32.7%
Pubs	11.2%	15.2%	11.3%	15.0%
Total	30.5%	30.1%	27.9%	30.3%

The increase in gross profit in the three-month period ended June 30, 2013 compared to the same period of 2012 was due to the increase in shipment volumes and the improved efficiencies of our breweries discussed above. The increase was partially offset by the decline in our Pubs gross profit as a result of higher Pubs costs.

The decrease in gross profit in the six-month period ended June 30, 2013 compared to the same period of 2012 was due to the lower year -to-date efficiencies of our breweries and increased rate of our distribution costs. The decline in our Pubs gross profit, as discussed above, also contributed to the decline. The decreases were partially offset by the increase in our revenue per barrel as we trend towards higher-end beers.

The increase in the Beer Related gross margin rate in the three-month period ended June 30, 2013 compared to the same period of 2012 was due to the improved efficiencies of our breweries, as discussed above, as well as the improved revenue per barrel of beer shipped. The decline in the Beer Related gross margin rate in the six-month period ended June 30, 2013 compared to the same period of 2012 was primarily due to a decline in brewery efficiency and higher distribution costs per barrel, partially offset by the improved revenue per barrel of beer shipped. The declines in the Pubs gross margin rates in the three and six-month periods ended June 30, 2013 were primarily due to relatively flat Pubs sales combined with increases in material and labor costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (“SG&A”) include compensation and related expenses for our sales and marketing activities, management, legal and other professional and administrative support functions.

Information regarding SG&A was as follows (dollars in thousands):

	<u>Three Months Ended June 30,</u>		<u>Dollar</u>	<u>% Change</u>
	<u>2013</u>	<u>2012</u>		
As a % of net sales	\$ 12,950 26.4%	\$ 12,222 27.6%	\$ 728	6.0%

	<u>Six Months Ended June 30,</u>		<u>Dollar</u>	<u>% Change</u>
	<u>2013</u>	<u>2012</u>		
As a % of net sales	\$ 24,710 28.9%	\$ 22,595 27.3%	\$ 2,115	9.4%

The increase in SG&A for the three-month period ended June 30, 2013 compared to the same period of 2012 was primarily due to increases in new packaging design and development and employee related costs. These increases were partially offset by decreases in promotional merchandise spending and professional fees. SG&A decreased as a percentage of net sales in the three-month period ended June 30, 2013 compared to the same period of 2012 primarily due to our leveraging of spending in prior periods.

The increase in SG&A for the six-month period ended June 30, 2013 compared to the same period of 2012 was primarily due to increases in employee related costs, which included severance due to a reorganization in our commercial operations group and additional staffing in the first quarter of 2013, and new packaging design and development costs. These increases were partially offset by decreases in promotional merchandise spending. SG&A increased as a percentage of net sales in the six-month period ended June 30, 2013 compared to the same period of 2012 primarily due to employee related costs described above.

Interest Expense

Information regarding interest expense was as follows (dollars in thousands):

	<u>Three Months Ended June 30,</u>		<u>Dollar</u>	<u>% Change</u>
	<u>2013</u>	<u>2012</u>		
	\$ 156	\$ 165	\$ (9)	(5.5)%

	<u>Six Months Ended June 30,</u>		<u>Dollar</u>	<u>% Change</u>
	<u>2013</u>	<u>2012</u>		
	\$ 312	\$ 331	\$ (19)	(5.7)%

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Average debt outstanding	\$ 12,800	\$ 13,524	\$ 12,894	\$ 13,612
Average interest rate	1.91%	2.02%	1.91%	2.02%

The decreases in interest expense in the three and six-month periods ended June 30, 2013 compared to the same periods of 2012 were due to lower average outstanding borrowings and lower average interest rates.

Income Tax Provision

Our effective income tax rate was 40.0% for the first six months of 2013 and 40.5% in the first six months of 2012. The effective income tax rates reflect the impact of non-deductible expenses, primarily state and local taxes, meals and entertainment expenses and tax credits.

Liquidity and Capital Resources

We have required capital primarily for the construction and development of our production breweries, to support our expansion and growth plans and to fund our working capital needs. Historically, we have financed our capital requirements through cash flows from operations, bank borrowings and the sale of common and preferred stock. We anticipate meeting our obligations for the twelve months beginning July 1, 2013 primarily from cash flows generated from operations. In addition, we may borrow under our line of credit facility as the need arises. Capital resources available to us at June 30, 2013 included \$3.9 million of Cash and \$22 million available under our line of credit facility.

We had \$2.3 million of working capital and our debt as a percentage of total capitalization (total debt and common shareholders' equity) was 10.5% at June 30, 2013.

A summary of our cash flow information was as follows (dollars in thousands):

	Six Months Ended	
	June 30,	
	2013	2012
Cash flows provided by operating activities	\$ 4,388	\$ 9,056
Cash flows used in investing activities	(5,313)	(4,123)
Cash flows used in financing activities	(202)	(293)
Increase (decrease) in cash	<u>\$ (1,127)</u>	<u>\$ 4,640</u>

Cash provided by operating activities of \$4.4 million in the first six months of 2013 resulted from our Net loss of \$0.7 million, net non-cash expenses of \$4.2 million and changes in our operating assets and liabilities as discussed in more detail below.

Accounts receivable, net, increased \$0.9 million to \$11.4 million at June 30, 2013 compared to \$10.5 million at December 31, 2012. This increase was primarily due to a \$1.4 million increase in our receivable from A-B, which totaled \$7.8 million at June 30, 2013. Historically, we have not had collection problems related to our accounts receivable.

Inventories increased \$3.1 million to \$14.8 million at June 30, 2013 compared to \$11.7 million at December 31, 2012, primarily to support an expected increase in shipment volume in the quarter ending September 30, 2013.

Accounts payable increased \$4.6 million to \$16.9 million at June 30, 2013 compared to \$12.3 million at December 31, 2012, primarily due to increased inventory purchases to support our expected increased level of sales.

As of June 30, 2013, we had the following net operating loss carryforwards ("NOLs") and federal credit carry forwards available to offset payment of future income taxes:

- federal NOLs of \$393,000, or \$134,000 tax effected;
- state NOLs of \$83,000, tax-effected;
- federal alternative minimum tax ("AMT") credit carry forwards of \$609,000; and
- federal insurance contributions act ("FICA") credit carry forwards of \$108,000, tax-effected.

We anticipate that we will utilize the remaining NOLs and federal credit carry forwards in the near future and, accordingly, once utilized, we will be required to satisfy all of our income tax obligations with cash.

Capital expenditures of \$6.1 million in the first six months of 2013 were primarily directed to Pubs remodeling and beer production capacity and efficiency improvements. As of June 30, 2013 we had \$0.8 million of the \$6.1 million of expenditures recorded in Accounts payable on our Consolidated Balance Sheets. We anticipate capital expenditures of approximately \$11 million to \$13 million for all of 2013 primarily for capacity and efficiency improvements, quality initiatives and restaurant and retail.

We have a loan agreement (as amended, the "Loan Agreement") with Bank of America, N.A., which is presently comprised of a \$22.0 million revolving line of credit ("Line of Credit"), including provisions for cash borrowings and up to \$2.5 million notional amount of letters of credit, and an \$11.6 million term loan ("Term Loan"). We may draw upon the Line of Credit for working capital and general corporate purposes. At June 30, 2013, we had no borrowings outstanding under the Line of Credit and we were in compliance with the financial covenants associated with the Loan Agreement.

Critical Accounting Policies and Estimates

Our financial statements are based upon the selection and application of significant accounting policies that require management to make significant estimates and assumptions. Judgments and uncertainties affecting the application of these policies may result in materially different amounts being reported under different conditions or using different assumptions. Our estimates are based upon historical experience, market trends and financial forecasts and projections, and upon various other assumptions that management believes to be reasonable under the circumstances at various points in time. Actual results may differ, potentially significantly, from these estimates.

Our critical accounting policies, as described in our 2012 Annual Report, relate to goodwill, indefinite-lived intangible assets, long-lived assets, refundable deposits on kegs, revenue recognition and deferred taxes. There have been no changes to our critical accounting policies since December 31, 2012.

Seasonality

Our sales generally reflect a degree of seasonality, with the first and fourth quarters historically exhibiting low sales levels compared to the second and third quarters. Accordingly, our results for any particular quarter are not likely to be indicative of the results to be achieved for the full year.

Off-Balance Sheet Arrangements

We do not have any 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, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Recent Accounting Pronouncements

See Note 2 of Notes to Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our reported market risks and risk management policies since the filing of our 2012 Annual Report on Form 10-K, which was filed with the SEC on March 12, 2013.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and our Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) or 15d-15(e)) under the Securities Exchange Act of 1934 (“Exchange Act”) as of the end of the period covered by this Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. While reasonable assurance is a high level of assurance, it does not mean absolute assurance. Disclosure controls and internal control over financial reporting cannot prevent or detect all errors, misstatements or fraud. In addition, the design of a control system must recognize that there are resource constraints, and the benefits associated with controls must be proportionate to their costs.

Changes in Internal Control Over Financial Reporting

During the second quarter of 2013, no changes in our internal control over financial reporting were identified in connection with the evaluation required by Exchange Act Rule 13a-15 or 15d-15 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

There have been no changes in our reported risk factors and no new risk factors have been identified since the filing of our 2012 Annual Report on Form 10-K, which was filed with the SEC on March 12, 2013.

Item 6. Exhibits

The following exhibits are filed herewith and this list is intended to constitute the exhibit index:

31.1	Certification of Chief Executive Officer of Craft Brew Alliance, Inc. pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of Chief Financial Officer of Craft Brew Alliance, Inc. pursuant to Exchange Act Rule 13a-14(a)
32.1	Certification pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350
99.1	Press Release dated August 7, 2013
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

[Index](#)

SIGNATURE

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.

CRAFT BREW ALLIANCE, INC.

August 7, 2013

BY: /s/ Joseph K. O'Brien

Joseph K. O'Brien

Controller and Chief Accounting Officer

CERTIFICATION

I, Terry E. Michaelson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Craft Brew Alliance, Inc. (the "Registrant");
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 we 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: August 7, 2013

By: /s/ Terry E. Michaelson

Terry E. Michaelson
Chief Executive Officer

CERTIFICATION

I, Mark D. Moreland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Craft Brew Alliance, Inc. (the "Registrant");
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 we 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: August 7, 2013

By: /s/ Mark D. Moreland
Mark D. Moreland
*Executive Vice President, Chief Financial Officer and
Treasurer*

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002**

In connection with the Quarterly Report of Craft Brew Alliance, Inc. (the “Registrant”) on Form 10-Q for the quarter ended June 30, 2013, as filed with the Securities and Exchange Commission on August 7, 2013 (the “Report”), Terry E. Michaelson, the Chief Executive Officer of the Registrant, and Mark D. Moreland, the Chief Financial Officer and Treasurer of the Registrant, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 7, 2013

BY: /s/ Terry E. Michaelson

Terry E. Michaelson
Chief Executive Officer
(Principal Executive Officer)

BY: /s/ Mark D. Moreland

Mark D. Moreland
*Executive Vice President, Chief Financial Officer and
Treasurer*
(Principal Financial Officer)



FOR IMMEDIATE RELEASE

CRAFT BREW ALLIANCE REPORTS SECOND QUARTER 2013 RESULTS
Reports 12% Depletion Growth for the Quarter; Confirms 2013 Financial Outlook

Portland, Ore. (August 7, 2013) – Craft Brew Alliance, Inc. (“CBA”) (Nasdaq: BREW), an independent craft brewing company, today reported its financial results for the second quarter ended June 30, 2013. CBA’s focus on building a national portfolio strategy has positioned the Company to expect strong sales and profit growth in 2013 and to take advantage of the dynamic craft beer segment to achieve long-term value for its shareholders. The results for the second quarter are in line with management’s expectations and the Company confirms 2013 guidance.

Significant second quarter and year-to-date financial highlights include:

- Depletion volume grew 12% over the second quarter of 2012 and 9% year-to-date compared to the same period last year, reflecting the continued success of our portfolio strategy.
- Net sales and branded beer shipments increased 10.7% and 13.5%, respectively, in the second quarter due to the continued organic growth of our portfolio and the launch of new products, including Redhook Audible Ale, Kona Big Wave Golden Ale, Omission Beer and cross-brand variety packs. Year-to-date net sales and branded beer shipments grew 3.4% and 5.6%, respectively, compared to the first half of 2012.
- Our gross margin rate increased 40 basis-points to 30.5% in the second quarter compared to 30.1% for the second quarter last year as a result of supply chain optimization efforts implemented in the first quarter of the year. Our year-to-date gross margin rate declined to 27.9%, a decline of 240 basis points from the same period in 2012, due to lower capacity utilization.
- As a percentage of net revenue, our selling, general and administrative expense (“SG&A”) decreased to 26.4% in the second quarter of 2013 from 27.6% in the second quarter of 2012 as we have continued to leverage the strength of our brands. SG&A expense of \$24.7 million year-to-date includes the continued investment in our portfolio strategy.
- Diluted earnings per share (“EPS”) for the second quarter of 2013 was \$0.06 compared to \$0.03 for the same period last year. 2013 year-to-date loss per share was \$(0.04) compared to 2012 year-to-date EPS of \$0.07.
- For the first six months of 2013, we reported capital additions of approximately \$6.1 million for restaurant updates and continued investments in beer-related capacity, efficiency and quality initiatives.

“We are pleased with our depletions growth of 12% for the second quarter and 9% year-to-date. Our second quarter results are in line with our expectations and demonstrate the positive trend we are anticipating for the full year,” said Terry Michaelson, CBA’s CEO. “For the second half of 2013, we remain focused on driving improved sales and profit growth by leveraging the strengths of our dynamic brand portfolio and continuing to realize benefits as a result of the investments we made in the first quarter to improve gross margin and SG&A.”

Components of anticipated 2013 results and developments

We are confirming previously issued guidance regarding our anticipated full year 2013 results, as follows:

- Depletion growth estimate of 7% to 11%, reflecting the continued strength of the Kona, Redhook and Omission brands and further stabilization of the Widmer Brothers brand.
- Average price increases of approximately 1% to 2%.
- Contract brewing revenue for 2013 at approximately half of the 2012 level as a result of the termination of the Goose Island contract brewing arrangement.
- Gross margin rate of 28.5% to 30.5%, primarily due to pressure from distribution and packaging component costs, partially offset by improved brewery productivity.
- SG&A expense of \$47 million to \$49 million, reflecting leverage from the foundation built by more aggressive spending in prior years.
- Capital expenditures of approximately \$11 million to \$13 million, reflecting our continued investments in capacity and efficiency improvements, quality initiatives and restaurant and retail remodeling projects.

“Our improved second quarter gross margin and earnings reflect significantly better alignment of our shipments and depletions as a result of the supply chain adjustments we made in the first quarter,” said Mark Moreland, CB^A’s CFO. “While the first quarter adjustment suppresses our year-to-date earnings performance, we expect to accelerate our top-line momentum building off of our strong second quarter results with commensurate expansion in our gross margin and earnings throughout the remainder of the year.”

Developments and expectations for 2013 include: (i) confidence in the continued growth in sales of Kona, Redhook and Omission, and clear positioning of Widmer Brothers offerings, (ii) expansion into new geographic markets for Kona and international expansion for all brand families, (iii) updates to packaging across all brand families, as well as introduction of unique can and bottle offerings, (iv) refined messaging on Omission beers, promoting the beer as specially crafted to remove gluten, (v) exploration and introduction of new brands to the CB^A portfolio, including the new Redhook brand Game Changer developed in collaboration with Buffalo Wild Wings, (vi) the introduction of the Square Mile Cider brand, and (vii) continued development of cross-brand packages, bringing the power of our portfolio to consumers in innovative and compelling ways.

Forward-Looking Statements

Statements made in this press release that state the Company's or management's intentions, hopes, beliefs, expectations or predictions of the future, including depletions and sales growth, the level or effect of SG&A expense, the amount of capital spending, and the benefits or improvements to be realized from strategic initiatives and capital projects, are forward-looking statements. It is important to note that the Company's actual results could differ materially from those projected in such forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained from time to time in the Company's SEC filings, including, but not limited to, the Company's report on Form 10-K for the year ended December 31, 2012. Copies of these documents may be found on the Company's website, www.craftbrew.com, or obtained by contacting the Company or the SEC.

About Craft Brew Alliance

CBA is an independent, publicly traded craft brewing company that was formed through the merger of leading Pacific Northwest craft brewers – Widmer Brothers Brewing and Redhook Ale Brewery – in 2008. With an eye toward preserving and growing one-of-a-kind craft beers and brands, CBA was joined by Kona Brewing Company in 2010. Craft Brew Alliance launched Omission beer in 2012.

When Kurt & Rob Widmer founded Widmer Brothers Brewing in 1984, they didn't confine their brewing exploration to strict style guidelines. To this day, Widmer Brothers continues to create craft beers with a unique and unconventional twist on traditional styles that are award winning and please a wide range of craft beer lovers. Redhook began in a Seattle transmission shop in 1981 and those colorful roots are reflected in the brand's personality to this day. The eminently drinkable beers consistently win awards and please crowds across the United States. Kona Brewing was founded in 1994 by the father and son team of Cameron Healy and Spoon Khalsa, who dreamed of crafting fresh, local-island brews with spirit, passion and quality. As the largest craft brewery in Hawaii, Kona personifies the laid-back, passionate lifestyle and environmental respect of the Hawaiian people and culture. Omission beer is the first craft beer brand in the United States focused exclusively on brewing great tasting craft beers with traditional beer ingredients, including malted barley, that are specially crafted to remove gluten.

For more information, visit: www.craftbrew.com.

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Craft Brew Alliance, Inc.
Condensed Consolidated Statements of Operations
(In thousands, except per share amounts and shipments)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Sales	52,710	\$ 47,558	92,091	\$ 89,170
Less excise taxes	3,703	3,294	6,475	6,407
Net sales	49,007	44,264	85,616	82,763
Cost of sales	34,043	30,926	61,709	57,718
Gross profit	14,964	13,338	23,907	25,045
As percentage of net sales	30.5%	30.1%	27.9%	30.3%
Selling, general and administrative expenses	12,950	12,222	24,710	22,595
Operating income (loss)	2,014	1,116	(803)	2,450
Interest expense	(156)	(165)	(312)	(331)
Income from equity investments, interest and other, net	6	(11)	(17)	(6)
Income (loss) before income taxes	1,864	940	(1,132)	2,113
Income tax provision (benefit)	769	381	(453)	856
Net income (loss)	<u>\$ 1,095</u>	<u>\$ 559</u>	<u>\$ (679)</u>	<u>\$ 1,257</u>
Earnings (loss) per share:				
Basic and diluted earnings (loss) per share	<u>\$ 0.06</u>	<u>\$ 0.03</u>	<u>\$ (0.04)</u>	<u>\$ 0.07</u>
Weighted average shares outstanding:				
Basic	18,926	18,857	18,905	18,851
Diluted	18,992	18,931	18,905	18,921
Total shipments (in barrels):				
Core Brands	197,900	175,200	345,100	327,900
Contract Brewing	9,300	15,300	17,800	32,500
Total shipments	<u>207,200</u>	<u>190,500</u>	<u>362,900</u>	<u>360,400</u>
Depletion growth rate (over the same period from the prior year)	<u>12%</u>	<u>3%</u>	<u>9%</u>	<u>5%</u>

Craft Brew Alliance, Inc.
Condensed Consolidated Balance Sheets
(In thousands)
(Unaudited)

	June 30,	
	2013	2012
Current assets:		
Cash	\$ 3,886	\$ 5,435
Accounts receivable, net	11,381	11,294
Inventories	14,780	11,285
Deferred income tax asset, net	1,672	1,266
Other current assets	3,617	3,236
Total current assets	35,336	32,516
Property, equipment and leasehold improvements, net	105,328	102,218
Goodwill	12,917	12,917
Intangible and other non-current assets, net	17,305	17,700
Total assets	\$ 170,886	\$ 165,351
Current liabilities:		
Accounts payable	16,871	\$ 14,214
Accrued salaries, wages and payroll taxes	5,427	4,879
Refundable deposits	8,875	8,415
Other accrued expenses	1,176	990
Current portion of long-term debt and capital lease obligations	661	616
Total current liabilities	33,010	29,114
Long-term debt and capital lease obligations, net	12,049	12,820
Other long-term liabilities	17,757	17,254
Total common shareholders' equity	108,070	106,163
Total liabilities and common shareholders' equity	\$ 170,886	\$ 165,351

Craft Brew Alliance, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended	
	June 30,	
	2013	2012
Cash Flows From Operating Activities:		
Net income (loss)	\$ (679)	\$ 1,257
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,991	3,761
Deferred income taxes	(475)	701
Other, including stock-based compensation	643	76
Changes in operating assets and liabilities:		
Accounts receivable	(868)	1,614
Inventories	(3,111)	(1,454)
Other current assets	191	(420)
Accounts payable and other accrued expenses	3,954	2,753
Accrued salaries, wages and payroll taxes	159	355
Refundable deposits	583	413
Net cash provided by operating activities	4,388	9,056
Cash Flows from Investing Activities:		
Expenditures for property, equipment and leasehold improvements	(5,313)	(4,578)
Proceeds from sale of property, equipment and leasehold improvements and other	-	37
Proceeds from the sale of equity interest in Fulton Street Brewery, LLC	-	418
Net cash used in investing activities	(5,313)	(4,123)
Cash Flows from Financing Activities:		
Principal payments on debt and capital lease obligations	(316)	(296)
Issuance of common stock	114	3
Net cash used in financing activities	(202)	(293)
Increase (decrease) in cash	(1,127)	4,640
Cash, beginning of period	5,013	795
Cash, end of period	\$ 3,886	\$ 5,435

Supplemental Disclosures Regarding Non-GAAP Financial Information

Craft Brew Alliance, Inc.
Reconciliation of Adjusted EBITDA to Net Income
(In thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income (loss)	\$ 1,095	\$ 559	\$ (679)	\$ 1,257
Interest expense	156	165	312	331
Income tax provision (benefit)	769	381	(453)	856
Depreciation expense	1,976	1,852	3,866	3,633
Amortization expense	62	64	125	128
Stock-based compensation	246	177	348	311
Loss on disposal of assets	92	15	121	16
Adjusted EBITDA	<u>\$ 4,396</u>	<u>\$ 3,213</u>	<u>\$ 3,640</u>	<u>\$ 6,532</u>

The Company has presented Adjusted Earnings before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”) in these tables to provide investors with additional information to evaluate our operating performance on an ongoing basis using criteria that are used by the Company’s management. The Company defines Adjusted EBITDA as net earnings before interest, income taxes, depreciation and amortization, stock compensation and other non-cash charges, including net gain or loss on disposal of property, plant and equipment. The Company uses Adjusted EBITDA, among other measures, to evaluate operating performance, to plan and forecast future periods’ operating performance, and as an incentive compensation target for certain management personnel.

As Adjusted EBITDA is not a measure of operating performance or liquidity calculated in accordance with generally accepted accounting principles in the United States of America (“GAAP”), this measure should not be considered in isolation of, or as a substitute for, net income as an indicator of operating performance, or net cash provided by operating activities as an indicator of liquidity. The use of Adjusted EBITDA instead of net income has limitations as an analytical tool, including the inability to determine profitability; the exclusion of interest expense and associated cash requirements, given the level of the Company’s indebtedness; and the exclusion of depreciation and amortization which represent significant and unavoidable operating costs, given the capital expenditures needed to maintain the Company’s operations. We compensate for these limitations by relying on GAAP results. Our computation of Adjusted EBITDA may differ from similarly titled measures used by other companies. As Adjusted EBITDA excludes certain financial information compared with net income and net cash provided by operating activities, the most directly comparable GAAP financial measures, users of this financial information should consider the types of events and transactions which are excluded. The table above shows a reconciliation of Adjusted EBITDA to net income.
