# 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, 2015**

**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** | **91-1141254** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (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 ☐ | Accelerated Filer ☒ |
| Non-accelerated Filer ☐ (Do not check if a smaller reporting company) | 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 27, 2015 was 19,171,199.

**CRAFT BREW ALLIANCE, INC.**
**INDEX TO FORM 10-Q**

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,277 | $ 981 |
| Accounts receivable, net | 21,572 | 11,741 |
| Inventory, net | 19,350 | 18,971 |
| Deferred income tax asset, net | 1,746 | 1,670 |
| Other current assets | 4,510 | 4,413 |
| Total current assets | 48,455 | 37,776 |
| Property, equipment and leasehold improvements, net | 110,354 | 110,350 |
| Goodwill | 12,917 | 12,917 |
| Intangible and other assets, net | 16,916 | 17,558 |
| Total assets | $ 188,642 | $ 178,601 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 18,571 | $ 12,987 |
| Accrued salaries, wages and payroll taxes | 5,000 | 5,114 |
| Refundable deposits | 7,426 | 8,152 |
| Other accrued expenses | 2,043 | 2,316 |
| Current portion of long-term debt and capital lease obligations | 1,100 | 1,157 |
| Total current liabilities | 34,140 | 29,726 |
| Long-term debt and capital lease obligations, net of current portion | 18,368 | 13,720 |
| Fair value of derivative financial instruments | 453 | 503 |
| Deferred income tax liability, net | 18,731 | 18,570 |
| Other liabilities | 711 | 665 |
| Total liabilities | 72,403 | 63,184 |
| Commitments and contingencies | | |
| Common shareholders' equity: | | |
| Common stock, $0.005 par value. Authorized 50,000,000 shares; issued and outstanding 19,171,199 and 19,115,396 | 96 | 96 |
| Additional paid-in capital | 138,954 | 138,391 |
| Accumulated other comprehensive loss | (280) | (312) |
| Accumulated deficit | (22,531) | (22,758) |
| Total common shareholders' equity | 116,239 | 115,417 |
| Total liabilities and common shareholders' equity | $ 188,642 | $ 178,601 |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Sales | $ 62,638 | $ 60,728 | $ 107,257 | $ 107,745 |
| Less excise taxes | 4,107 | 4,042 | 7,017 | 7,233 |
| Net sales | 58,531 | 56,686 | 100,240 | 100,512 |
| Cost of sales | 39,841 | 38,112 | 70,388 | 70,098 |
| Gross profit | 18,690 | 18,574 | 29,852 | 30,414 |
| Selling, general and administrative expenses | 16,263 | 15,208 | 29,216 | 27,270 |
| Operating income | 2,427 | 3,366 | 636 | 3,144 |
| Interest expense | (150) | (105) | (271) | (206) |
| Other income, net | 7 | 9 | 13 | 3 |
| Income before income taxes | 2,284 | 3,270 | 378 | 2,941 |
| Income tax expense | 894 | 1,275 | 151 | 1,147 |
| Net income | $ 1,390 | $ 1,995 | $ 227 | $ 1,794 |
| Basic and diluted net income per share | $ 0.07 | $ 0.10 | $ 0.01 | $ 0.09 |
| Shares used in basic per share calculations | 19,145 | 19,029 | 19,130 | 19,002 |
| Shares used in diluted per share calculations | 19,177 | 19,087 | 19,164 | 19,077 |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Net income | $ 1,390 | $ 1,995 | $ 227 | $ 1,794 |
| Unrealized gain (loss) on derivative hedge transactions, net of tax | 111 | (81) | 32 | (229) |
| Comprehensive income | $ 1,501 | $ 1,914 | $ 259 | $ 1,565 |

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, | |
|---|---|---|
| | **2015** | **2014** |
| **Cash flows from operating activities:** | | |
| Net income | $ 227 | $ 1,794 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,727 | 4,255 |
| Loss on sale or disposal of Property, equipment and leasehold improvements | 306 | 19 |
| Deferred income taxes | 67 | 66 |
| Stock-based compensation | 605 | 444 |
| Excess tax benefit from employee stock plans | (51) | (176) |
| Other | 62 | (382) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (9,831) | (1,959) |
| Inventories | 62 | (2,909) |
| Other current assets | (97) | (347) |
| Accounts payable and other accrued expenses | 5,330 | 5,232 |
| Accrued salaries, wages and payroll taxes | (114) | 1,635 |
| Refundable deposits | (181) | 446 |
| **Net cash provided by operating activities** | 1,112 | 8,118 |
| **Cash flows from investing activities:** | | |
| Expenditures for Property, equipment and leasehold improvements | (5,816) | (5,074) |
| Proceeds from sale of Property, equipment and leasehold improvements | 387 | 15 |
| **Net cash used in investing activities** | (5,429) | (5,059) |
| **Cash flows from financing activities:** | | |
| Principal payments on debt and capital lease obligations | (245) | (291) |
| Proceeds from capital lease financing | — | 841 |
| Net borrowings under revolving line of credit | 4,900 | — |
| Proceeds from issuances of common stock | 58 | 63 |
| Tax payments related to performance shares issued | (151) | (150) |
| Excess tax benefit from employee stock plans | 51 | 176 |
| **Net cash provided by financing activities** | 4,613 | 639 |
| **Increase in Cash and cash equivalents** | 296 | 3,698 |
| **Cash and cash equivalents:** | | |
| Beginning of period | 981 | 2,726 |
| End of period | $ 1,277 | $ 6,424 |
| **Supplemental disclosure of cash flow information:** | | |
| Cash paid for interest | $ 329 | $ 260 |
| Cash paid for income taxes, net | 56 | 246 |
| **Supplemental disclosure of non-cash information:** | | |
| Purchases of Property, equipment and leasehold improvements included in Accounts payable at end of period | $ 667 | $ 2,008 |

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, 2014 ("2014 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 ("U.S. GAAP") 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**

***ASU 2015-11***
In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-11, "Simplifying the Measurement of Inventory (Topic 330)." ASU 2015-11 simplifies the accounting for the valuation of all inventory not accounted for using the last-in, first-out ("LIFO") method by prescribing that inventory be valued at the lower of cost and net realizable value. ASU 2015-11 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 on a prospective basis. We do not expect the adoption of ASU 2015-11 to have a material effect on our financial position, results of operations or cash flows.

***ASU 2015-05***
In April 2015, the FASB issued ASU 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)." ASU 2015-05 provides guidance regarding the accounting for a customer's fees paid in a cloud computing arrangement; specifically about whether a cloud computing arrangement includes a software license, and if so, how to account for the software license. ASU 2015-05 is effective for public companies' annual periods, including interim periods within those fiscal years, beginning after December 15, 2015 on either a prospective or retrospective basis. Early adoption is permitted. We do not expect the adoption of ASU 2015-05 to have a material effect on our financial position, results of operations or cash flows.

***ASU 2015-03***
In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments are effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments are to be applied on a retrospective basis, wherein the balance sheet of each individual period presented is adjusted to reflect the period-specific effects of applying the new guidance. We do not expect the adoption of ASU 2015-03 to have a material effect on our financial position, results of operations or cash flows.

***ASU 2015-02***
In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification and improves current U.S. GAAP by placing more emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity ("VIE"), and changing consolidation conclusions for companies in several industries that typically make use of limited partnerships or VIEs. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We do not expect the adoption of ASU 2015-02 to have a material effect on our financial position, results of operations or cash flows.

***ASU 2015-01***
In January 2015, the FASB issued ASU No. 2015-01, “Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items.” This ASU eliminates from U.S. GAAP the concept of extraordinary items. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. We do not expect the adoption of ASU 2015-01 to have a material effect on our financial position, results of operations or cash flows.

***ASU 2014-17***
In November 2014, the FASB issued ASU No. 2014-17, “Business Combinations (Topic 805): Pushdown Accounting.” This ASU provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. ASU 2014-17 was effective on November 18, 2014. The adoption of ASU 2014-17 did not have any effect on our financial position, results of operations or cash flows.

***ASU 2014-16***
In November 2014, the FASB issued ASU 2014-16, “Derivatives and Hedging (Topic 815).” ASU 2014-16 addresses whether the host contract in a hybrid financial instrument issued in the form of a share should be accounted for as debt or equity. ASU 2014-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. We do not currently have issued, nor are we investors in, hybrid financial instruments. Accordingly, we do not expect the adoption of ASU 2014-16 to have any effect on our financial position, results of operations or cash flows.

***ASU 2014-15***
In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40)". ASU 2014-15 provides guidance related to management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosure. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for interim and annual periods thereafter. Early application is permitted. We do not expect the adoption of ASU 2014-15 to have a material effect on our financial position, results of operations or cash flows.

***ASU 2014-12***
In June 2014, the FASB issued ASU No. 2014-12, “Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” This ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. We do not expect the adoption of ASU 2014-12 to have a material effect on our financial position, results of operations or cash flows.

***ASU 2014-09***
In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). ASU 2014-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. We are still evaluating the effect of the adoption of ASU 2014-09. On April 1, 2015, the FASB voted to propose to defer the effective date of the new revenue recognition standard by one year.

***ASU 2014-08***
In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) and Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 amends the definition for what types of asset disposals are to be considered discontinued operations, as well as amending the required disclosures for discontinued operations and assets held for sale. ASU 2014-08 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2014. The adoption of ASU 2014-08 did not have any effect on our financial position, results of operations or cash flows.

**Note 3. Cash and Cash Equivalents**

We maintain cash balances with financial institutions that may exceed federally insured limits. We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of June 30, 2015 and December 31, 2014, we did not have any cash equivalents.

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, 2015 and December 31, 2014, there were no bank overdrafts. Changes in bank overdrafts from period to period are reported in the Consolidated Statements 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, net on our Consolidated Balance Sheets.

Inventories consisted of the following (in thousands):

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Raw materials | $ 4,382 | $ 4,414 |
| Work in process | 3,598 | 2,781 |
| Finished goods | 8,739 | 8,986 |
| Packaging materials | 573 | 627 |
| Promotional merchandise | 1,493 | 1,531 |
| Pub food, beverages and supplies | 565 | 632 |
| | $ 19,350 | $ 18,971 |

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

**Note 5. Related Party Transactions**

***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, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Gross sales to A-B | $ 52,279 | $ 51,798 | $ 87,946 | $ 90,250 |
| Margin fee paid to A-B, classified as a reduction of Sales | 746 | 761 | 1,284 | 1,361 |
| Inventory management and other fees paid to A-B, classified in Cost of sales | 103 | 87 | 193 | 180 |

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Amounts due from A-B related to beer sales pursuant to the A-B distributor agreement | $ 14,523 | $ 7,846 |
| Refundable deposits due to A-B | (1,937) | (2,629) |
| Amounts due to A-B for services rendered | (2,263) | (1,821) |
| Net amount due from A-B | $ 10,323 | $ 3,396 |

***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, | |
|---|---|---|---|
| 2015 | 2014 | 2015 | 2014 |
| $ 30 | $ 32 | $ 60 | $ 64 |

We hold lease and sublease obligations for certain office space and the land underlying the brewery and pub location in Kailua-Kona, Hawaii, with a company whose owners include a shareholder who owns more than 5% of our common stock. 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, | |
|---|---|---|---|
| 2015 | 2014 | 2015 | 2014 |
| $ 129 | $ 120 | $ 261 | $ 231 |

**Note 6. Derivative Financial Instruments**

***Interest Rate Swap Contract***
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, effective January 23, 2014, we entered into an interest rate swap contract with Bank of America, N.A. ("BofA") for 75% of the Term Loan balance, to hedge the variability of interest payments associated with our variable-rate borrowings under our Term Loan with BofA. The current swap contract terminates on September 29, 2023, and had a total notional value of $7.7 million as of June 30, 2015. Through this swap agreement, we pay interest at a fixed rate of 2.86% and receive interest at a floating-rate of the one-month LIBOR, which was 0.18% at June 30, 2015. 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, 2015, unrealized net losses of $453,000 were recorded in Accumulated other comprehensive loss as a result of this hedge. 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 during the first two quarters of 2015 or 2014.

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

**Fair Value of Derivative Instrument**

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Fair value of interest rate swap | $ (453) | $ (503) |

The effect of our interest rate swap contract that was accounted for as a derivative instrument on our Consolidated Statements of Operations for the three- and six-month periods ended June 30, 2015 and 2014 was as follows (in thousands):

| Derivatives in Cash Flow Hedging Relationships | Amount of Gain (Loss) 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,** | | | |
| **2015** | $ 179 | **Interest expense** | $ 52 |
| **2014** | $ (131) | **Interest expense** | $ 55 |
| | | | |
| **Six Months Ended June 30,** | | | |
| **2015** | $ 51 | **Interest expense** | $ 104 |
| **2014** | $ (370) | **Interest expense** | $ 96 |

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.

The following tables summarize liabilities measured at fair value on a recurring basis (in thousands):

| **Fair Value at June 30, 2015** | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Interest rate swap | $ — | $ (453) | $ — | $ (453) |
| | | | | |
| **Fair Value at December 31, 2014** | | | | |
| Interest rate swap | $ — | $ (503) | $ — | $ (503) |

We did not have any assets measured at fair value on a recurring basis at June 30, 2015 or December 31, 2014.

The fair value of our interest rate swap was based on quarterly statements from the issuing bank. There were no changes to our valuation techniques during the second quarter of 2015.

We believe the carrying amounts of Cash, Accounts receivable, Other current assets, Accounts payable, Accrued salaries, wages and payroll taxes, 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, 2015 | December 31, 2014 |
|---|---|---|
| Fixed-rate debt on balance sheet | $ 1,335 | $ 1,456 |
| Estimated fair value of fixed-rate debt | $ 1,381 | $ 1,513 |

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, as well as our Square Mile cider brand. 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 information by segment was as follows (dollars in thousands):

| | Three Months Ended June 30, | | |
|---|---|---|---|
| **2015** | **Beer Related** | **Pubs** | **Total** |
| Net sales | $ 51,229 | $ 7,302 | $ 58,531 |
| Gross profit | $ 17,715 | $ 975 | $ 18,690 |
| Gross margin | 34.6% | 13.4% | 31.9% |
| **2014** | | | |
| Net sales | $ 50,043 | $ 6,643 | $ 56,686 |
| Gross profit | $ 17,659 | $ 915 | $ 18,574 |
| Gross margin | 35.3% | 13.8% | 32.8% |

| | Six Months Ended June 30, | | |
|---|---|---|---|
| **2015** | **Beer Related** | **Pubs** | **Total** |
| Net sales | $ 86,787 | $ 13,453 | $ 100,240 |
| Gross profit | $ 28,281 | $ 1,571 | $ 29,852 |
| Gross margin | 32.6% | 11.7% | 29.8% |
| **2014** | | | |
| Net sales | $ 87,857 | $ 12,655 | $ 100,512 |
| Gross profit | $ 28,706 | $ 1,708 | $ 30,414 |
| Gross margin | 32.7% | 13.5% | 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, | |
|---|---|---|---|
| **2015** | **2014** | **2015** | **2014** |
| 82.3% | 84.0% | 80.8% | 82.5% |

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

| June 30, 2015 | December 31, 2014 |
|---|---|
| 67.3% | 66.8% |

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

***Stock-Based Compensation Expense***

Stock-based compensation expense was recognized in our Consolidated Statements of Operations as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Selling, general and administrative expense | $ 305 | $ 246 | $ 556 | $ 400 |
| Cost of sales | 20 | 27 | 49 | 44 |
| Total stock-based compensation expense | $ 325 | $ 273 | $ 605 | $ 444 |

At June 30, 2015, we had total unrecognized stock-based compensation expense of $2.5 million, which will be recognized over the weighted average remaining vesting period of 3.2 years.

**Note 10. Earnings Per Share**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Weighted average common shares used for basic EPS | 19,145 | 19,029 | 19,130 | 19,002 |
| Dilutive effect of stock-based awards | 32 | 58 | 34 | 75 |
| Shares used for diluted EPS | 19,177 | 19,087 | 19,164 | 19,077 |
| | | | | |
| Stock-based awards not included in diluted per share calculations as they would be antidilutive (in thousands) | 248 | 77 | 200 | 38 |

**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 our 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, 2014 (“2014 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 2014 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 a leading craft brewing company that brews, brands and markets some of the world's most respected and best-loved American craft beers.

We are home to three of the earliest pioneers in craft beer: Redhook Ale Brewery, Washington's largest craft brewery, founded in 1981; Widmer Brothers Brewing, Oregon's largest craft brewery, founded in 1984; and Kona Brewing Company, Hawaii's oldest and largest craft brewery, founded in 1994. As part of Craft Brew Alliance, these craft brewing legends have expanded their reach across the U.S. and more than 15 international markets.

In addition to growing and nurturing distinctive brands rooted in local heritage, Craft Brew Alliance is committed to developing innovative new category leaders, such as Omission Beer, which is the #1 beer in the gluten-free beer segment, and Square Mile Cider, a tribute to the early American settlers who purchased the first plots of land in the Pacific Northwest.

Publicly traded on NASDAQ under the ticker symbol BREW, Craft Brew Alliance is headquartered in Portland, Oregon and operates five breweries and five pub restaurants across the U.S.

We proudly brew our craft beers in four company-owned breweries located in Portland, Oregon; the Seattle suburb of Woodinville, Washington; Portsmouth, New Hampshire; and Kailua-Kona, Hawaii; and one brewery in Memphis, Tennessee owned by our brewing partner. Additionally, we own and operate two small innovation breweries, primarily used for small batch production and innovative brews, in Portland, Oregon and Portsmouth, New Hampshire.

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. As a result of this distribution arrangement, we believe that, under alcohol beverage laws in a majority of states, these wholesalers would own the exclusive right to distribute our beers in their respective markets if the A-B Distributor Agreement expires or is terminated. Kona, Redhook and Widmer Brothers beers are distributed in all 50 states. Omission Beer continues to expand into new markets in the U.S. and internationally, while Square Mile Cider is currently available in 12 states in the West. Separate from our A-B wholesalers, we maintain an internal independent sales and marketing organization with resources across the key functions of brand management, field marketing, field sales, and national retail sales.

We operate in two segments: Beer Related operations and Pubs operations. Beer Related operations include the brewing, and domestic and international sales, of craft beers and ciders from our breweries. Pubs operations primarily include our five pubs, four of which are located adjacent to our Beer Related operations, as well as 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 | Number of Barrels Sold |
|---|---|---|---|
| 2015 | $100.2 million | $0.2 million | 406,600 |
| 2014 | $100.5 million | $1.8 million | 417,100 |

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**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, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Sales | 107.0 % | 107.1 % | 107.0 % | 107.2 % |
| Less excise taxes | (7.0) | (7.1) | (7.0) | (7.2) |
| Net sales | 100.00 | 100.0 | 100.00 | 100.0 |
| Cost of sales | 68.1 | 67.2 | 70.2 | 69.7 |
| Gross profit | 31.9 | 32.8 | 29.8 | 30.3 |
| Selling, general and administrative expenses | 27.8 | 26.8 | 29.1 | 27.1 |
| Operating income | 4.1 | 5.9 | 0.6 | 3.1 |
| Interest expense | (0.3) | (0.2) | (0.3) | (0.2) |
| Other income, net | 0.0 | 0.0 | 0.0 | 0.0 |
| Income before income taxes | 3.9 | 5.8 | 0.4 | 2.9 |
| Income tax expense | 1.5 | 2.2 | 0.2 | 1.1 |
| Net income | 2.4 % | 3.5 % | 0.2 % | 1.8 % |

(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, | | |
|---|---|---|---|
| **2015** | **Beer Related** | **Pubs** | **Total** |
| Net sales | $ 51,229 | $ 7,302 | $ 58,531 |
| Gross profit | $ 17,715 | $ 975 | $ 18,690 |
| Gross margin | 34.6% | 13.4% | 31.9% |
| | | | |
| **2014** | | | |
| Net sales | $ 50,043 | $ 6,643 | $ 56,686 |
| Gross profit | $ 17,659 | $ 915 | $ 18,574 |
| Gross margin | 35.3% | 13.8% | 32.8% |

| | Six Months Ended June 30, | | |
|---|---|---|---|
| **2015** | **Beer Related** | **Pubs** | **Total** |
| Net sales | $ 86,787 | $ 13,453 | $ 100,240 |
| Gross profit | $ 28,281 | $ 1,571 | $ 29,852 |
| Gross margin | 32.6% | 11.7% | 29.8% |
| | | | |
| **2014** | | | |
| Net sales | $ 87,857 | $ 12,655 | $ 100,512 |
| Gross profit | $ 28,706 | $ 1,708 | $ 30,414 |
| Gross margin | 32.7% | 13.5% | 30.3% |

***Sales by Category***
The following table sets forth a comparison of sales by category (dollars in thousands):

| Sales by Category | Three Months Ended June 30, 2015 | Three Months Ended June 30, 2014 | Dollar Change | % Change |
|---|---|---|---|---|
| A-B and A-B related | $ 51,533 | $ 51,037 | $ 496 | 1.0 % |
| Contract brewing and beer related[1] | 3,803 | 3,048 | 755 | 24.8 % |
| Excise taxes | (4,107) | (4,042) | (65) | 1.6 % |
| Net beer related sales | 51,229 | 50,043 | 1,186 | 2.4 % |
| Pubs[2] | 7,302 | 6,643 | 659 | 9.9 % |
| Net sales | $ 58,531 | $ 56,686 | $ 1,845 | 3.3 % |

| Sales by Category | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 | Dollar Change | % Change |
|---|---|---|---|---|
| A-B and A-B related | $ 86,662 | $ 88,889 | $ (2,227) | (2.5)% |
| Contract brewing and beer related[1] | 7,142 | 6,201 | 941 | 15.2 % |
| Excise taxes | (7,017) | (7,233) | 216 | (3.0)% |
| Net beer related sales | 86,787 | 87,857 | (1,070) | (1.2)% |
| Pubs[2] | 13,453 | 12,655 | 798 | 6.3 % |
| Net sales | $ 100,240 | $ 100,512 | $ (272) | (0.3)% |

(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, | 2015 Shipments | 2014 Shipments | Increase (Decrease) | % Change | Change in Depletions[1] |
|---|---|---|---|---|---|
| A-B and A-B related | 218,800 | 218,400 | 400 | 0.2 % | 0% |
| Contract brewing and beer related[2] | 17,300 | 13,200 | 4,100 | 31.1 % | |
| Pubs | 2,800 | 2,700 | 100 | 3.7 % | |
| Total | 238,900 | 234,300 | 4,600 | 2.0 % | |

| Six Months Ended June 30, | 2015 Shipments | 2014 Shipments | Increase (Decrease) | % Change | Change in Depletions[1] |
|---|---|---|---|---|---|
| A-B and A-B related | 370,200 | 385,700 | (15,500) | (4.0)% | 1% |
| Contract brewing and beer related[2] | 31,500 | 26,300 | 5,200 | 19.8 % | |
| Pubs | 4,900 | 5,100 | (200) | (3.9)% | |
| Total | 406,600 | 417,100 | (10,500) | (2.5)% | |

(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 increase in sales to A-B and A-B related in the three-month period ended June 30, 2015 compared to the same period of 2014 was primarily due to an increase in shipments and a shift in package mix from draft to packaged, which has a higher selling price per barrel than draft.

The decrease in sales to A-B and A-B related in the six-month period ended June 30, 2015 compared to the same period of 2014 was primarily due to reductions in our wholesaler inventory levels in the first quarter of 2015. During the same period of 2014, wholesalers were building inventory levels in response to low levels at the end of 2013. The decrease in sales was partially offset by an increase in pricing and a shift in package mix from draft to packaged, which has a higher selling price per barrel than draft.

The increases in Contract brewing and beer related sales in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014 were primarily due to increases in international shipments of our beers, which sell at a higher rate per barrel than contract brewing sales, as we expanded into additional countries, as well as increases in volume of our contract brewing sales.

Pubs sales increased in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014, primarily as a result of higher guest counts at both of our pubs in Hawaii, which also have higher revenue per guest than the Redhook and Widmer Brothers pubs, which experienced lower guest counts at the Portland and Portsmouth locations. The increases in pub sales in the six months ended June 30, 2015 were partially offset by the closure of the Redhook Pub in Portsmouth, New Hampshire for seven days due to inclement weather, and closure of our Kona Pub on the island of Oahu for three weeks for a full remodel in the first quarter of 2015. The increase in Pubs sales in the first six months of 2015 compared to the same period of 2014 was also partially offset by the decrease in beer shipment volume through our Pubs.

Excise taxes vary directly with the volume of beer shipped.

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

| Three Months Ended June 30, | 2015 Shipments | 2014 Shipments | Increase (Decrease) | % Change | Change in Depletions |
|---|---|---|---|---|---|
| Kona | 105,000 | 90,900 | 14,100 | 15.5 % | 12 % |
| Redhook | 52,000 | 61,500 | (9,500) | (15.4)% | (14)% |
| Widmer Brothers | 56,400 | 58,600 | (2,200) | (3.8)% | (7)% |
| Omission | 14,900 | 14,300 | 600 | 4.2 % | 8 % |
| Total(1) | 228,300 | 225,300 | 3,000 | 1.3 % | — % |

| Six Months Ended June 30, | 2015 Shipments | 2014 Shipments | Increase (Decrease) | % Change | Change in Depletions |
|---|---|---|---|---|---|
| Kona | 168,200 | 154,700 | 13,500 | 8.7 % | 11 % |
| Redhook | 94,500 | 112,100 | (17,600) | (15.7)% | (12)% |
| Widmer Brothers | 98,400 | 106,500 | (8,100) | (7.6)% | (5)% |
| Omission | 25,700 | 24,200 | 1,500 | 6.2 % | 18 % |
| Total(1) | 386,800 | 397,500 | (10,700) | (2.7)% | 1 % |

(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, 2015 compared to the same periods of 2014 were primarily due to increases in shipments of Big Wave Golden Ale and Island Hopper variety pack, partially offset by decreases in Koko Brown.

The decreases in our Redhook brand shipments in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014 were primarily due to decreases in our KCCO series, a craft beer brand developed in partnership with theChive, a photo entertainment website, Audible Ale, ESB and Longhammer IPA, partially offset by an increase related to the introduction of Seedy Blonde Apple Ale.

The decreases in our Widmer Brothers brand shipments in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014 were primarily due to decreases in Upheaval IPA and Hefeweizen draft in the three-month period; and Alchemy Ale, Columbia Commons and Hefeweizen draft in the six-month period, partially offset by an increase in Hefeweizen packaged beer and the summer seasonal which switched to Hefe Shandy from Citra Blonde. Hefeweizen packaged has benefited from the introduction of the new Hefeweizen packaging in collaboration with the Portland Timbers.

The increases in our Omission brand shipments in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014 were primarily due to the continued success of, and demand for, the IPA, Lager and Pale Ale styles.

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

| Three Months Ended June 30, | 2015 | | 2014 | |
|---|---|---|---|---|
| | Shipments | % of Total | Shipments | % of Total |
| Draft | 50,400 | 22.1% | 53,400 | 23.7% |
| Packaged | 177,900 | 77.9% | 171,900 | 76.3% |
| Total | 228,300 | 100.0% | 225,300 | 100.0% |

| Six Months Ended June 30, | 2015 | | 2014 | |
|---|---|---|---|---|
| | Shipments | % of Total | Shipments | % of Total |
| Draft | 89,900 | 23.2% | 98,700 | 24.8% |
| Packaged | 296,900 | 76.8% | 298,800 | 75.2% |
| Total | 386,800 | 100.0% | 397,500 | 100.0% |

The shifts in package mix from draft to packaged in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014 were primarily the result of our Kona brand family becoming a larger share of our overall shipments by brand family, which is more heavily weighted to packaged sales, and the growth of Omission, which is only available in packaged.

***Cost of Sales***
Cost of sales includes purchased raw and component materials, direct labor, overhead and distribution costs.

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

| | Three Months Ended June 30, 2015 | Three Months Ended June 30, 2014 | Dollar Change | % Change |
|---|---|---|---|---|
| Beer Related | $ 33,514 | $ 32,384 | $ 1,130 | 3.5 % |
| Pubs | 6,327 | 5,728 | 599 | 10.5 % |
| Total | $ 39,841 | $ 38,112 | $ 1,729 | 4.5 % |

| | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 | Dollar Change | % Change |
|---|---|---|---|---|
| Beer Related | $ 58,506 | $ 59,151 | $ (645) | (1.1)% |
| Pubs | 11,882 | 10,947 | 935 | 8.5 % |
| Total | $ 70,388 | $ 70,098 | $ 290 | 0.4 % |

The increase in Beer Related Cost of sales in the three-month period ended June 30, 2015 compared to the same period of 2014 was primarily due to an increase in brewery costs per barrel at our owned breweries, the increase in shipment volume and the mix shift from draft to packaged beers, as the cost per barrel of packaged beer is higher than draft. The increase in Cost of sales was partially offset by decreases in our cost of component materials and more favorable distribution costs per barrel.

The decrease in Beer Related Cost of sales in the six-month period ended June 30, 2015 compared to the same period of 2014 was primarily due to the decrease in shipment volume and more favorable distribution costs per barrel. The decrease in Cost of sales was partially offset by an increase in brewery costs per barrel at our owned breweries, and the mix shift from draft to packaged beers, as the cost per barrel of packaged beer is higher than draft.

Pubs Cost of sales increased in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014, primarily due to increases in Sales and employee-related costs, as well as higher labor costs relating to training and overhead following the closure of our Kona Pub on the island of Oahu for three weeks for a full remodel in the first quarter of 2015.

Capacity utilization is calculated by dividing total shipments from our owned breweries by the approximate working capacity of these breweries and was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Capacity utilization | 82% | 87% | 70% | 78% |

In June 2014, we initiated full-scale brewing with our brewing partner in Memphis, Tennessee. In the second quarter of 2014, we intentionally increased production in anticipation of the Memphis brewery coming online, which contributed to the higher utilization rates during the three- and six-month periods ended June 30, 2014. This partnership provides us scalable capacity and we anticipate producing up to 100,000 barrels at this location in 2015.

***Gross Profit***
Information regarding Gross profit was as follows (dollars in thousands):

| | Three Months Ended June 30, | | Dollar | |
|---|---|---|---|---|
| | 2015 | 2014 | Change | % Change |
| Beer Related | $ 17,715 | $ 17,659 | $ 56 | 0.3 % |
| Pubs | 975 | 915 | 60 | 6.6 % |
| Total | $ 18,690 | $ 18,574 | $ 116 | 0.6 % |

| | Six Months Ended June 30, | | Dollar | |
|---|---|---|---|---|
| | 2015 | 2014 | Change | % Change |
| Beer Related | $ 28,281 | $ 28,706 | $ (425) | (1.5)% |
| Pubs | 1,571 | 1,708 | (137) | (8.0)% |
| Total | $ 29,852 | $ 30,414 | $ (562) | (1.8)% |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Beer Related | 34.6% | 35.3% | 32.6% | 32.7% |
| Pubs | 13.4% | 13.8% | 11.7% | 13.5% |
| Overall | 31.9% | 32.8% | 29.8% | 30.3% |

The increase in Gross profit in the three-month period ended June 30, 2015 compared to the same period of 2014 was primarily due to the decrease in our component materials costs, lower distribution costs per barrel and increase in shipment volume. The increase in Gross profit was partially offset by an increase in brewery costs per barrel at our owned breweries.

The decrease in Gross profit in the six-month period ended June 30, 2015 compared to the same period of 2014 was primarily due to the increase in brewery costs per barrel at our owned breweries and the decrease in shipment volume. The decrease was partially offset by lower distribution costs per barrel, favorable pricing increases and the decrease in our component materials costs.

The decreases in the Beer Related gross margin in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014 were primarily due to higher brewery costs per barrel, as well as the mix shift from draft to packaged beers. The decreases were partially offset by lower distribution and component costs per barrel and, for the six-month period, favorable selling price increases.

The decreases in the Pubs gross margin in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014 were due to higher labor costs relating to training and overhead following the closure of our Kona Pub on the island of

Oahu for three weeks for a full remodel in the first quarter of 2015, as well as lower guest counts in the Portland and Portsmouth pubs.

***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):

| | Three Months Ended June 30, 2015 | Three Months Ended June 30, 2014 | Dollar Change | % Change |
|---|---|---|---|---|
| | $ 16,263 | $ 15,208 | $ 1,055 | 6.9% |
| As a % of Net sales | 27.8% | 26.8% | | |

| | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 | Dollar Change | % Change |
|---|---|---|---|---|
| | $ 29,216 | $ 27,270 | $ 1,946 | 7.1% |
| As a % of Net sales | 29.1% | 27.1% | | |

The increases in SG&A for the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014 were primarily due to increases in employee-related costs, as well as planned increases in sales and marketing spending. SG&A increased as a percentage of Net sales in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014 primarily due to the deceleration and decrease, respectively, in Net sales.

***Interest Expense***
Information regarding Interest expense was as follows (dollars in thousands):

| Three Months Ended June 30, 2015 | Three Months Ended June 30, 2014 | Dollar Change | % Change |
|---|---|---|---|
| $ 150 | $ 105 | $ 45 | 42.9% |

| Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 | Dollar Change | % Change |
|---|---|---|---|
| $ 271 | $ 206 | $ 65 | 31.6% |

| | Three Months Ended June 30, 2015 | Three Months Ended June 30, 2014 | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 |
|---|---|---|---|---|
| Average debt outstanding | $ 21,046 | $ 11,704 | $ 19,595 | $ 11,701 |
| Average interest rate | 1.85% | 1.74% | 1.70% | 1.89% |

The increases in Interest expense in the three- and six-month periods ended June 30, 2015 compared to the same periods of 2014 were primarily due to the increase in our average debt outstanding. Our average debt outstanding increased as we have borrowed on our line of credit facility to support our expansion and growth plans, and to fund our working capital needs.

***Income Tax Provision***
Our effective income tax rate was 39.9% for the first six months of 2015 and 39.0% in the first six months of 2014. The effective income tax rates reflect the impact of non-deductible expenses (primarily meals and entertainment expenses), state and local taxes, tax credits, and income excluded from taxation under the domestic production activities exclusion.

**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, 2015 primarily from cash flows generated from operations and borrowing under our line of credit facility as the need arises. Capital resources available to us at June 30, 2015 included $1.3 million of Cash and cash equivalents and $14.1 million available under our line of credit facility.

At June 30, 2015 and December 31, 2014, we had $14.3 million and $8.0 million of working capital, respectively, and our debt as a percentage of total capitalization (total debt and common shareholders' equity) was 14.3% and 11.4%, respectively.

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

| | Six Months Ended June 30, | |
|---|---|---|
| | 2015 | 2014 |
| Net cash provided by operating activities | $ 1,112 | $ 8,118 |
| Net cash used in investing activities | (5,429) | (5,059) |
| Net cash provided by financing activities | 4,613 | 639 |
| Increase in Cash and cash equivalents | $ 296 | $ 3,698 |

Cash provided by operating activities of $1.1 million in the first six months of 2015 resulted from our Net income of $0.2 million, net non-cash expenses of $5.7 million and changes in our operating assets and liabilities as discussed in more detail below.

Accounts receivable, net, increased $9.9 million to $21.6 million at June 30, 2015 compared to $11.7 million at December 31, 2014. This increase was primarily due to the timing of shipments and a $6.7 million increase in our receivable from A-B, which totaled $14.5 million at June 30, 2015. Historically, we have not had collection problems related to our accounts receivable.

Inventories increased $0.4 million to $19.4 million at June 30, 2015 compared to $19.0 million at December 31, 2014. The increase from December 31, 2014 is minor due to the timing of shipments in the second quarter of 2015.

Accounts payable increased $5.6 million to $18.6 million at June 30, 2015 compared to $13.0 million at December 31, 2014, primarily due to timing of payments related to raw and component materials and marketing.

As of June 30, 2015, we had the following net operating loss carryforwards ("NOLs") and federal credit carry forwards available to offset payment of future income taxes:

- state NOLs of $31,000, tax-effected;
- federal alternative minimum tax ("AMT") credit carry forwards of $332,000; and
- federal insurance contributions act ("FICA") credit carry forwards of $72,000.

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 $5.8 million in the first six months of 2015 were primarily directed to beer production capacity and efficiency improvements and Pubs remodeling. As of June 30, 2015, we had an additional $0.7 million of expenditures recorded in Accounts payable on our Consolidated Balance Sheets, compared to $0.6 million at December 31, 2014. We anticipate capital expenditures of approximately $16 million to $19 million in 2015 primarily for capacity and efficiency improvements, quality initiatives and restaurant and retail. Beginning in 2015, we will be investing approximately $10 million in our Oregon Brewery to expand capacity to 750,000 barrels per year, with expected completion in the first half of 2017. Also beginning in 2015 through expected completion in early 2017, we will be investing approximately $15 million in a new Hawaiian Brewery to expand capacity to 100,000 barrels per year. Both of these projects are included in the anticipated capital expenditures of $16 million to $19 million in 2015. We also anticipate total capital expenditures of $17 million to $21 million in 2016, including spending for the expansion projects.

We have a loan agreement (as amended, the "Loan Agreement") with Bank of America, N.A., which consists 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 a $10.2 million term loan ("Term Loan"). We may draw upon the Line of Credit for working capital and general corporate purposes until expiration on October 31, 2018. The maturity date of the Term Loan is September 30, 2023. At June 30, 2015, we had $7.9 million of borrowings outstanding under the Line of Credit and $10.2 million outstanding under the Term Loan.

**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 2014 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, 2014.

**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 2014 Annual Report on Form 10-K, which was filed with the SEC on March 4, 2015.

**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 2015, 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 2014 Annual Report on Form 10-K, which was filed with the SEC on March 4, 2015.

**Item 6. Exhibits**

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

| | |
|---|---|
| 10.1 | Form of Nonqualified Option Agreement for the 2014 Stock Incentive Plan |
| 10.2 | Annual Cash Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 22, 2015) |
| 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 5, 2015 |
| 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 |

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 5, 2015

BY: /s/ Joseph K. Vanderstelt

Joseph K. Vanderstelt

*Chief Financial Officer*

# FORM OF
# NONQUALIFIED
# OPTION AGREEMENT

**THIS NONQUALIFIED OPTION AGREEMENT** (this "Agreement") is entered into effective as of _______________ (the "Grant Date"), by **CRAFT BREW ALLIANCE, INC.**, a Washington corporation (the "Company"), and ________________________________ (the "Optionholder").

## RECITALS

A. The Company has adopted the 2014 Stock Incentive Plan (the "Plan"). Capitalized terms that are used but not defined in this Agreement will have the meanings given those terms in the Plan.

B. The Committee has designated the Optionholder to receive a stock option under the Plan.

**NOW, THEREFORE,** the Company and the Optionholder agree as follows:

**1. Grant of the Option.** The Company grants to the Optionholder a Nonqualified Option (the "Option") to acquire from the Company ______ shares of Common Stock (the "Shares") at the price of _________ per share (the "Purchase Price"). The Option is subject to all of the provisions of the Plan and the terms and conditions specified in this Agreement.

**1. Term of the Option.** Unless earlier terminated pursuant to the Plan, the Option will terminate on the earliest to occur of the following: (a) the expiration of three (3) months following the date of termination of the Optionholder's Continuous Service for any reason other than death, Disability or "for cause" (as defined in Section 14.4 of the Plan; referred to herein as "Cause"); (b) the expiration of one year following the date of termination of the Optionholder's Continuous Service by reason of death or Disability; (c) the date of termination of the Optionholder's Continuous Service for Cause; and (d) the tenth anniversary of the Grant Date (__________________).

**2. Exercisability.** Except as specified below and in Section 5.5 of the Plan, the Option will become exercisable (a) as to twenty-five percent (25%) of the Shares on the first anniversary of the Grant Date, and (b) as to an additional twenty-five percent (25%) of the Shares on each of the next three anniversaries of the Grant Date. If the Optionholder's Continuous Service terminates by reason of death or Disability, the Option will immediately become exercisable in full. If the Optionholder's Continuous Service terminates by reason of Cause, all outstanding Options shall be forfeited (whether Vested or not Vested) and expire on the date of termination. Except as provided in Section 5.5 of the Plan, if the Optionholder's Continuous Service terminates for any reason other than death, Disability or Cause, the Option thereafter will be exercisable only for the Shares as to which it was exercisable on the date of termination.

**3. Exercise of the Option.** In order to exercise the Option, the Optionholder must do the following:

(a) deliver to the Company a written notice, in substantially the form of the attached Exhibit A, specifying the number of Shares for which the Option is being exercised;

(b) tender payment to the Company of the aggregate Purchase Price for the Shares for which the Option is being exercised, which amount may be paid –

(i) by check;

(ii) by delivery to the Company of shares of Common Stock already owned by the Optionholder that have a Fair Market Value, as of the date of exercise, equal to the aggregate Purchase Price payable;

(iii) by withholding Shares issuable to the Optionholder upon exercise of the Option with a Fair Market Value on the date of delivery equal to the aggregate Purchase Price of the Shares as to which the Option is exercised;

(iv) by delivery (in a form approved by the Committee) of an irrevocable direction to a securities broker acceptable to the Committee:

(A) to sell Shares subject to the Option and to deliver all or a part of the sales proceeds to the Company in payment of all or a part of the Purchase Price (and withholding taxes, if applicable) due; or

(B) to pledge Shares subject to the Option to the broker as security for a loan and to deliver all or a part of the loan proceeds to the Company in payment of all or a part of the Purchase Price and withholding taxes due, provided that the Optionholder is not a Reporting Person; or

(v) by such other means as the Committee, in its sole discretion, may permit at the time of exercise;

(c) pay, or make arrangements satisfactory to the Committee for payment to the Company of, all taxes required to be withheld by the Company in connection with the exercise of the Option; and

(d) execute and deliver to the Company any other documents required from time to time by the Committee in order to promote compliance with applicable laws, rules and regulations.

**4. Tax Withholding and Reimbursement.** The Company is authorized to withhold from the Optionholder's other compensation any withholding and payroll taxes imposed on the Company in connection with or with respect to the exercise or other settlement of the Option (the "Payroll Taxes"). In the event the Optionholder is no longer an employee of the Company at the time of exercise or there is insufficient other income from which to withhold Payroll Taxes, the

Optionholder agrees to pay the Company an amount sufficient to provide for payment of all Payroll Taxes. In no event will the amount withheld exceed the minimum amount of tax required to be withheld by law in connection with exercise of the Option. Payment may be in (a) cash, (b) shares of Common Stock otherwise owned by the Optionholder, duly endorsed for transfer, with a Fair Market Value equal to the sums to be withheld, (c) Shares issuable to the Optionholder upon exercise of the Option with a Fair Market Value equal to the sums to be withheld, or (d) any combination of the foregoing methods of payment; provided that, with respect to clauses (b) and (c), the Committee may, at any time in its sole discretion, suspend or terminate the use of those methods of satisfying the tax withholding obligation upon notice to the Optionholder.

**5. Acceptance of Option; Further Assurances.** By executing this Agreement, the Optionholder accepts the Option, acknowledges receipt of a copy of the Plan, and agrees to comply with and be bound by all of the provisions of the Plan and this Agreement. The Optionholder agrees to execute from time to time such additional documents as the Company may reasonably require in order to effectuate the purposes of the Plan and this Agreement.

**6. Clawback/Recovery**. Any compensation paid to the Optionholder under the Option may be subject to recoupment in accordance with any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or quoted or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law, including the Sarbanes-Oxley Act of 2002. The Optionholder agrees to promptly repay any such compensation as directed by the Company under any such clawback.

**7. Entire Agreement; Amendments; Binding Effect.** This Agreement, together with the Plan, constitutes the entire agreement and understanding between the Company and the Optionholder regarding the subject matter hereof. Except as permitted by the Plan, no amendment of the Option or this Agreement, or waiver of any provision of this Agreement or the Plan, shall be valid unless in writing and duly executed by the Company and the Optionholder. The failure of any party to enforce any of that party's rights against the other party for breach of any of the terms of this Agreement or the Plan shall not be construed as a waiver of such rights as to any continued or subsequent breach. This Agreement shall be binding upon the Optionholder and his or her heirs, successors and assigns.

**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the day and year first above written.

"Company" **CRAFT BREW ALLIANCE, INC.**

By __________

[Name]
[Title]

"Optionholder" __________

# EXHIBIT A

## NOTICE OF STOCK OPTION EXERCISE

## CRAFT BREW ALLIANCE, INC.
## 2014 STOCK INCENTIVE PLAN

To: Craft Brew Alliance, Inc.
929 North Russell Street
Portland, Oregon 97227
Attention: ___________________

Optionholder: ____________________________
Print Name

Mailing Address: ____________________________
____________________________
____________________________

Telephone Number: ____________________________

Option: The option evidenced by an Option Agreement dated ___________, 20__.

**OPTION EXERCISE**

I hereby elect to exercise the Option to purchase shares ("Shares") of common stock of Craft Brew Alliance, Inc. ("CBA"), covered by the Option as follows:

Number of Shares Purchased (a) ___________________
Per-Share Option Price (b) $___________________
Aggregate Purchase Price (a times b) $___________________
Closing Date of Purchase ___________________

Form of Payment [Check One]:

☐ My check in the full amount of the Aggregate Purchase Price (as well as a check for any withholding taxes, if this box ☐ is checked). See "Instructions" below.

☐ Delivery of previously owned shares of CBA common stock with a fair market value equal to the Aggregate Purchase Price (as well as any withholding taxes, if this box ☐ is checked). See "Instructions" below.

☐ Withholding of that number of Shares of CBA common stock otherwise issuable to me upon exercise of the Option, with a fair market value on the date of exercise equal to the Aggregate Purchase Price (as well as any withholding taxes, if this box ☐ is checked). See "Instructions" below.

☐ My irrevocable direction to my securities broker (see below) to sell Shares subject to the Option and deliver a portion of the sales proceeds to Craft Brew Alliance, Inc., in full payment of the Aggregate Purchase Price (as well as any withholding taxes, if this box ☐ is checked). See "Instructions" below. I hereby confirm that any sale of Shares will be in compliance with CBA's policies on insider trading and Rule 144, if applicable. I HEREBY IRREVOCABLY AUTHORIZE ______________________ to transfer funds to Craft Brew Alliance, (*name of broker*)
Inc., from my account in payment of the Aggregate Purchase Price (and withholding taxes, if applicable) and Craft Brew Alliance, Inc., is hereby directed to issue the Shares for my account with such broker and to transmit the Shares to the broker indicated above.

**Instructions:**

(1) If payment is to be by check, a check for the amount of the Aggregate Purchase Price payable to Craft Brew Alliance, Inc., should be submitted with this Notice.

(2) If payment is to be by surrender of previously owned shares or by attestation of ownership (see Attestation Form below), either a certificate for the shares accompanied by a stock power endorsed in blank or the completed Attestation Form should be submitted with this Notice. If applicable, a certificate for any shares in excess of those needed to satisfy the Aggregate Purchase Price (and withholding taxes, if applicable) will be returned to you with the certificate for your option shares. Any change in registration between the payment shares and the new shares will require a properly executed stock power that is guaranteed by an institution participating in a recognized medallion signature guarantee program.

(3) Withholding tax is due immediately upon exercise of a nonqualified stock option by an employee. Non-employee directors are not currently subject to withholding. If withholding tax is due at the time of exercise, you will be notified of the amount and satisfactory arrangements must be made for payment before a stock certificate for your option shares will be delivered to you (or your broker, if applicable). Among other alternatives, amounts necessary to satisfy withholding obligations may be deducted from compensation otherwise payable to you. In no event will the amount withheld exceed the minimum amount of tax required to be withheld by law in connection with exercise of the Option.

(4) The ability to use shares of CBA common stock to satisfy your tax withholding obligations may be suspended or terminated by the Compensation Committee of CBA's Board of Directors in its sole discretion at any time upon notice to you.

**ISSUANCE INSTRUCTIONS FOR STOCK CERTIFICATES**

Please register the stock certificate(s) in the following name(s):

________________________________
________________________________
________________________________

If applicable, please check one: ☐ JT TEN ☐ TEN COM ☐ Other

Please deliver the stock certificate(s) to (check one):

☐ My brokerage account

________________________________
________________________________
________________________________
Attn: __________________________
Account No.:_____________________; or

☐ My mailing address set forth above.

____________________________ _____________________________________
Date Signature of Participant

**ATTESTATION FORM**

As indicated above, I have elected to use shares of CBA common stock that I already own to pay the Aggregate Purchase Price of the Option (and withholding taxes, if applicable).

I attest to the ownership of the shares represented by the certificate(s) listed below or to the beneficial ownership of the shares held in the name of my broker, as indicated in the attached copy of my brokerage statement. I will be deemed to have delivered such shares to CBA in connection with the exercise of my Option.

I understand that, because I (and any joint owner) will retain ownership of the shares (the "Payment Shares") deemed delivered to pay the Aggregate Purchase Price (and withholding taxes, if applicable), the number of shares to be issued to me upon exercise of my Option will be reduced by the number of Payment Shares. I represent that I have full power to deliver and convey certificates representing the Payment Shares to CBA and by such delivery and conveyance could have caused CBA to become sole owner of the Payment Shares. The joint owner of the Payment Shares, if any, by signing this Form, consents to these representations and to the exercise of the Option by this attestation.

List certificate(s) and number of shares covered, or attach a copy of your brokerage statement:

| Common Stock Certificate Number | Number of Shares Covered |
|---|---|
| | |
| | |
| | |

Date: ___________________

Print Name of Optionholder: _______________________________________________

Signature of Optionholder: _______________________________________________

Print Name of Joint Owner: _______________________________________________

Signature of Joint Owner: _______________________________________________

If you are attaching a copy of your brokerage statement, you must have your securities broker complete the following:

The undersigned hereby certifies that the foregoing attestation is correct.

____________________________________
Name of Brokerage Firm

Date: _______________________ By: ________________________________
Telephone No.:________________

______________________________
Print Name of Signing Broker

**EXHIBIT 31.1**

**CERTIFICATION**

I, Andrew J. Thomas, 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 5, 2015

By: /s/ Andrew J. Thomas

Andrew J. Thomas

*Chief Executive Officer*

**EXHIBIT 31.2**

**CERTIFICATION**

I, Joseph K. Vanderstelt, 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 5, 2015

By: /s/ Joseph K. Vanderstelt

Joseph K. Vanderstelt

*Chief Financial Officer*

**EXHIBIT 32.1**

**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, 2015, as filed with the Securities and Exchange Commission on August 5, 2015 (the "Report"), Andrew J. Thomas, the Chief Executive Officer of the Registrant, and Joseph K. Vanderstelt, the Chief Financial Officer 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 5, 2015

BY: /s/ Andrew J. Thomas
Andrew J. Thomas
*Chief Executive Officer*
(Principal Executive Officer)

BY: /s/ Joseph K. Vanderstelt
Joseph K. Vanderstelt
*Chief Financial Officer*
(Principal Financial Officer)

**FOR IMMEDIATE RELEASE**

# CRAFT BREW ALLIANCE ANNOUNCES SECOND QUARTER 2015 RESULTS

*Home Market Depletion Growth of 7% and Continued Infrastructure Optimization Validate Long-Term Growth Strategy; Management Updates Guidance to Reflect Short-Term Market Challenges*

**Portland, Ore. (Aug. 5, 2015) -** Craft Brew Alliance, Inc. ("CBA") (Nasdaq: BREW), a leading craft brewing company, today reported its financial results for the second quarter ended June 30, 2015. The Company reported net sales of $58.5 million, a 3% increase over the second quarter of 2014, driven by a 2% increase in shipments and higher net sales per barrel. Gross margin increased to $18.7 million, while the gross margin rate decreased by 90 basis points as a result of higher cost of goods sold per barrel compared to the same period last year, which included increased production volume in anticipation of our Memphis brewery coming online. SG&A expense increased by $1.1 million, which reflects planned investments in sales infrastructure and marketing.

Net income for the second quarter was $1.4 million, or a decrease of $0.6 million from the same period in 2014. Earnings per diluted share for the second quarter of 2015 were $0.07, or a decrease of $0.03 from the comparable period in 2014.

**Second quarter 2015 financial highlights include:**

- We saw strong performance in three of our core brand families, with double-digit depletion growth from Kona and Omission, which remains the #1 beer in the gluten-free beer category; and Widmer Brothers continued its steady turnaround. Depletion volume, however, was flat over the second quarter of 2014, which primarily reflects weak performance in our Redhook brand family outside of its home market of Washington state.
  - In our home markets of Hawaii, Oregon, and Washington, depletion volume grew 7% over the second quarter of 2014, which validates our strategic focus on delivering sustainable topline growth, particularly in our brands' home states.
  - As we look to build on our home market strategy through establishing strategic partnerships with strong local brands, we are expanding our partnership with Boone, NC-based Appalachian Mountain Brewery to include an alternating proprietorship in our Portsmouth brewery.
  - Our international business continues to grow, with international shipments increasing by 60% over the second quarter of 2014, driven by the continued strength of our Kona brand family.
- Net sales and total beer shipments increased 3% and 2%, respectively, compared to the second quarter of 2014, reflecting continued progress to align shipments and depletions, while managing inventory levels in preparation for the peak summer season.
- Our beer gross margin rate decreased 70 basis points to 34.6% in the second quarter, compared to 35.3% in the second quarter last year. This decrease reflects the lapping of last year's production build up to support bringing our Memphis brewery online. The decreased rate was also due to a planned decrease in production in the second quarter of 2015 as we continued to align production with shipments and depletions. These decreases were partially offset by lower raw material and distribution costs on a per barrel basis. Our pub gross margin rate decreased by 40 basis points to 13.4%, compared to 13.8%, due to increases in selling and employee related costs. As a result, our combined second quarter gross margin rate decreased 90 basis points to 31.9%, compared to 32.8% for the second quarter last year.

- Owned capacity utilization was 82% in the second quarter of 2015, compared to 87% in the second quarter of 2014, which primarily reflects the addition of our brewing operations in Memphis, as well as continued efforts to balance and normalize inventories.

- As a percentage of net sales, our selling, general and administrative expense (“SG&A”) increased to 28% in the second quarter of 2015, compared to 27% in the second quarter of 2014, due to lower sales and planned increases in sales infrastructure and marketing expenses.

- Diluted income per share for the second quarter of 2015 was $0.07, compared to $0.10 for the same period last year.

**Year to date 2015 financial highlights include:**

- Depletion volume grew 1% over the first six months of 2014.
  - In our home markets of Hawaii, Oregon, and Washington, depletion volume grew 7% over the first six months of 2014.
- Net sales were relatively flat compared to the comparable six-month period in 2014, and total beer shipments decreased by 3%, reflecting ongoing efforts to synchronize shipments and depletions.
- Our beer gross margin rate decreased slightly by 10 basis points to 32.6% in the first six months, compared to 32.7% in the first six months last year, reflecting lower capacity utilization in our owned breweries, a shift in packaging mix, as well as the intentional increased production in the second quarter of 2014 to support bringing Memphis online. The decrease was partially offset by lower distribution costs and higher pricing on a per barrel basis. Our pub gross margin rate decreased by 180 basis points to 11.7% in the first six months of 2015, compared to 13.5% in the same period of 2014, due to closures resulting from inclement weather during the first quarter of 2015 and the closure of our Koko pub for a full remodel. As a result, our combined year to date gross margin rate decreased 50 basis points to 29.8%, compared to 30.3% for the first six months last year.
- Owned capacity utilization decreased to 70% in the first six months of 2015 compared to 78% in the first six months of 2014, which primarily reflects the addition of our brewing operations in Memphis, as well as a decrease in shipment volume.
- As a percentage of net sales, our SG&A increased to 29% in the first six months of 2015 from 27% in the first six months of 2014, which was primarily due to increased investments in sales infrastructure and marketing.
- Diluted income per share for the first half of 2015 was $0.01, compared to $0.09 for the same period last year.

**Trailing twelve-month financial highlights include:**

- To address the wide variances in quarterly results and provide a more representative view into our financial performance, we are sharing trailing 12-month comparisons for the periods ended June 30, 2015 and June 30, 2014.
  - For those periods, our beer shipments increased 1%, depletions increased 3%, and net sales increased 3%.
  - Our beer gross margin expanded by 10 basis points to 31.7% and pub/restaurant gross margin contracted by 160 basis points to 12.5% for the same 12-month periods, for a combined gross margin contraction of 20 basis points to 29.1%, compared to 29.3%.

"While I’m disappointed in our second quarter topline growth, we continued to make solid headway in multiple areas that underscore the strength of our distinctive strategy. Strong home market growth of 7%, continued double digit growth for Kona and Omission, further proof of Widmer Brothers’ turnaround, and continued improvements in our operational efficiency were offset by unanticipated weaknesses in Redhook and California,” said Andy Thomas, chief executive officer, CBA. “Looking forward, we continue to be emboldened by the validation of our home market strategy, ongoing progress in achieving sustainable gross margin growth, and success in planting seeds in key beer geographies. Together, these will not only address our short-term challenges, but also set us up for long-term success.”

“Our relatively flat depletion growth across the first half of the year has affected our revenue and profit growth against our guidance and expectations,” said Joe Vanderstelt, chief financial officer, CB^A. “At the same time, we maintain a healthy balance between depletions and overall shipments and have reduced distributor inventory days. We continue to see healthy pricing, and our margin enhancement initiatives are on target. Looking forward, we expect to see growth in our full year revenue, gross margin, and earnings as second half 2015 commercial programming is executed for our core brands.”

**Components of anticipated 2015 financial results and developments**:

We are revising previously issued guidance regarding our anticipated full year 2015 results, with the exception of estimated average price increases, as follows:

- Owned beer shipment growth between 1% and 3%. The adjusted anticipated beer shipment growth reflects greater-than-anticipated challenges to the Redhook brand family outside of its home market.
- Average price increase of 1% to 2%. We also expect further improvements in our revenue per barrel as we experience a favorable shift in our product mix.
- Contract brewing revenue is expected to be flat compared to 2014, previously estimated to range from a decline of 10% to an increase of 10%.
- Gross margin rate of 30.5% to 31.5%, which is unchanged based on our continued efforts to optimize our brewing locations and improve our capacity utilization as we steer towards our gross margin expansion target of 35% in 2017.
- SG&A expense ranging from $58 million to $61 million. We are committed to keeping the high end of our SG&A expenses in line with topline performance, while ensuring the commercial programming is fully supported.
- Capital expenditures of approximately $16 million to $19 million, which were previously estimated at $17 million to $21 million. The decrease in our projected capital expenditures is due to the timing of certain planned projects. We continue to anticipate capital expenditures of approximately $17 million to $21 million in 2016. Our capital expenditures will support the recently announced brewery expansion projects, as well as continued investments in quality, safety, sustainability, capacity and efficiency.

**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 shipments and sales growth, price increases, level of contract brewing revenue and gross margin rate improvement, the level or effect of SG&A expense and business development, anticpated 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, 2014. 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**

CB^A is a leading craft brewing company, which brews, brands and markets some of the world’s most respected and best-loved American craft beers.

We are home to three of the earliest pioneers in craft beer: Redhook Ale Brewery, Washington’s largest craft brewery founded in 1981; Widmer Brothers Brewing, Oregon’s largest craft brewery founded in 1984; and Kona Brewing Company, Hawaii’s oldest and largest craft brewery founded in 1994. As part of Craft Brew Alliance, these craft brewing legends have expanded their reach across the U.S. and more than 15 international markets.

In addition to growing and nurturing distinctive brands rooted in local heritage, Craft Brew Alliance is committed to developing innovative new category leaders, such as Omission Beer, which is the #1 beer in the gluten free beer segment, and Square Mile Cider, a tribute to the early American settlers who purchased the first plots of land in the Pacific Northwest.

Publicly traded on NASDAQ under the ticker symbol BREW, Craft Brew Alliance is headquartered in Portland, OR and operates five breweries and five pub restaurants across the U.S. For more information about CBA and its brands, please visit www.craftbrew.com.

**Media Contact:**
Jenny McLean
Craft Brew Alliance, Inc.
(503) 331-7248
jenny.mclean@craftbrew.com

**Investor Contact:**
Edwin Smith
Craft Brew Alliance, Inc.
(503) 972-7884
ed.smith@craftbrew.com

**Craft Brew Alliance, Inc.**
**Condensed Consolidated Statements of Operations**
**(Dollars and shares in thousands, except per share amounts)**
**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Sales | $ 62,638 | $ 60,728 | $ 107,257 | $ 107,745 |
| Less excise taxes | 4,107 | 4,042 | 7,017 | 7,233 |
| Net sales | 58,531 | 56,686 | 100,240 | 100,512 |
| Cost of sales | 39,841 | 38,112 | 70,388 | 70,098 |
| Gross profit | 18,690 | 18,574 | 29,852 | 30,414 |
| As percentage of net sales | 31.9% | 32.8% | 29.8% | 30.3% |
| Selling, general and administrative expenses | 16,263 | 15,208 | 29,216 | 27,270 |
| Operating income | 2,427 | 3,366 | 636 | 3,144 |
| Interest expense | (150) | (105) | (271) | (206) |
| Other income, net | 7 | 9 | 13 | 3 |
| Income before income taxes | 2,284 | 3,270 | 378 | 2,941 |
| Income tax expense | 894 | 1,275 | 151 | 1,147 |
| Net income | $ 1,390 | $ 1,995 | $ 227 | $ 1,794 |
| Income per share: | | | | |
| Basic and diluted net income per share | $ 0.07 | $ 0.10 | $ 0.01 | $ 0.09 |
| Weighted average shares outstanding: | | | | |
| Basic | 19,145 | 19,029 | 19,130 | 19,002 |
| Diluted | 19,177 | 19,087 | 19,164 | 19,077 |
| Total shipments (in barrels): | | | | |
| Core Brands | 228,300 | 225,300 | 386,800 | 397,500 |
| Contract Brewing | 10,600 | 9,000 | 19,800 | 19,600 |
| Total shipments | 238,900 | 234,300 | 406,600 | 417,100 |
| Change in depletions [1] | —% | 9% | 1% | 9% |

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

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

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 1,277 | $ 6,424 |
| Accounts receivable, net | 21,572 | 13,330 |
| Inventory, net | 19,350 | 20,133 |
| Deferred income tax asset, net | 1,746 | 1,775 |
| Other current assets | 4,510 | 3,749 |
| Total current assets | 48,455 | 45,411 |
| Property, equipment and leasehold improvements, net | 110,354 | 106,050 |
| Goodwill | 12,917 | 12,917 |
| Intangible and other assets, net | 16,916 | 17,337 |
| Total assets | $ 188,642 | $ 181,715 |
| Current liabilities: | | |
| Accounts payable | $ 18,571 | $ 20,977 |
| Accrued salaries, wages and payroll taxes | 5,000 | 6,251 |
| Refundable deposits | 7,426 | 7,971 |
| Other accrued expenses | 2,043 | 1,940 |
| Current portion of long-term debt and capital lease obligations | 1,100 | 557 |
| Total current liabilities | 34,140 | 37,696 |
| Long-term debt and capital lease obligations, net of current portion | 18,368 | 11,693 |
| Other long-term liabilities | 19,895 | 19,058 |
| Total common shareholders' equity | 116,239 | 113,268 |
| Total liabilities and common shareholders' equity | $ 188,642 | $ 181,715 |

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

| | Six Months Ended June 30, | |
|---|---|---|
| | **2015** | **2014** |
| **Cash flows from operating activities:** | | |
| Net income | $ 227 | $ 1,794 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,727 | 4,255 |
| Loss on sale or disposal of Property, equipment and leasehold improvements | 306 | 19 |
| Deferred income taxes | 67 | 66 |
| Other, including stock-based compensation and excess tax benefit from employee stock plans | 616 | (114) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (9,831) | (1,959) |
| Inventories | 62 | (2,909) |
| Other current assets | (97) | (347) |
| Accounts payable and other accrued expenses | 5,330 | 5,232 |
| Accrued salaries, wages and payroll taxes | (114) | 1,635 |
| Refundable deposits | (181) | 446 |
| Net cash provided by operating activities | 1,112 | 8,118 |
| **Cash flows from investing activities:** | | |
| Expenditures for Property, equipment and leasehold improvements | (5,816) | (5,074) |
| Proceeds from sale of Property, equipment and leasehold improvements | 387 | 15 |
| Net cash used in investing activities | (5,429) | (5,059) |
| **Cash Flows from Financing Activities:** | | |
| Principal payments on debt and capital lease obligations | (245) | (291) |
| Proceeds from capital lease financing | — | 841 |
| Net borrowings under revolving line of credit | 4,900 | — |
| Proceeds from issuances of common stock | 58 | 63 |
| Tax payments related to performance shares issued | (151) | (150) |
| Excess tax benefit from employee stock plans | 51 | 176 |
| Net cash provided by financing activities | 4,613 | 639 |
| **Increase in Cash and cash equivalents** | 296 | 3,698 |
| **Cash and cash equivalents, beginning of period** | 981 | 2,726 |
| **Cash and cash equivalents, end of period** | $ 1,277 | $ 6,424 |

**Craft Brew Alliance, Inc.**
**Select Financial Information on a Trailing Twelve Month Basis**
**(Dollars in thousands, except per share amounts)**
**(Unaudited)**

| | Twelve Months Ended June 30, 2015 | Twelve Months Ended June 30, 2014 | Change | % Change |
|---|---|---|---|---|
| Net sales | $ 199,750 | $ 194,076 | $ 5,674 | 2.9 % |
| Gross profit | $ 58,148 | $ 56,768 | $ 1,380 | 2.4 % |
| As percentage of net sales | 29.1% | 29.3% | (20) bps | |
| Selling, general and administrative expenses | 54,946 | 49,021 | 5,925 | 12.1 % |
| Operating income | $ 3,202 | $ 7,747 | $ (4,545) | (58.7)% |
| Net income | $ 1,510 | $ 4,432 | $ (2,922) | (65.9)% |
| Basic and diluted net income per share | $ 0.08 | $ 0.23 | $ (0.15) | (65.2)% |
| Total shipments (in barrels): | | | | |
| Core Brands | 779,800 | 775,900 | 3,900 | 0.5 % |
| Contract Brewing | 39,900 | 34,900 | 5,000 | 14.3 % |
| Total shipments | 819,700 | 810,800 | 8,900 | 1.1 % |
| Change in depletions (1) | 3% | 10% | | |

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

**Supplemental Disclosures Regarding Non-GAAP Financial Information**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Net income | $ 1,390 | $ 1,995 | $ 227 | $ 1,794 |
| Interest expense | 150 | 105 | 271 | 206 |
| Income tax expense | 894 | 1,275 | 151 | 1,147 |
| Depreciation expense | 2,380 | 2,098 | 4,607 | 4,134 |
| Amortization expense | 59 | 61 | 120 | 121 |
| Stock-based compensation | 303 | 273 | 624 | 444 |
| Loss (gain) on disposal of assets | 91 | (4) | 306 | 19 |
| Adjusted EBITDA | $ 5,267 | $ 5,803 | $ 6,306 | $ 7,865 |

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 (loss) 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 (loss) 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 (loss) 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 (loss) 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 (loss).