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**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, 2016**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 0-26542**

**CRAFT BREW ALLIANCE, INC.**

(Exact name of registrant as specified in its charter)

**Washington**

(State or other jurisdiction of incorporation or organization)

**91-1141254**

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

**929 North Russell Street**

**Portland, Oregon 97227**

(Address of principal executive offices)

**(503) 331-7270**

(Registrant's telephone number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large Accelerated Filer

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 26, 2016 was 19,237,052.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	<u>June 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 335	\$ 911
Accounts receivable, net	27,330	18,926
Inventory, net	22,982	18,300
Deferred income tax asset, net	2,414	1,905
Other current assets	2,766	2,439
Total current assets	55,827	42,481
Property, equipment and leasehold improvements, net	121,665	116,867
Goodwill	12,917	12,917
Intangible and other assets, net	18,649	18,069
Total assets	<u>\$ 209,058</u>	<u>\$ 190,334</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 25,294	\$ 17,100
Accrued salaries, wages and payroll taxes	4,383	5,468
Refundable deposits	7,164	6,559
Other accrued expenses	2,082	2,009
Current portion of long-term debt and capital lease obligations	807	507
Total current liabilities	39,730	31,643
Long-term debt and capital lease obligations, net of current portion	30,250	18,991
Fair value of derivative financial instruments	1,011	569
Deferred income tax liability, net	19,347	19,669
Other liabilities	965	724
Total liabilities	91,303	71,596
Commitments and contingencies		
Common shareholders' equity:		
Common stock, \$0.005 par value. Authorized 50,000,000 shares; issued and outstanding 19,237,052 and 19,179,006	96	96
Additional paid-in capital	139,773	139,534
Accumulated other comprehensive loss	(626)	(352)
Accumulated deficit	(21,488)	(20,540)
Total common shareholders' equity	117,755	118,738
Total liabilities and common shareholders' equity	<u>\$ 209,058</u>	<u>\$ 190,334</u>

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Sales	\$ 66,294	\$ 62,638	\$ 108,087	\$ 107,257
Less excise taxes	4,016	4,107	6,587	7,017
Net sales	62,278	58,531	101,500	100,240
Cost of sales	41,780	39,841	72,285	70,388
Gross profit	20,498	18,690	29,215	29,852
Selling, general and administrative expenses	16,548	16,263	30,472	29,216
Operating income (loss)	3,950	2,427	(1,257)	636
Interest expense	(187)	(150)	(334)	(271)
Other income, net	6	7	12	13
Income (loss) before income taxes	3,769	2,284	(1,579)	378
Income tax expense (benefit)	1,508	894	(631)	151
Net income (loss)	\$ 2,261	\$ 1,390	\$ (948)	\$ 227
Basic and diluted net income (loss) per share	\$ 0.12	\$ 0.07	\$ (0.05)	\$ 0.01
Shares used in basic per share calculations	19,216	19,145	19,198	19,130
Shares used in diluted per share calculations	19,232	19,177	19,198	19,164

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

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income (loss)	\$ 2,261	\$ 1,390	\$ (948)	\$ 227
Unrealized gain (loss) on derivative hedge transactions, net of tax	(68)	111	(274)	32
Comprehensive income (loss)	<u>\$ 2,193</u>	<u>\$ 1,501</u>	<u>\$ (1,222)</u>	<u>\$ 259</u>

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

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

	Six Months Ended June 30,	
	2016	2015
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (948)	\$ 227
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,362	4,727
Loss on sale or disposal of Property, equipment and leasehold improvements	9	306
Deferred income taxes	(664)	67
Stock-based compensation	309	605
Excess tax benefit from employee stock plans	—	(51)
Other	(73)	62
Changes in operating assets and liabilities:		
Accounts receivable, net	(8,404)	(9,831)
Inventories	(5,034)	62
Other current assets	(327)	(97)
Accounts payable and other accrued expenses	8,051	5,330
Accrued salaries, wages and payroll taxes	(1,086)	(114)
Refundable deposits	625	(181)
<b>Net cash provided by (used in) operating activities</b>	<b>(2,180)</b>	<b>1,112</b>
<b>Cash flows from investing activities:</b>		
Expenditures for Property, equipment and leasehold improvements	(9,220)	(5,816)
Proceeds from sale of Property, equipment and leasehold improvements	8	387
<b>Net cash used in investing activities</b>	<b>(9,212)</b>	<b>(5,429)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on debt and capital lease obligations	(350)	(245)
Net borrowings under revolving line of credit	11,237	4,900
Proceeds from issuances of common stock	—	58
Tax payments related to stock-based awards	(71)	(151)
Excess tax benefit from employee stock plans	—	51
<b>Net cash provided by financing activities</b>	<b>10,816</b>	<b>4,613</b>
<b>Increase (decrease) in Cash and cash equivalents</b>	<b>(576)</b>	<b>296</b>
<b>Cash and cash equivalents:</b>		
Beginning of period	911	981
End of period	\$ 335	\$ 1,277
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 300	\$ 329
Cash paid for income taxes, net	80	56
<b>Supplemental disclosure of non-cash information:</b>		
Purchases of Property, equipment and leasehold improvements with capital leases	\$ 673	\$ —
Purchases of Property, equipment and leasehold improvements included in Accounts payable at end of period	1,550	667

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, 2015 ("2015 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 2016-12***

In May 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-12, "Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients." ASU 2016-12 clarifies aspects of Topic 606 related to the guidance on assessing collectibility, presentation of sales taxes, non-cash consideration, and completed contracts and contract modifications. The effective date and transition requirements for ASU 2016-12 are the same as the effective date and transition requirements in Topic 606 (ASU 2014-09). We are still evaluating any potential impact that adoption of ASU 2016-12 may have on our financial position, results of operations or cash flows.

***ASU 2016-10***

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing." ASU 2016-10 clarifies aspects of Topic 606 related to identifying performance obligations and the licensing implementation guidance, while retaining the related core principles for those areas. The effective date and transition requirements for ASU 2016-10 are the same as the effective date and transition requirements in Topic 606 (ASU 2014-09). We are still evaluating any potential impact that adoption of ASU 2016-10 may have on our financial position, results of operations or cash flows.

***ASU 2016-09***

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation - Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies the accounting for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The early adoption of ASU 2016-09 in the second quarter of 2016 did not have a material effect on our financial position, results of operations or cash flows.

***ASU 2016-02***

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires disclosing key information about leasing arrangements. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. We are still evaluating any potential impact that adoption of ASU 2016-02 may have on our financial position, results of operations or cash flows.

***ASU 2016-01***

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10)." ASU 2016-01 enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information by addressing certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The amendments simplify certain requirements and also reduce diversity in current practice for other requirements. ASU 2016-01 is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Except for the early application guidance specifically allowed in ASU 2016-01, early adoption is not permitted. We do not expect the adoption of ASU 2016-01 to have a material effect on our financial position, results of operations or cash flows.

**ASU 2015-17**

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes." ASU 2015-17 simplifies the presentation of deferred income taxes, and requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments apply to all entities that present a classified statement of financial position and aligns the presentation of deferred income tax assets and liabilities with International Financial Reporting Standards. ASU 2015-17 is effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early application is permitted. We do not expect the adoption of ASU 2015-17 to have a material effect on our financial position, results of operations or cash flows.

**ASU 2015-15**

In August 2015, the FASB issued ASU 2015-15, "Interest - Imputation of Interest (Subtopic 835-30)." ASU 2015-15 provides guidance as to the presentation and subsequent measurement of debt issuance costs associated with line of credit arrangements. 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. The adoption of ASU 2015-15 did not have a material effect on our financial position, results of operations or cash flows.

**ASU 2015-11**

In July 2015, the FASB issued 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. The adoption of ASU 2015-05 did not 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. The adoption of ASU 2015-03 did not 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 companies, 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 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU 2015-02 did not have a material effect on our financial position, results of operations or cash flows.

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**ASU 2014-09**

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09, as amended, 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, as amended, is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We are still evaluating the effect of the adoption of ASU 2014-09.

**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, 2016 and December 31, 2015, we did not have any cash equivalents.

As part of our cash management system, we use 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, 2016 and December 31, 2015, bank overdrafts of \$0.6 million and \$2.2 million, respectively, were included in Accounts payable on our Consolidated Balance Sheets. 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, 2016	December 31, 2015
Raw materials	\$ 8,179	\$ 5,468
Work in process	3,231	3,822
Finished goods	8,007	6,109
Packaging materials	1,247	727
Promotional merchandise	1,634	1,477
Pub food, beverages and supplies	684	697
	<u>\$ 22,982</u>	<u>\$ 18,300</u>

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") and Ambev**

In December 2015, we partnered with Ambev, the Brazilian subsidiary of Anheuser-Busch InBev SA, to distribute Kona beers into Brazil. Transactions with A-B and Ambev consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Gross sales to A-B and Ambev	\$ 53,638	\$ 52,279	\$ 85,894	\$ 87,946
Margin fee paid to A-B, classified as a reduction of Sales	456	746	814	1,284
Inventory management and other fees paid to A-B, classified in Cost of sales	105	103	191	193

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

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Amounts due from A-B related to beer sales pursuant to the A-B distributor agreement	\$ 19,130	\$ 12,576
Refundable deposits due to A-B	(2,774)	(2,291)
Amounts due to A-B for services rendered	(1,647)	(1,645)
Net amount due from A-B	<u>\$ 14,709</u>	<u>\$ 8,640</u>

**Operating Leases**

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

<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
\$ 30	\$ 30	\$ 60	\$ 60

We lease or sublease certain office space and the land underlying the brewery and pub location in Kona, Hawaii, from 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):

<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
\$ 128	\$ 129	\$ 257	\$ 261

**Note 6. Derivative Financial Instruments**

**Interest Rate Swap Contracts**

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

We have assessed our vulnerability to certain business and financial risks, including interest rate risk associated with our variable-rate long-term debt. To mitigate this risk, 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 \$7.4 million as of June 30, 2016. 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 0.45% at June 30, 2016.

Effective January 4, 2016, we entered into an interest rate swap contract with BofA to hedge the variability of interest payments associated with our variable-rate borrowings on our Line of Credit. The notional amount fluctuates based on a predefined schedule based on our anticipated borrowings. The current swap contract terminates on January 1, 2019, and had a total notional value of \$11.7 million as of June 30, 2016. Through this swap agreement, we pay interest at a fixed rate of 1.28% and receive interest at a floating-rate of the one-month LIBOR, which was 0.45% at June 30, 2016.

Since the interest rate swaps hedge the variability of interest payments on variable rate debt with similar terms, they qualify for cash flow hedge accounting treatment.

As of June 30, 2016, unrealized net losses of \$1.0 million were recorded in Accumulated other comprehensive loss as a result of these hedges. The effective portion of the gain or loss on the derivatives is reclassified into Interest expense in the same period during which we record Interest expense associated with the Term Loan and Line of Credit. There was no hedge ineffectiveness during the first six months of 2016 or 2015.

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

**Fair Value of Derivative Instruments**

	June 30, 2016	December 31, 2015
Fair value of interest rate swaps	\$ (1,011)	\$ (569)

The effect of our interest rate swap contracts that were accounted for as a derivative instrument on our Consolidated Statements of Operations 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)
<b>Three Months Ended June 30,</b>			
2016	\$ (109)	Interest expense	\$ 71
2015	\$ 179	Interest expense	\$ 52
<b>Six Months Ended June 30,</b>			
2016	\$ (442)	Interest expense	\$ 134
2015	\$ 51	Interest expense	\$ 104

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 table summarizes liabilities measured at fair value on a recurring basis (in thousands):

Fair Value at June 30, 2016	Level 1	Level 2	Level 3	Total
Interest rate swaps	\$ —	\$ (1,011)	\$ —	\$ (1,011)
<b>Fair Value at December 31, 2015</b>				
Interest rate swaps	\$ —	\$ (569)	\$ —	\$ (569)

We did not have any assets measured at fair value on a recurring basis at June 30, 2016 or December 31, 2015.

The fair value of our interest rate swaps were based on quarterly statements from the issuing bank. There were no changes to our valuation techniques during the six months ended June 30, 2016.

We believe the carrying amounts of Cash and cash equivalents, 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.

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

	June 30, 2016	December 31, 2015
Fixed-rate debt on balance sheet	\$ 993	\$ 676
Estimated fair value of fixed-rate debt	\$ 1,025	\$ 706

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,		
	Beer Related	Pubs	Total
<b>2016</b>			
Net sales	\$ 54,832	\$ 7,446	\$ 62,278
Gross profit	\$ 19,369	\$ 1,129	\$ 20,498
Gross margin	35.3%	15.2%	32.9%
<b>2015</b>			
Net sales	\$ 51,229	\$ 7,302	\$ 58,531
Gross profit	\$ 17,715	\$ 975	\$ 18,690
Gross margin	34.6%	13.4%	31.9%
	Six Months Ended June 30,		
	Beer Related	Pubs	Total
<b>2016</b>			
Net sales	\$ 87,311	\$ 14,189	\$ 101,500
Gross profit	\$ 27,223	\$ 1,992	\$ 29,215
Gross margin	31.2%	14.0%	28.8%
<b>2015</b>			
Net sales	\$ 86,787	\$ 13,453	\$ 100,240
Gross profit	\$ 28,281	\$ 1,571	\$ 29,852
Gross margin	32.6%	11.7%	29.8%

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.

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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,	
2016	2015	2016	2015
80.2%	82.3%	78.7%	80.8%

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

June 30, 2016	December 31, 2015
70.0%	66.4%

**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,	
	2016	2015	2016	2015
Cost of sales	\$ 20	\$ 20	\$ 34	\$ 49
Selling, general and administrative expense	269	305	275	556
Total stock-based compensation expense	\$ 289	\$ 325	\$ 309	\$ 605

At June 30, 2016, we had total unrecognized stock-based compensation expense of \$2.4 million, which will be recognized over the weighted average remaining vesting period of 2.9 years.

**Note 10. Earnings Per Share**

The reconciliation between the number of shares used for the basic and diluted per share calculations, as well as other related information, is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted average common shares used for basic EPS	19,216	19,145	19,198	19,130
Dilutive effect of stock-based awards	16	32	—	34
Shares used for diluted EPS	19,232	19,177	19,198	19,164
Stock-based awards not included in diluted per share calculations as they would be antidilutive	312	248	282	200

Because we were in a loss position for the six months ended June 30, 2016, there is no difference between the number of shares used for the basic and diluted per share calculations.

**Note 11. Brewing Arrangement with Pabst Northwest Brewing Company**

On January 8, 2016, we entered into brewing agreements ("the brewing agreements") with Pabst Northwest Brewing Company ("Pabst"), a subsidiary of Pabst Brewing Company, under which Pabst began brewing selected Rainier Brewing Company and other brands at our brewery in Woodinville, Washington in the second quarter of 2016 under a license agreement. We will continue to operate the Woodinville brewery and the adjacent Redhook Forecaster's Pub under the agreements, which expire on December 31, 2018.

In conjunction with the brewing agreements, we granted Pabst an option to purchase the Woodinville brewery and adjacent pub, as well as related assets (together, the "Property"), at any time prior to termination of the brewing agreements. The purchase price of the Property will be \$25.0 million if Pabst exercises the option during the first year of the agreement, \$26.0 million if exercise

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occurs during the second year of the agreement, and \$28.0 million if Pabst exercises the option during the third year of the agreement and on or before the close of business on December 31, 2018. Under the option agreement, Pabst conducted an additional diligence review of environmental and title issues relating to the Property, and, upon completion, did not exercise its right to terminate either the brewery agreements or the option agreement. If Pabst does not exercise its option to purchase the Property, it may be required to pay us a termination fee.

**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, 2015 ("2015 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 2015 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, Inc. ("CBA") is the fifth largest craft brewing company in the U.S. and a leader in brewing, branding, and bringing to market some of the world's best-loved American craft beers.

Craft Brew Alliance was formed in 2008 through the merger of Redhook Brewery and Widmer Brothers Brewing, the two largest craft brewing pioneers in the Northwest at the time. Since then, the Alliance has continued to grow, welcoming Kona Brewing Co. in 2008, and expanding with innovative category leaders and strategic partners. Today, we are home to three of the earliest trail blazers 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 approximately 30 international markets, while remaining deeply rooted to their local communities.

In addition to growing and nurturing distinctive brands steeped 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, Square Mile Cider, the #1 local hard cider in the Pacific Northwest, and Resignation Brewery's line of KCCO beers in partnership with theChive.com, which represents the first-ever virtual brewery conceived by an online media platform.

As the craft beer market continues to grow and consumers increasingly demand local offerings, Craft Brew Alliance has expanded its portfolio of brands and maximized its brewing footprint through strategic partnerships with emerging craft beer brands in targeted markets. In 2015, we announced strategic partnerships with Appalachian Mountain Brewery, based in Boone, North Carolina; and Cisco Brewers, based in Nantucket, Massachusetts. Through this strategic partnership model, we gain local relevance in select beer geographies, while the partner breweries gain access to our world-class leadership and national infrastructure to grow their brands.

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.

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We distribute our beers to retailers through 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. In December 2015 we partnered with Ambev, the Brazilian subsidiary of Anheuser-Busch InBev SA, to distribute Kona beers into Brazil. 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:

<b>Six Months Ended June 30,</b>	<b>Net sales</b>	<b>Net income (loss)</b>	<b>Number of Barrels Sold</b>
2016	\$101.5 million	\$(0.9) million	395,600
2015	\$100.2 million	\$0.2 million	406,600

### **Brewing Arrangement with Pabst Northwest Brewing Company**

On January 8, 2016, we entered into brewing agreements with Pabst Northwest Brewing Company (“Pabst”), a subsidiary of Pabst Brewing Company, under which Pabst began brewing selected Rainier Brewing Company and other brands at our brewery in Woodinville, Washington, in the second quarter of 2016 under a licensing agreement. We will continue to operate the Woodinville brewery and the adjacent Redhook Forecaster’s Pub under the agreements, which expire on December 31, 2018. For additional information, see Note 11 of Notes to Consolidated Financial Statements.

### **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<sup>(1)</sup>:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Sales	106.4 %	107.0 %	106.5 %	107.0 %
Less excise taxes	(6.4)	(7.0)	(6.5)	(7.0)
Net sales	100.0	100.0	100.00	100.0
Cost of sales	67.1	68.1	71.2	70.2
Gross profit	32.9	31.9	28.8	29.8
Selling, general and administrative expenses	26.6	27.8	30.0	29.1
Operating income (loss)	6.3	4.1	(1.2)	0.6
Interest expense	(0.3)	(0.3)	(0.3)	(0.3)
Other income, net	—	—	—	—
Income (loss) before income taxes	6.1	3.9	(1.6)	0.4
Income tax expense (benefit)	2.4	1.5	(0.6)	0.2
Net income (loss)	3.6 %	2.4 %	(0.9)%	0.2 %

(1) Percentages may not add due to rounding.

**Segment Information**

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

	Three Months Ended June 30,		
	Beer Related	Pubs	Total
<b>2016</b>			
Net sales	\$ 54,832	\$ 7,446	\$ 62,278
Gross profit	\$ 19,369	\$ 1,129	\$ 20,498
Gross margin	35.3%	15.2%	32.9%
<b>2015</b>			
Net sales	\$ 51,229	\$ 7,302	\$ 58,531
Gross profit	\$ 17,715	\$ 975	\$ 18,690
Gross margin	34.6%	13.4%	31.9%
	Six Months Ended June 30,		
	Beer Related	Pubs	Total
<b>2016</b>			
Net sales	\$ 87,311	\$ 14,189	\$ 101,500
Gross profit	\$ 27,223	\$ 1,992	\$ 29,215
Gross margin	31.2%	14.0%	28.8%
<b>2015</b>			
Net sales	\$ 86,787	\$ 13,453	\$ 100,240
Gross profit	\$ 28,281	\$ 1,571	\$ 29,852
Gross margin	32.6%	11.7%	29.8%

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**Sales by Category**

Sales by category were as follows (dollars in thousands):

Sales by Category	Three Months Ended June 30,		Dollar Change	% Change
	2016	2015		
A-B and A-B related <sup>(1)</sup>	\$ 53,182	\$ 51,533	\$ 1,649	3.2 %
Contract brewing and beer related <sup>(2)</sup>	5,666	3,803	1,863	49.0 %
Excise taxes	(4,016)	(4,107)	91	(2.2)%
Net beer related sales	54,832	51,229	3,603	7.0 %
Pubs <sup>(3)</sup>	7,446	7,302	144	2.0 %
Net sales	\$ 62,278	\$ 58,531	\$ 3,747	6.4 %

Sales by Category	Six Months Ended June 30,		Dollar Change	% Change
	2016	2015		
A-B and A-B related <sup>(1)</sup>	\$ 85,080	\$ 86,662	\$ (1,582)	(1.8)%
Contract brewing and beer related <sup>(2)</sup>	8,818	7,142	1,676	23.5 %
Excise taxes	(6,587)	(7,017)	430	(6.1)%
Net beer related sales	87,311	86,787	524	0.6 %
Pubs <sup>(3)</sup>	14,189	13,453	736	5.5 %
Net sales	\$ 101,500	\$ 100,240	\$ 1,260	1.3 %

- (1) A-B and A-B related includes domestic and international sales of our owned brands sold through A-B and Ambev, as well as non-owned brands sold pursuant to master distribution agreements.  
(2) Beer related includes international beer sales not sold through A-B or Ambev, as well as fees earned through an alternating proprietorship agreement.  
(3) 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,	2016	2015	Increase	% Change	Change in Depletions <sup>(1)</sup>
	Shipments	Shipments			
A-B and A-B related <sup>(2)</sup>	220,000	218,800	1,200	0.5 %	3%
Contract brewing and beer related <sup>(3)</sup>	23,100	17,300	5,800	33.5 %	
Pubs	2,900	2,800	100	3.6 %	
Total	246,000	238,900	7,100	3.0 %	

Six Months Ended June 30,	2016	2015	Increase (Decrease)	% Change	Change in Depletions <sup>(1)</sup>
	Shipments	Shipments			
A-B and A-B related <sup>(2)</sup>	355,100	370,200	(15,100)	(4.1)%	0%
Contract brewing and beer related <sup>(3)</sup>	35,500	31,500	4,000	12.7 %	
Pubs	5,000	4,900	100	2.0 %	
Total	395,600	406,600	(11,000)	(2.7)%	

- (1) Change in depletions reflects the year-over-year change in barrel volume sales of beer by wholesalers to retailers.  
(2) A-B and A-B related includes domestic and international shipments of our owned brands distributed through A-B and Ambev, as well as non-owned brands distributed pursuant to master distribution agreements.  
(3) Beer related includes international shipments of our beers not distributed through A-B or Ambev.

The increase in sales to A-B and A-B related in the three-month period ended June 30, 2016 compared to the same period of 2015 was primarily due to an increase in domestic and international shipments, and an increase in unit pricing. International shipments of our beers reflected in A-B and A-B related were to Ambev. The decrease in sales to A-B and A-B related in the six-month period ended June 30, 2016 compared to the same period of 2015 was primarily due to a decrease in domestic shipments, partially offset

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by an increase in unit pricing and international shipments to Ambev. The sales to A-B and A-B related in the three and six-month periods ended June 30, 2016 were also impacted by decreases in domestic shipments of the Redhook and Widmer Brothers brands as we concentrate on their home markets of Washington and Oregon, respectively, as well as our Omission brand. The decreases were partially offset by the continued successful focus on national distribution of Kona. During the first quarter of 2016, we closed our largest and most efficient brewery, located in Portland, for approximately two weeks as we installed new equipment to further increase capacity and efficiency. This closure resulted in a temporary decrease of shipments across our brands in the six-month period of 2016 compared to the same period of 2015.

The increases in Contract brewing and beer related sales in the three and six-month periods ended June 30, 2016 compared to the same periods of 2015 were primarily due to contract brewing volume for Cisco Brewers beers, as well as alternating proprietorship fees earned from Appalachian Mountain Brewing Company for leasing the Portsmouth Brewery, which began during the first quarter of 2016, and an increase in international shipments of our beers, which sell at a higher rate per barrel than contract brewing sales, as we expanded into additional countries. These increases were partially offset by decreases in our other contract brewing volume.

Pubs sales increased in the three and six-month periods ended June 30, 2016 compared to the same periods of 2015, primarily as a result of higher guest counts at our Kona Pub on the island of Oahu in Hawaii, partially offset by decreases in guest counts at our Redhook Pub in Woodinville, Washington. The Hawaii pubs also have higher revenue per guest than the Redhook and Widmer Brothers pubs. The increase in Pubs sales at our Kona Pub on Oahu in the first six months of 2016 compared to the same period of 2015 was primarily due to the closure of the pub in the first quarter of 2015 for three weeks for a full remodel.

Excise taxes vary directly with the volume of beer shipped domestically.

### **Shipments by Brand**

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

<b>Three Months Ended June 30,</b>	<b>2016 Shipments</b>	<b>2015 Shipments</b>	<b>Increase (Decrease)</b>	<b>% Change</b>	<b>Change in Depletions</b>
Kona	130,100	105,000	25,100	23.9 %	18 %
Widmer Brothers	44,900	53,200	(8,300)	(15.6)%	(17)%
Redhook	38,200	48,700	(10,500)	(21.6)%	(19)%
Omission	13,700	14,900	(1,200)	(8.1)%	(6)%
All other <sup>(1)</sup>	12,100	6,500	5,600	86.2 %	86 %
Total <sup>(2)</sup>	239,000	228,300	10,700	4.7 %	3 %

<b>Six Months Ended June 30,</b>	<b>2016 Shipments</b>	<b>2015 Shipments</b>	<b>Increase (Decrease)</b>	<b>% Change</b>	<b>Change in Depletions</b>
Kona	200,700	168,200	32,500	19.3 %	19 %
Widmer Brothers	78,300	93,600	(15,300)	(16.3)%	(16)%
Redhook	64,400	88,400	(24,000)	(27.1)%	(20)%
Omission	22,400	25,700	(3,300)	(12.8)%	(8)%
All other <sup>(1)</sup>	15,600	10,900	4,700	43.1 %	44 %
Total <sup>(2)</sup>	381,400	386,800	(5,400)	(1.4)%	0 %

(1) All other includes the shipments and depletions from our Square Mile and Resignation brand families, as well as the non-owned Cisco Brewers and Appalachian Mountain Brewing brand families, shipped by us pursuant to distribution agreements.

(2) 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, 2016 compared to the same periods of 2015 were primarily due to increases in domestic and international shipments, primarily led by demand for Big Wave Golden Ale.

The decreases in our Widmer Brothers brand shipments in the three and six-month periods ended June 30, 2016 compared to the same periods of 2015 were primarily due to a concentration on its home market of Oregon, led by decreases in Hefeweizen brand shipments.

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The decreases in our Redhook brand shipments in the three and six-month periods ended June 30, 2016 compared to the same periods of 2015 were primarily due to a concentration on its home market of Washington, led by decreased shipments of Longhammer IPA and ESB.

The decreases in our Omission brand shipments in the three and six-month periods ended June 30, 2016 compared to the same periods of 2015 were primarily due to lower demand for the Pale Ale style.

The increases in our All other shipments in the three and six-month periods ended June 30, 2016 compared to the same periods of 2015 were primarily due to increases in the shipment volumes related to our new distribution agreements with Cisco Brewers and Appalachian Mountain Brewing, partially offset by decreases in our Resignation and Square Mile brand families.

**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,	2016		2015	
	Shipments	% of Total	Shipments	% of Total
Draft	53,200	22.3%	50,400	22.1%
Packaged	185,800	77.7%	177,900	77.9%
Total	239,000	100.0%	228,300	100.0%

  

Six Months Ended June 30,	2016		2015	
	Shipments	% of Total	Shipments	% of Total
Draft	90,700	23.8%	89,900	23.2%
Packaged	290,700	76.2%	296,900	76.8%
Total	381,400	100.0%	386,800	100.0%

The package mix was relatively consistent in the three-month period ended June 30, 2016 compared to the same period of 2015. In the six-month period ended June 30, 2016, the shift in package mix was also affected by a greater reduction in our packaged shipments compared to our draft shipments due to the temporary closure of our Oregon brewery discussed above.

**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,		Dollar Change	% Change
	2016	2015		
Beer Related	\$ 35,463	\$ 33,514	\$ 1,949	5.8 %
Pubs	6,317	6,327	(10)	(0.2)%
Total	\$ 41,780	\$ 39,841	\$ 1,939	4.9 %

  

	Six Months Ended June 30,		Dollar Change	% Change
	2016	2015		
Beer Related	\$ 60,088	\$ 58,506	\$ 1,582	2.7 %
Pubs	12,197	11,882	315	2.7 %
Total	\$ 72,285	\$ 70,388	\$ 1,897	2.7 %

The increase in Beer Related Cost of sales in the three-month period ended June 30, 2016 compared to the same period of 2015 was primarily due to an increase in our shipment volume, and increases in brewery costs and distribution rates per barrel, partially offset by a decrease in component material costs on a per barrel basis. The increase in Beer Related Cost of sales in the six-month period ended June 30, 2016 compared to the same period of 2015 was primarily due to increases in brewery costs and distribution rates per barrel, partially offset by decreases in component material costs on a per barrel basis and shipment volume. The brewery costs per barrel for the three-month period ended June 30, 2016 increased as we began to absorb several key strategic operational enhancements completed during the first quarter of 2016. Our cost of goods for the six-month period were also negatively impacted

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by the operational enhancements, which required the temporary closure of our largest-volume brewery in Portland and led to a decrease in brewing volume in the first quarter of 2016.

Pubs Cost of sales in the three-month period ended June 30, 2016 compared to the same period of 2015, was relatively flat. The increase in Pubs Cost of sales in the six-month period ended June 30, 2016 compared to the same period of 2015 was primarily due to an increase in Sales at our Kona Pub on the island of Oahu.

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,	
	2016	2015	2016	2015
Capacity utilization	86%	82%	69%	70%

Capacity utilization in the six-month period ended June 30, 2016 was impacted by the closure of our largest and most efficient brewery, located in Portland, for approximately two weeks during the first quarter of 2016 as we installed new equipment to further increase capacity and efficiency. In June 2014, we initiated full-scale brewing with our brewing partner in Memphis, Tennessee. This partnership provides us scalable capacity and we anticipate producing up to 100,000 barrels at this location in 2016.

**Gross Profit**

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

	Three Months Ended June 30,		Dollar Change	% Change
	2016	2015		
Beer Related	\$ 19,369	\$ 17,715	\$ 1,654	9.3 %
Pubs	1,129	975	154	15.8 %
Total	\$ 20,498	\$ 18,690	\$ 1,808	9.7 %

	Six Months Ended June 30,		Dollar Change	% Change
	2016	2015		
Beer Related	\$ 27,223	\$ 28,281	\$ (1,058)	(3.7)%
Pubs	1,992	1,571	421	26.8 %
Total	\$ 29,215	\$ 29,852	\$ (637)	(2.1)%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Beer Related	35.3%	34.6%	31.2%	32.6%
Pubs	15.2%	13.4%	14.0%	11.7%
Overall	32.9%	31.9%	28.8%	29.8%

The increase in Gross profit in the three-month period ended June 30, 2016 compared to the same period of 2015 was primarily due to increased unit pricing, decreased component material costs and increased shipment volume, partially offset by an increase in brewery costs per barrel at our owned breweries, and higher distribution rates. The decrease in Gross profit in the six-month period ended June 30, 2016 compared to the same period of 2015 was primarily due to the increase in brewery costs per barrel at our owned breweries as we temporarily closed our most efficient brewery in Portland, Oregon in the first quarter of 2016, a decrease in shipment volume and higher distribution rates per barrel, partially offset by an increase in unit pricing, decreased component materials costs, increased alternating proprietorship fees earned and improved Pubs performance.

The increase in the Beer Related gross margin in the three-month period ended June 30, 2016 compared to the same period of 2015 was primarily due to improved unit pricing and a decrease in component material costs per barrel, partially offset by higher brewery and distribution costs per barrel. The decrease in the Beer Related gross margin in the six-month period ended June 30, 2016 compared to the same period of 2015 was primarily due to higher brewery costs per barrel, partially offset by improved unit pricing and lower component material costs per barrel.

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The increases in the Pubs gross margin in the three and six-month periods ended June 30, 2016 compared to the same periods of 2015 were primarily due to higher guest counts.

**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 fees and administrative support functions.

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

	Three Months Ended June 30,		Dollar Change	% Change
	2016	2015		
	\$ 16,548	\$ 16,263	\$ 285	1.8%
As a % of Net sales	26.6%	27.8%		

	Six Months Ended June 30,		Dollar Change	% Change
	2016	2015		
	\$ 30,472	\$ 29,216	\$ 1,256	4.3%
As a % of Net sales	30.0%	29.1%		

The increases in SG&A for the three and six-month periods ended June 30, 2016 compared to the same periods of 2015 were primarily due to increases in emerging business and international support, brand marketing, and employee-related costs. SG&A decreased as a percent of Net sales in the three-month period ended June 30, 2016 compared to the same period of 2015 primarily due to the increase in Net sales. SG&A increased as a percentage of Net sales in the six-month period ended June 30, 2016 compared to the same period of 2015 primarily due to the increase in SG&A expense.

**Interest Expense**

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

	Three Months Ended June 30,		Dollar Change	% Change
	2016	2015		
	\$ 187	\$ 150	\$ 37	24.7%

	Six Months Ended June 30,		Dollar Change	% Change
	2016	2015		
	\$ 334	\$ 271	\$ 63	23.2%

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Average debt outstanding	\$ 30,101	\$ 21,046	\$ 26,373	\$ 19,595
Average interest rate	1.55%	1.85%	1.52%	1.70%

The increases in Interest expense in the three and six-month periods ended June 30, 2016 compared to the same periods of 2015 were primarily due to the increases 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 40.0% for the first six months of 2016 and 39.9% in the first six months of 2015. 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, 2016 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, 2016 included \$0.3 million of Cash and cash equivalents and \$20.0 million available under our line of credit facility.

At June 30, 2016 and December 31, 2015, we had \$16.1 million and \$10.8 million of working capital, respectively, and our debt as a percentage of total capitalization (total debt and common shareholders' equity) was 20.9% and 14.1%, respectively.

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

	Six Months Ended June 30,	
	2016	2015
Net cash provided by (used in) operating activities	\$ (2,180)	\$ 1,112
Net cash used in investing activities	(9,212)	(5,429)
Net cash provided by financing activities	10,816	4,613
Increase (decrease) in Cash and cash equivalents	\$ (576)	\$ 296

Cash used in operating activities of \$2.2 million in the first six months of 2016 resulted from our Net loss of \$0.9 million, offset by net non-cash expenses of \$4.9 million and changes in our operating assets and liabilities as discussed in more detail below.

Accounts receivable, net, increased \$8.4 million to \$27.3 million at June 30, 2016 compared to \$18.9 million at December 31, 2015. This increase was primarily due to the timing of shipments and a \$6.6 million increase in our receivable from A-B, which totaled \$19.1 million at June 30, 2016. Historically, we have not had collection problems related to our accounts receivable.

Inventories increased \$4.7 million to \$23.0 million at June 30, 2016 compared to \$18.3 million at December 31, 2015. The increase from December 31, 2015 was due to the timing of shipments in the fourth quarter of 2015 and second quarter of 2016, seasonality and the forecasted demand for our beers.

Accounts payable increased \$8.2 million to \$25.3 million at June 30, 2016 compared to \$17.1 million at December 31, 2015, primarily due to the timing of payments related to raw and component materials and marketing.

As of June 30, 2016, we had the following net operating loss carryforwards ("NOLs") and federal credit carry forwards available to offset payment of future income taxes:

- federal NOLs of \$1.9 million, or \$0.6 million tax effected;
- state NOLs of \$103,000, tax-effected;
- federal alternative minimum tax ("AMT") credit carry forwards of \$343,000; and
- federal insurance contributions act ("FICA") credit carry forwards of \$93,000, tax-effected.

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

Capital expenditures of \$9.2 million in the first six months of 2016 were primarily directed to beer production capacity and efficiency improvements. As of June 30, 2016, we had an additional \$1.6 million of expenditures recorded in Accounts payable on our Consolidated Balance Sheets, compared to \$1.3 million at December 31, 2015. We anticipate capital expenditures of approximately \$19 million to \$23 million in 2016 primarily for capacity and efficiency improvements, quality initiatives and restaurant and retail. In 2015, we began 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 2018, we are investing approximately \$20 million in a new Hawaiian Brewery to expand capacity to 100,000 barrels per year.

We have a loan agreement (as amended, the "Loan Agreement") with Bank of America, N.A., which consists of a \$40.0 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 \$10.1 million term loan ("Term Loan"). We may draw upon the Line of Credit for working capital and

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general corporate purposes until expiration on November 30, 2020. The maturity date of the Term Loan is September 30, 2023. At June 30, 2016, we had \$20.0 million of borrowings outstanding under the Line of Credit and \$9.9 million outstanding under the Term Loan.

Under the Loan Agreement, interest accrues at an annual rate based on the London Inter-Bank Offered Rate (“LIBOR”) Daily Floating Rate plus a marginal rate. The marginal rate varies from 0.75% to 1.75% for the Line of Credit and Term Loan based on our funded debt ratio. At June 30, 2016, our marginal rate was 1.00%, resulting in an annual interest rate of 1.43%.

The Loan Agreement authorizes acquisitions within the same line of business as long as we remain in compliance with the financial covenants of the Loan Agreement and there is at least \$5.0 million of availability remaining on the Line of Credit following the acquisition.

**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 2015 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, 2015.

**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 2015 Annual Report on Form 10-K, which was filed with the SEC on March 2, 2016.

**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

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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 2016, 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 2015 Annual Report on Form 10-K, which was filed with the SEC on March 2, 2016.

**Item 6. Exhibits**

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

10.1	Employment Agreement between the Registrant and Andrew J. Thomas, dated July 1, 2016
10.2	Employment Agreement between the Registrant and Joseph K. Vanderstelt, dated June 29, 2016
10.3	Employment Agreement between the Registrant and J. Scott Mennen, dated July 5, 2016
10.4	Employment Agreement between the Registrant and Kenneth C. Kunze, dated July 1, 2016
10.5	Employment Agreement between the Registrant and John W. Glick, dated June 30, 2016
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 3, 2016
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

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**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 3, 2016

By: /s/ Joseph K. Vanderstelt

Joseph K. Vanderstelt  
*Chief Financial Officer*



June 20, 2016

Andrew J. Thomas  
Craft Brew Alliance, Inc.  
929 North Russell Street  
Portland, Oregon 97227

Re: Employment Agreement

Dear Andy:

This letter amends and supersedes your employment letter dated December 30, 2015, and any prior formal or informal agreement regarding your employment by Craft Brew Alliance, Inc. (the "Company"), with the exception of any confidentiality, noncompetition, and/or nonsolicitation agreement(s) you have entered into with the Company.

This letter constitutes your Employment Agreement (this "Agreement") with the Company, effective July 1, 2016 (the "Effective Date"). You and the Company are collectively referred to in this Agreement as "the Parties" (or individually as a "Party"). This Agreement sets forth the terms and conditions of your continued employment with the Company as its Chief Executive Officer as of the Effective Date. Capitalized terms not otherwise defined in the body of this Agreement have the meanings set forth on Exhibit A.

1. Term

The term of this Agreement shall be three years, from July 1, 2016, through June 30, 2019 (the "Contract Term"), subject to Section 3 of this Agreement. In the event that the Company experiences a Change in Control Event, the Contract Term will extend to the later of (a) the first anniversary of the Change in Control Event or (b) the date set forth in the preceding sentence. In the event of a termination by either Party without Cause or Good Reason on or before the end of the Contract term, the terminating Party shall provide the other Party with at least 60 days' written notice of termination.

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## 2. Compensation and Benefits

### 2.1 Base Compensation

As of the Effective Date, your annual base salary rate is \$439,000, subject to standard tax withholdings and other payroll deductions. Your base salary level will be reviewed annually for adjustment by the Compensation Committee of the Company's Board of Directors (the "Board"), with salary adjustments, if any, generally made effective as of January 1.

### 2.2 Short-Term Incentive Compensation

You will be eligible for short-term incentive ("STI") compensation under the Company's Annual Cash Incentive Bonus Plan. For 2016, your total STI target amount is \$350,000. For subsequent years, the performance targets and STI target amounts will be determined annually by the Compensation Committee.

### 2.3 Long-Term Incentive Compensation

You will also be eligible to participate in the Company's 2014 Stock Incentive Plan as determined by the Compensation Committee.

### 2.4 Employee Benefits

You are eligible to participate in employee benefit programs made available to the Company's executive officers. You will receive paid time off consistent with the policies for executive officers of the Company.

## 3. Termination & Severance

### 3.1 Termination During Contract Term

Except as provided in Section 3.2, in the event that (a) the Company terminates your employment effective on a date prior to or as of the end of the Contract Term for any reason other than "Cause" or (b) you terminate your employment prior to or as of the end of the Contract Term due to "Good Reason," the Company will continue to pay you your then current base salary for 12 months from your termination date (the "Severance Period"). The severance payments under this paragraph shall not exceed two times the lesser of (y) the sum of your annualized compensation based upon your annual salary in the year preceding the year in which your employment is terminated (adjusted for any increase during that year that was expected to continue indefinitely if your employment had not terminated) and (z) the applicable dollar limit under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), for the calendar year in which your employment is terminated.

In addition, if you become entitled to severance pay under the first paragraph of this Section 3.1, the Company will also make a lump sum payment to you within 45 days of your termination of employment in an amount equal to the amount necessary to pay your COBRA premiums for continuation of group health insurance coverage during the Severance Period based on such premiums in effect on the date of your termination.

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### 3.2 Termination in Connection with a Change in Control Event.

In the event that (a) the Company experiences a Change in Control Event and (b) either (i) the Company terminates your employment effective on a date prior to the first anniversary of the Change in Control Event for any reason other than "Cause" or (ii) you terminate your employment prior to the first anniversary of the Change in Control Event due to "Good Reason," and (c) in the case of a Change in Control Event described in Paragraph (c) of the definition of Change in Control Event, you represent and warrant that, as of the termination of your employment, you have not entered into any understanding or arrangement with the acquiring individual or entity regarding future employment, the Company will make a lump sum payment to you within 45 days of the termination of your employment equal to the sum of: (A) your then current monthly base salary multiplied by 24; (B) an amount equal to the amount necessary to pay your COBRA premiums for continuation of group health insurance coverage for 24 months based on such premiums in effect on the date of your termination; and (C) your full target STI bonus amount for the year in which your termination of employment occurs. The payments under this Section 3.2 are in lieu of the benefits under Section 3.1, and in no event will you be paid benefits under both Sections 3.1 and 3.2.

Notwithstanding the foregoing, in the event that (A) the Company experiences a Change in Control Event described in Paragraph (c) of the definition of Change in Control Event and (B) prior to the date of payment under this Section 3.2 you accept a position with the acquirer of the Company's assets, which in any other Change in Control Event would not be deemed Good Reason under Section 3.2(b)(ii), all benefits under Sections 3.1 and 3.2 will be forfeited.

The Parties agree and acknowledge that their intent is that none of the benefits payable under this Section 3.2 shall constitute an "excess parachute payment" under Section 280G of the Code that would give rise to an excise tax under Section 4999 of the Code or a loss of deduction under Section 280G of the Code. To give effect to that intent, and notwithstanding any other provision of this Agreement to the contrary, the Parties specifically agree that the aggregate amount of the benefits payable to you or for your benefit that constitute "parachute payments" within the meaning of Section 280G(b)(2) of the Code, under this Agreement or any other agreement or arrangement between you and the Company, shall not exceed 2.99 multiplied by your "base amount," as defined in Section 280G(b)(3) of the Code (the "Maximum Benefit Amount"). The Company shall make all calculations and determinations under this Section 3.2 (including application and interpretation of the Code and related regulatory, administrative and judicial authorities) in good faith, which calculations and determinations shall be binding on you absent manifest error. The Company shall provide you with a reasonable opportunity to review and comment on the Company's calculations. If at any time it is determined that the amount paid to you or for your benefit pursuant to this Agreement or any other agreement or arrangement between you and the Company exceeded the Maximum Benefit Amount, you shall immediately repay the excess to the Company, together with interest from the date of original payment to you at the discount rate applicable under Section 280G(d)(4) of the Code.

### 3.3 Termination at End of Contract Term

Following the Contract Term, if the Parties have not negotiated a replacement agreement or renewal of this Agreement, this Agreement shall terminate (except with respect to any obligations that expressly extend beyond termination) and employment may continue on an at-will basis with either Party free to end the employment relationship for any reason at any time, with or without Cause, Good Reason or notice, and without severance obligations.

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### 3.4 Release of Claims

The Company will require you to execute an appropriate general release of all claims that you may have relating to your employment with the Company and termination of your employment as a condition to your receipt of any severance payments or other benefits under this Agreement other than those required by law or provided to employees generally. If such general release of claims is not executed within 30 days following the date your employment with the Company is terminated, all severance payments and other benefits payable after such 30-day period will be forfeited, and you agree to repay any severance payments, and the value of other benefits, paid to you during such period.

### 3.5 Competition During Severance Period

If, during the Severance Period, you become employed or associated with a brewing or other company that the Company determines, in its reasonable discretion, is a competitor of the Company or the portion of the Company's business relating to alcoholic beverages, your severance payments and benefits under Section 3.1 will terminate as of the effective date of such employment or association. The foregoing does not supersede or replace any provision of any noncompetition agreement between you and the Company, including without limitation the Employee Noncompetition and Nondisclosure Agreement between you and the Company dated November 20, 2013 (the "Restrictive Covenant Agreement") and extended as specified in Section 4.

### 4. Noncompetition and Nonsolicitation

You agree that the Restrictive Covenant Agreement, which is attached hereto as Exhibit B, is hereby extended in light of your continued employment with the Company. You agree that the noncompetition restriction set forth in Paragraph 3 of the Restrictive Covenant Agreement is extended and modified such that the noncompetition restrictions set forth in that provision shall extend through the end of your employment for any reason and for a period of twelve (12) months following the termination of your employment with the Company. You further agree that the nonsolicitation restrictions set forth in Paragraph 4 of the Restrictive Covenant Agreement are hereby extended and modified such that the nonsolicitation restrictions set forth in that provision shall extend for a period of twelve (12) months following the termination of your employment. You further acknowledge that these restrictions are reasonable given the highly competitive nature of the craft brewing industry and that a failure to comply with these restrictive covenant provisions may cause the Company irreparable harm. You further acknowledge that your agreement to refrain from competing and soliciting for 12 months following termination is a material representation and inducement for the Company to enter into this Agreement. In addition to any other remedies, the Parties agree that any breach of the Restrictive Covenant Agreement, or any competition or solicitation during the 12-month period following termination of employment, shall cut off any right Employee may otherwise have to severance pay or benefits under this Agreement. This Section 4 will survive the termination or expiration of this Agreement.

### 5. Nondisclosure

At all times during and after your employment with the Company, you agree that you will not use or disclose any Confidential Information for any purpose, except for the purpose of benefiting the Company consistent with the Company's instructions or intentions during the course of your employment. For purposes of this Agreement, "Confidential Information" shall be broadly construed to mean all of the Company's proprietary or non-public business information and all trade secrets. You agree to use the highest degree of care in safeguarding Confidential Information against loss, theft, inadvertent disclosure or unauthorized access or use. In the event that you receive notice at any time of any legal obligation to

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disclose any Confidential Information, you agree to notify the Company immediately in order to provide the Company with an opportunity to protect its interests. You further agree that you will deliver to the Company immediately upon termination of employment or at any time upon the Company's request, all Confidential Information, whether or not written, produced or compiled by you and that you will not maintain access to or possession of Confidential Information following termination of your employment at the Company. This nondisclosure obligation and this Agreement supplement, and do not supersede, any other confidentiality agreement you have entered into at any time with the Company.

#### 6. Retention Bonus

If you remain employed as Chief Executive Officer under this Agreement through December 31, 2018, you will be entitled to a retention bonus award of \$50,000. If you fail, for any reason, to remain employed as Chief Executive Officer of Company through December 31, 2018, you will not be entitled to this retention bonus and you will agree to repay, within 30 days, the \$50,000 retention bonus paid to you in January 2016.

#### 7. Code Section 409A

For purposes of this Agreement, a termination of your employment will be deemed to occur only when or if there has been a "separation from service" as such term is defined in Treasury Regulation Section 1.409A-1(h). The severance payments and other benefits under this Agreement are intended to be exempt from the requirements of Section 409A of the Code by reason of all payments under this Agreement being either "short-term deferrals" within the meaning of Treasury Regulation Section 1.409A-1(b)(4) or separation pay due to involuntary separation from service under Treasury Regulation Section 1.409A-1(b)(9)(iii). All provisions of this Agreement shall be interpreted in a manner consistent with preserving these exemptions.

#### 8. Severability

In the event that a court of competent jurisdiction determines that a provision of this Agreement is unenforceable or not fully enforceable, the Parties agree that this Agreement is severable and should be enforced to the full extent allowed by law to best effectuate the intentions of the Parties.

#### 9. Code of Conduct

By your signature below, you agree to comply with the Company's Code of Conduct and Ethics as in effect from time to time, and to be subject to the Company's policies and procedures in effect from time to time for senior executives of the Company.

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We appreciate your continued efforts on behalf of the Company and look forward to having you as a member of our team for years to come.

Sincerely,

/s/ David R. Lord

David Lord

Chairman of the Board

Acknowledged and Agreed:

/s/ Andrew J. Thomas Date: July 1, 2016

Andrew J. Thomas

Attachments: Exhibit A (Definitions)

Exhibit B (Restrictive Covenant Agreement)

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## EXHIBIT A

### Definitions

1. "**Cause**" shall mean that (a) you have engaged in conduct which has substantially and adversely impaired the interests of the Company, or would be likely to do so if you were to remain employed by the Company; (b) you have engaged in fraud, dishonesty or self-dealing relating to or arising out of your employment with the Company; (c) you have violated any criminal law relating to your employment or to the Company; (d) you have engaged in conduct which constitutes a material violation of a significant Company policy or the Company's Code of Conduct and Ethics as in effect from time to time, including, without limitation, violation of policies relating to discrimination, harassment, use of drugs and alcohol and workplace violence; or (e) you have repeatedly refused to obey lawful directions of the Board, including failing to maintain a residence no further than 50 miles from the Company's principal office within six months after the Board makes such a direction.

2. "**Change in Control Event**" shall mean the occurrence of any of the following events:

(a) Any one person or entity, or more than one person or entity acting as a group (as defined in Treasury Regulation Section 1.409A-3), acquires ownership of stock of the Company that, together with stock previously held by the acquirer, constitutes more than 50 percent of the total fair market value or total voting power of the Company's stock. If any one person or entity, or more than one person or entity acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the Company's stock, the acquisition of additional stock by the same person or entity or persons or entities acting as a group does not cause a Change in Control Event. An increase in the percentage of stock owned by any one person or entity, or persons or entities acting as a group, as a result of a transaction in which the Company acquires its stock in exchange for property, is treated as an acquisition of stock; or

(b) A majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of appointment or election; or

(c) Any one person or entity, or more than one person or entity acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by that person or entity or persons or entities acting as a group) assets from the Company that have a total gross fair market value equal to at least 75 percent of the total gross fair market value of all the Company's assets immediately prior to the acquisition or acquisitions. Gross fair market value means the value of the Company's assets, or the value of the assets being disposed of, without regard to any liabilities associated with these assets.

In determining whether a Change in Control Event has occurred, the attribution rules under Section 318 of the Code will apply to determine stock ownership. The stock underlying a vested option is treated as owned by the individual who holds the vested option, and the stock underlying an unvested option is not treated as owned by the individual who holds the unvested option.

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3. "**Good Reason**" shall mean the occurrence of one or more of the following events without your consent: (a) a material reduction in your base compensation; (b) a material reduction in your authority, duties, or responsibilities as the Company's Chief Executive Officer; (c) a material reduction in the authority, duties, or responsibilities of the person or persons to whom you report (including, if applicable, a requirement that you report to a Company officer or employee instead of reporting directly to the Board); or (d) a relocation of your principal office to a location that is more than 100 miles from Portland, Oregon; provided, however, that "good reason" shall only be deemed to have occurred if: (i) within 90 days after the initial existence of the circumstances constituting "Good Reason," you provide the Company with a written notice describing such circumstances; (ii) the Company fails to cure the circumstances within 30 days after the Company receives your notice; and (iii) you terminate your employment with the Company within 90 days of the date of your notice.

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Exhibit B

**EMPLOYEE NONCOMPETITION AND NONSOLICITATION AGREEMENT**

This NONCOMPETITION AND NONSOLICITATION AGREEMENT (“**Agreement**”) is made as of the 20th day of November, 2013, by and among Craft Brew Alliance, Inc. (the “**Company**”) and Andrew J. Thomas (the “**Employee**”).

WHEREAS, as a condition of and in conjunction with the Company promoting the Employee to its Chief Executive Officer as of January 1, 2014, the Employee has and will have access to significant and increased knowledge and experience in the Company’s business and intimate knowledge of its customers, processes, trade secrets and/or other business information; and

WHEREAS, the Company needs to protect its commercial good will, intellectual property, and other assets;

NOW, THEREFORE, in consideration of the foregoing, the agreements set forth below, the parties’ desire to preserve the value inherent in the Company for their mutual benefit, and for other valuable consideration, including but not limited to a promotion the Company has offered to Employee, and the Employee’s employment or continued employment by the Company thereafter, the Employee, intending to be legally bound hereby, agrees with the Company as follows:

1. Definitions.

“**Competing Business**” shall mean any business engaged in the brewing, processing, sale, marketing, or distribution of alcoholic beverages.

“**Person**” shall mean an individual, partnership, corporation, limited liability company, limited liability partnership, association, trust, joint venture, unincorporated organization and any government, governmental department or agency or political subdivision thereof.

“**Protected Territory**” shall mean the United States of America.

2. At-Will Employment. Notwithstanding anything contained in this Agreement, the Employee’s employment by the Company is “at will,” meaning that either the Employee or the Company may terminate the employment relationship at any time, with or without notice, and for any reason or no reason.

3. Noncompetition. From the date hereof through December 31, 2015, the Employee agrees that Employee will not, singly, jointly, or as a partner, member, employee, agent, officer, director, stockholder (except as a holder of not more than five percent of any class of stock listed on a national securities exchange, or actively traded in a national over-the-counter market), consultant, independent contractor, or joint venturer of any other Person, or in any other capacity, directly or beneficially own, manage, operate, join, control, or participate in the ownership, management, operation or control of, or authorize the use of his name by, or work for, or provide consulting, financial or other assistance to, or provide any beneficial services of any kind to, or be connected in any manner with, a Competing Business within the Protected Territory.

4. Nonsolicitation. From the date hereof through December 31, 2015, the Employee agrees not to:

(a) employ, retain or engage (as an employee, consultant, or independent contractor), or induce or attempt to induce to be employed, retained or engaged, any Person who is or was during the term

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of the Employee's employment with the Company, and for a period of one year thereafter, an employee, consultant or independent contractor of the Company;

(b) induce or attempt to induce any Person who is or was during the term of the Employee's employment with the Company, and for a period of one year thereafter, an employee, consultant, or independent contractor of the Company, to terminate such Person's employment or other relationship with the Company; or

(c) induce or attempt to induce any Person who is or was during the term of the Employee's employment with the Company, and for a period of one year thereafter, a customer or client of the Company, or who otherwise is a contracting party with the Company, to terminate such Person's relationship with the Company or to do business with any Competing Business.

5. Representations. Employee hereby represents that his at-will employment with the Company and his performance of all the terms of this Agreement will not result in a breach of any agreement with a third party, including the breach of any agreement to keep in confidence proprietary information acquired by the Employee prior to his employment by the Company or to refrain from competing with any third party. Employee represents that he has not entered into, and agrees he will not enter into, any oral or written agreement in conflict with this Agreement.

6. Survival. The Employee's obligations under this Agreement shall survive the termination of the Employee's employment with the Company regardless of the manner of, or circumstances surrounding, such termination, and shall be binding upon the Employee's heirs, executors, administrators and legal representatives.

7. Equitable Remedies. The Employee agrees that a breach of any of the provisions of this Agreement by the Employee will cause irreparable harm to the Company, and that in the event of such breach the Company shall have, in addition to any and all remedies at law, the right to an injunction, specific performance or other equitable relief to prevent the violation of the Employee's obligations hereunder, and that the Company need not post any bond as a condition of seeking any such injunction, specific performance, or any other equitable relief.

8. Waivers and Amendments. The respective rights and obligations of the Company and the Employee under this Agreement may be waived (either generally or in a particular instance, either retroactively or prospectively, and either for a specified period of time or indefinitely) or amended only with the written consent of the Employee and a duly authorized representative of the Company.

9. Successors and Assigns. The Company shall have the right to assign the benefits of this Agreement to any entity that acquires the Company's business whether by merger, purchase of capital stock or purchase of all or substantially all of the assets of the Company.

10. Notification of New Employer. In the event that the Employee's employment is terminated (either by the Employee or the Company), the Employee hereby authorizes the Company to notify the Employee's new employer regarding the Employee's rights and obligations under this Agreement, and any other agreement by which the Employee is bound.

11. Entire Agreement. This Agreement constitutes the full and entire understanding and agreement of the parties with regard to the subjects hereof and supersedes in their entirety all other or prior agreements, whether oral or written, with respect thereto. Notwithstanding the foregoing, this Agreement shall not be interpreted as superseding or replacing any provision of the Employee's employment letter

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agreement with the Company, including without limitation any provision terminating severance benefits in the event of competition by the Employee.

12. Partial Invalidity/Severability. The Company and the Employee agree that the covenants set forth in this Agreement shall be enforced to the fullest extent permitted by law. Accordingly if any court or arbitrator shall determine that such covenant is unenforceable for any reason, including, without limitation, because it covers too extensive a geographical area or survives too long a period of time, then the parties intend that such covenant shall be deemed to cover only such maximum geographical area and maximum period of time, if applicable, and/or shall otherwise be deemed to be limited in such manner, as will permit enforceability by such court or arbitrator. In the event that any one or more of such covenants shall, either by itself or together with other covenants, be adjudged to go beyond what is reasonable in all the circumstances for the protection of the interests of the Company and its shareholders, but would be adjudged reasonable if any particular covenant or covenants or parts thereof were deleted, restricted, or limited in a particular manner, then the said covenants shall apply with such deletions, restrictions, or limitations, as the case may be. The Company and the Employee further agree that the covenants set forth in this Agreement are reasonable in all circumstances for the protection of the legitimate interests of the Company and its shareholders.

13. Governing Law and Venue. This Agreement shall be governed by and interpreted under and in accordance with the laws of the State of Oregon. Venue for enforcement of any terms of this Agreement shall be in the state or federal courts for the State of Oregon.

The parties have duly executed this Noncompetition and Nonsolicitation Agreement as of the date first above written.

**COMPANY:**

**Craft Brew Alliance, Inc.**

By:  /s/ Kurt R. Widmer

Name:  Kurt R. Widmer

Title:  Chairman of the Board

**EMPLOYEE:**

/s/ Andrew J. Thomas

Name: Andrew J. Thomas



June 20, 2016

Joseph Vanderstelt  
Craft Brew Alliance, Inc.  
929 North Russell Street  
Portland, Oregon 97227

Re: Employment Agreement

Dear Joe:

This letter amends and supersedes your employment letter dated April 27, 2015, and any prior formal or informal agreement regarding your employment by Craft Brew Alliance, Inc. (the "Company"), with the exception of any confidentiality, noncompetition, and/or nonsolicitation agreement(s) you have entered into with the Company.

This letter constitutes your Employment Agreement (this "Agreement") with the Company, effective July 1, 2016 (the "Effective Date"). You and the Company are collectively referred to in this Agreement as "the Parties" (or individually as a "Party"). This Agreement sets forth the terms and conditions of your continued employment with the Company as its Chief Financial Officer as of the Effective Date. Capitalized terms not otherwise defined in the body of this Agreement have the meanings set forth on Exhibit A.

1. Term

The term of this Agreement shall be three years, from July 1, 2016, through June 30, 2019 (the "Contract Term"), subject to Section 3 of this Agreement. In the event that the Company experiences a Change in Control Event, the Contract Term will extend to the later of (a) the first anniversary of the Change in Control Event or (b) the date set forth in the preceding sentence. In the event of a termination by either Party without Cause or Good Reason on or before the end of the Contract term, the terminating Party shall provide the other Party with at least 60 days' written notice of termination.

2. Compensation and Benefits

2.1 Base Compensation

As of the Effective Date, your annual base salary rate is \$265,000, subject to standard tax withholdings and other payroll deductions. Your base salary level will be reviewed annually for

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adjustment by the Compensation Committee of the Company's Board of Directors (the "Board"), with salary adjustments, if any, generally made effective as of January 1.

## 2.2 Short-Term Incentive Compensation

You will be eligible for short-term incentive ("STI") compensation under the Company's Annual Cash Incentive Bonus Plan. For 2016, your total STI target amount is \$145,750. For subsequent years, the performance targets and STI target amounts will be determined annually by the Compensation Committee.

## 2.3 Long-Term Incentive Compensation

You will also be eligible to participate in the Company's 2014 Stock Incentive Plan as determined by the Compensation Committee.

## 2.4 Employee Benefits

You are eligible to participate in employee benefit programs made available to the Company's executive officers. You will receive paid time off consistent with the policies for executive officers of the Company; provided, however, that you will accrue no less than 25 days of paid time off per year at the rate of 7.69 hours bi-weekly.

## 3. Termination & Severance

### 3.1 Termination During Contract Term

Except as provided in Section 3.2, in the event that (a) the Company terminates your employment effective on a date prior to or as of the end of the Contract Term for any reason other than "Cause" or (b) you terminate your employment prior to or as of the end of the Contract Term due to "Good Reason," the Company will continue to pay you your then current base salary for 12 months from your termination date (the "Severance Period"). The severance payments under this paragraph shall not exceed two times the lesser of (y) the sum of your annualized compensation based upon your annual salary in the year preceding the year in which your employment is terminated (adjusted for any increase during that year that was expected to continue indefinitely if your employment had not terminated) and (z) the applicable dollar limit under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), for the calendar year in which your employment is terminated.

In addition, if you become entitled to severance pay under the first paragraph of this Section 3.1, the Company will also make a lump sum payment to you within 45 days of your termination of employment in an amount equal to the amount necessary to pay your COBRA premiums for continuation of group health insurance coverage during the Severance Period based on such premiums in effect on the date of your termination.

### 3.2 Termination in Connection with a Change in Control Event.

In the event that (a) the Company experiences a Change in Control Event and (b) either (i) the Company terminates your employment effective on a date prior to the first anniversary of the Change in Control Event for any reason other than "Cause" or (ii) you terminate your employment prior to the first anniversary of the Change in Control Event due to "Good Reason," and (c) in the case of a Change in Control Event described in Paragraph (c) of the definition of Change in Control Event, you represent and warrant that, as of the termination of your employment, you have not entered into any

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understanding or arrangement with the acquiring individual or entity regarding future employment, the Company will make a lump sum payment to you within 45 days of the termination of your employment equal to the sum of: (A) your then current monthly base salary multiplied by 18; (B) an amount equal to the amount necessary to pay your COBRA premiums for continuation of group health insurance coverage for 18 months based on such premiums in effect on the date of your termination; and (C) your full target STI bonus amount for the year in which your termination of employment occurs. The payments under this Section 3.2 are in lieu of the benefits under Section 3.1, and in no event will you be paid benefits under both Sections 3.1 and 3.2.

Notwithstanding the foregoing, in the event that (A) the Company experiences a Change in Control Event described in Paragraph (c) of the definition of Change in Control Event and (B) prior to the date of payment under this Section 3.2 you accept a position with the acquirer of the Company's assets, which in any other Change in Control Event would not be deemed Good Reason under Section 3.2(b)(ii), all benefits under Sections 3.1 and 3.2 will be forfeited.

The Parties agree and acknowledge that their intent is that none of the benefits payable under this Section 3.2 shall constitute an "excess parachute payment" under Section 280G of the Code that would give rise to an excise tax under Section 4999 of the Code or a loss of deduction under Section 280G of the Code. To give effect to that intent, and notwithstanding any other provision of this Agreement to the contrary, the Parties specifically agree that the aggregate amount of the benefits payable to you or for your benefit that constitute "parachute payments" within the meaning of Section 280G(b)(2) of the Code, under this Agreement or any other agreement or arrangement between you and the Company, shall not exceed 2.99 multiplied by your "base amount," as defined in Section 280G(b)(3) of the Code (the "Maximum Benefit Amount"). The Company shall make all calculations and determinations under this Section 3.2 (including application and interpretation of the Code and related regulatory, administrative and judicial authorities) in good faith, which calculations and determinations shall be binding on you absent manifest error. The Company shall provide you with a reasonable opportunity to review and comment on the Company's calculations. If at any time it is determined that the amount paid to you or for your benefit pursuant to this Agreement or any other agreement or arrangement between you and the Company exceeded the Maximum Benefit Amount, you shall immediately repay the excess to the Company, together with interest from the date of original payment to you at the discount rate applicable under Section 280G(d)(4) of the Code.

### 3.3 Termination at End of Contract Term

Following the Contract Term, if the Parties have not negotiated a replacement agreement or renewal of this Agreement, this Agreement shall terminate (except with respect to any obligations that expressly extend beyond termination) and employment may continue on an at-will basis with either Party free to end the employment relationship for any reason at any time, with or without Cause, Good Reason or notice, and without severance obligations.

### 3.4 Release of Claims

The Company will require you to execute an appropriate general release of all claims that you may have relating to your employment with the Company and termination of your employment as a condition to your receipt of any severance payments or other benefits under this Agreement other than those required by law or provided to employees generally. If such general release of claims is not executed within 30 days following the date your employment with the Company is terminated, all severance payments and other benefits payable after such 30-day period will be forfeited, and you agree to repay any severance payments, and the value of other benefits, paid to you during such period.

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### 3.5 Competition During Severance Period

If, during the Severance Period, you become employed or associated with a brewing or other company that the Company determines, in its reasonable discretion, is a competitor of the Company or the portion of the Company's business relating to alcoholic beverages, your severance payments and benefits under Section 3.1 will terminate as of the effective date of such employment or association. The foregoing does not supersede or replace any provision of any noncompetition agreement between you and the Company.

#### 4. Repayment of Relocation Reimbursement

You were previously paid a relocation reimbursement of \$59,000. If you voluntarily terminate your employment with the Company prior to April 27, 2017, for any reason other than Good Reason, you agree to repay the full amount of the relocation reimbursement.

#### 5. Code Section 409A

For purposes of this Agreement, a termination of your employment will be deemed to occur only when or if there has been a "separation from service" as such term is defined in Treasury Regulation Section 1.409A-1(h). The severance payments and other benefits under this Agreement are intended to be exempt from the requirements of Section 409A of the Code by reason of all payments under this Agreement being either "short-term deferrals" within the meaning of Treasury Regulation Section 1.409A-1(b)(4) or separation pay due to involuntary separation from service under Treasury Regulation Section 1.409A-1(b)(9)(iii). All provisions of this Agreement shall be interpreted in a manner consistent with preserving these exemptions.

#### 6. Severability

In the event that a court of competent jurisdiction determines that a provision of this Agreement is unenforceable or not fully enforceable, the Parties agree that this Agreement is severable and should be enforced to the full extent allowed by law to best effectuate the intentions of the Parties.

#### 7. Code of Conduct

By your signature below, you agree to comply with the Company's Code of Conduct and Ethics as in effect from time to time, and to be subject to the Company's policies and procedures in effect from time to time for senior executives of the Company.

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We appreciate your continued efforts on behalf of the Company and look forward to having you as a member of our team for years to come.

Sincerely,

/s/ Andrew J. Thomas

Andrew J. Thomas  
Chief Executive Officer

Acknowledged and Agreed:

/s/ Joseph K. Vanderstelt Date: June 29, 2016

Joseph Vanderstelt

Attachment: Exhibit A (Definitions)

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## EXHIBIT A

### Definitions

1. "**Cause**" shall mean that (a) you have engaged in conduct which has substantially and adversely impaired the interests of the Company, or would be likely to do so if you were to remain employed by the Company; (b) you have engaged in fraud, dishonesty or self-dealing relating to or arising out of your employment with the Company; (c) you have violated any criminal law relating to your employment or to the Company; (d) you have engaged in conduct which constitutes a material violation of a significant Company policy or the Company's Code of Conduct and Ethics as in effect from time to time, including, without limitation, violation of policies relating to discrimination, harassment, use of drugs and alcohol and workplace violence; or (e) you have repeatedly refused to obey lawful directions of the Board or the Company's Chief Executive Officer.

2. "**Change in Control Event**" shall mean the occurrence of any of the following events:

(a) Any one person or entity, or more than one person or entity acting as a group (as defined in Treasury Regulation Section 1.409A-3), acquires ownership of stock of the Company that, together with stock previously held by the acquirer, constitutes more than 50 percent of the total fair market value or total voting power of the Company's stock. If any one person or entity, or more than one person or entity acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the Company's stock, the acquisition of additional stock by the same person or entity or persons or entities acting as a group does not cause a Change in Control Event. An increase in the percentage of stock owned by any one person or entity, or persons or entities acting as a group, as a result of a transaction in which the Company acquires its stock in exchange for property, is treated as an acquisition of stock; or

(b) A majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of appointment or election; or

(c) Any one person or entity, or more than one person or entity acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by that person or entity or persons or entities acting as a group) assets from the Company that have a total gross fair market value equal to at least 75 percent of the total gross fair market value of all the Company's assets immediately prior to the acquisition or acquisitions. Gross fair market value means the value of the Company's assets, or the value of the assets being disposed of, without regard to any liabilities associated with these assets.

In determining whether a Change in Control Event has occurred, the attribution rules under Section 318 of the Code will apply to determine stock ownership. The stock underlying a vested option is treated as owned by the individual who holds the vested option, and the stock underlying an unvested option is not treated as owned by the individual who holds the unvested option.

3. "**Good Reason**" shall mean the occurrence of one or more of the following events without your consent: (a) a material reduction in your base compensation; (b) a material reduction in your authority, duties, or responsibilities as the Company's Chief Financial Officer; (c) a material reduction in the authority, duties, or responsibilities of the person or persons to whom you report (including, if

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applicable, a requirement that you report to a Company officer or employee instead of reporting directly to the Board); or (d) a relocation of your principal office to a location that is more than 100 miles from Portland, Oregon; provided, however, that "good reason" shall only be deemed to have occurred if: (i) within 90 days after the initial existence of the circumstances constituting "Good Reason," you provide the Company with a written notice describing such circumstances; (ii) the Company fails to cure the circumstances within 30 days after the Company receives your notice; and (iii) you terminate your employment with the Company within 90 days of the date of your notice.



June 20, 2016

J. Scott Mennen  
Craft Brew Alliance, Inc.  
929 North Russell Street  
Portland, Oregon 97227

Re: Employment Agreement

Dear Scott:

This letter amends and supersedes your employment letter dated August 4, 2014, and any prior formal or informal agreement regarding your employment by Craft Brew Alliance, Inc. (the "Company"), with the exception of any confidentiality, noncompetition, and/or nonsolicitation agreement(s) you have entered into with the Company.

This letter constitutes your Employment Agreement (this "Agreement") with the Company, effective July 1, 2016 (the "Effective Date"). You and the Company are collectively referred to in this Agreement as "the Parties" (or individually as a "Party"). This Agreement sets forth the terms and conditions of your continued employment with the Company as its Vice President, Chief Operating Officer as of the Effective Date. Capitalized terms not otherwise defined in the body of this Agreement have the meanings set forth on Exhibit A.

1. Term

The term of this Agreement shall be three years, from July 1, 2016, through June 30, 2019 (the "Contract Term"), subject to Section 3 of this Agreement. In the event that the Company experiences a Change in Control Event, the Contract Term will extend to the later of (a) the first anniversary of the Change in Control Event or (b) the date set forth in the preceding sentence. In the event of a termination by either Party without Cause or Good Reason on or before the end of the Contract term, the terminating Party shall provide the other Party with at least 60 days' written notice of termination.

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## 2. Compensation and Benefits

### 2.1 Base Compensation

As of the Effective Date, your annual base salary rate is \$255,000, subject to standard tax withholdings and other payroll deductions. Your base salary level will be reviewed annually for adjustment by the Compensation Committee of the Company's Board of Directors (the "Board"), with salary adjustments, if any, generally made effective as of January 1.

### 2.2 Short-Term Incentive Compensation

You will be eligible for short-term incentive ("STI") compensation under the Company's Annual Cash Incentive Bonus Plan. For 2016, your total STI target amount is \$140,250. For subsequent years, the performance targets and STI target amounts will be determined annually by the Compensation Committee.

### 2.3 Long-Term Incentive Compensation

You will also be eligible to participate in the Company's 2014 Stock Incentive Plan as determined by the Compensation Committee.

### 2.4 Employee Benefits

You are eligible to participate in employee benefit programs made available to the Company's executive officers. You will receive paid time off consistent with the policies for executive officers of the Company.

## 3. Termination & Severance

### 3.1 Termination During Contract Term

Except as provided in Section 3.2, in the event that (a) the Company terminates your employment effective on a date prior to or as of the end of the Contract Term for any reason other than "Cause" or (b) you terminate your employment prior to or as of the end of the Contract Term due to "Good Reason," the Company will continue to pay you your then current base salary for 12 months from your termination date (the "Severance Period"). The severance payments under this paragraph shall not exceed two times the lesser of (y) the sum of your annualized compensation based upon your annual salary in the year preceding the year in which your employment is terminated (adjusted for any increase during that year that was expected to continue indefinitely if your employment had not terminated) and (z) the applicable dollar limit under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), for the calendar year in which your employment is terminated.

In addition, if you become entitled to severance pay under the first paragraph of this Section 3.1, the Company will also make a lump sum payment to you within 45 days of your termination of employment in an amount equal to the amount necessary to pay your COBRA premiums for continuation of group health insurance coverage during the Severance Period based on such premiums in effect on the date of your termination.

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### 3.2 Termination in Connection with a Change in Control Event.

In the event that (a) the Company experiences a Change in Control Event and (b) either (i) the Company terminates your employment effective on a date prior to the first anniversary of the Change in Control Event for any reason other than "Cause" or (ii) you terminate your employment prior to the first anniversary of the Change in Control Event due to "Good Reason," and (c) in the case of a Change in Control Event described in Paragraph (c) of the definition of Change in Control Event, you represent and warrant that, as of the termination of your employment, you have not entered into any understanding or arrangement with the acquiring individual or entity regarding future employment, the Company will make a lump sum payment to you within 45 days of the termination of your employment equal to the sum of: (A) your then current monthly base salary multiplied by 18; (B) an amount equal to the amount necessary to pay your COBRA premiums for continuation of group health insurance coverage for 18 months based on such premiums in effect on the date of your termination; and (C) your full target STI bonus amount for the year in which your termination of employment occurs. The payments under this Section 3.2 are in lieu of the benefits under Section 3.1, and in no event will you be paid benefits under both Sections 3.1 and 3.2.

Notwithstanding the foregoing, in the event that (A) the Company experiences a Change in Control Event described in Paragraph (c) of the definition of Change in Control Event and (B) prior to the date of payment under this Section 3.2 you accept a position with the acquirer of the Company's assets, which in any other Change in Control Event would not be deemed Good Reason under Section 3.2(b)(ii), all benefits under Sections 3.1 and 3.2 will be forfeited.

The Parties agree and acknowledge that their intent is that none of the benefits payable under this Section 3.2 shall constitute an "excess parachute payment" under Section 280G of the Code that would give rise to an excise tax under Section 4999 of the Code or a loss of deduction under Section 280G of the Code. To give effect to that intent, and notwithstanding any other provision of this Agreement to the contrary, the Parties specifically agree that the aggregate amount of the benefits payable to you or for your benefit that constitute "parachute payments" within the meaning of Section 280G(b)(2) of the Code, under this Agreement or any other agreement or arrangement between you and the Company, shall not exceed 2.99 multiplied by your "base amount," as defined in Section 280G(b)(3) of the Code (the "Maximum Benefit Amount"). The Company shall make all calculations and determinations under this Section 3.2 (including application and interpretation of the Code and related regulatory, administrative and judicial authorities) in good faith, which calculations and determinations shall be binding on you absent manifest error. The Company shall provide you with a reasonable opportunity to review and comment on the Company's calculations. If at any time it is determined that the amount paid to you or for your benefit pursuant to this Agreement or any other agreement or arrangement between you and the Company exceeded the Maximum Benefit Amount, you shall immediately repay the excess to the Company, together with interest from the date of original payment to you at the discount rate applicable under Section 280G(d)(4) of the Code.

### 3.3 Termination at End of Contract Term

Following the Contract Term, if the Parties have not negotiated a replacement agreement or renewal of this Agreement, this Agreement shall terminate (except with respect to any obligations that expressly extend beyond termination) and employment may continue on an at-will basis with either Party free to end the employment relationship for any reason at any time, with or without Cause, Good Reason or notice, and without severance obligations.

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### 3.4 Release of Claims

The Company will require you to execute an appropriate general release of all claims that you may have relating to your employment with the Company and termination of your employment as a condition to your receipt of any severance payments or other benefits under this Agreement other than those required by law or provided to employees generally. If such general release of claims is not executed within 30 days following the date your employment with the Company is terminated, all severance payments and other benefits payable after such 30-day period will be forfeited, and you agree to repay any severance payments, and the value of other benefits, paid to you during such period.

### 3.5 Competition During Severance Period

If, during the Severance Period, you become employed or associated with a brewing or other company that the Company determines, in its reasonable discretion, is a competitor of the Company or the portion of the Company's business relating to alcoholic beverages, your severance payments and benefits under Section 3.1 will terminate as of the effective date of such employment or association. The foregoing does not supersede or replace any provision of any noncompetition agreement between you and the Company.

### 4. Code Section 409A

For purposes of this Agreement, a termination of your employment will be deemed to occur only when or if there has been a "separation from service" as such term is defined in Treasury Regulation Section 1.409A-1(h). The severance payments and other benefits under this Agreement are intended to be exempt from the requirements of Section 409A of the Code by reason of all payments under this Agreement being either "short-term deferrals" within the meaning of Treasury Regulation Section 1.409A-1(b)(4) or separation pay due to involuntary separation from service under Treasury Regulation Section 1.409A-1(b)(9)(iii). All provisions of this Agreement shall be interpreted in a manner consistent with preserving these exemptions.

### 5. Severability

In the event that a court of competent jurisdiction determines that a provision of this Agreement is unenforceable or not fully enforceable, the Parties agree that this Agreement is severable and should be enforced to the full extent allowed by law to best effectuate the intentions of the Parties.

### 6. Code of Conduct

By your signature below, you agree to comply with the Company's Code of Conduct and Ethics as in effect from time to time, and to be subject to the Company's policies and procedures in effect from time to time for senior executives of the Company.

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We appreciate your continued efforts on behalf of the Company and look forward to having you as a member of our team for years to come.

Sincerely,

/s/ Andrew J. Thomas

Andrew J. Thomas  
Chief Executive Officer

Acknowledged and Agreed:

/s/ J. Scott Mennen Date: July 5, 2016

J. Scott Mennen

Attachment: Exhibit A (Definitions)

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## EXHIBIT A

### Definitions

1. "**Cause**" shall mean that (a) you have engaged in conduct which has substantially and adversely impaired the interests of the Company, or would be likely to do so if you were to remain employed by the Company; (b) you have engaged in fraud, dishonesty or self-dealing relating to or arising out of your employment with the Company; (c) you have violated any criminal law relating to your employment or to the Company; (d) you have engaged in conduct which constitutes a material violation of a significant Company policy or the Company's Code of Conduct and Ethics as in effect from time to time, including, without limitation, violation of policies relating to discrimination, harassment, use of drugs and alcohol and workplace violence; or (e) you have repeatedly refused to obey lawful directions of the Board or the Company's Chief Executive Officer.

2. "**Change in Control Event**" shall mean the occurrence of any of the following events:

(a) Any one person or entity, or more than one person or entity acting as a group (as defined in Treasury Regulation Section 1.409A-3), acquires ownership of stock of the Company that, together with stock previously held by the acquirer, constitutes more than 50 percent of the total fair market value or total voting power of the Company's stock. If any one person or entity, or more than one person or entity acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the Company's stock, the acquisition of additional stock by the same person or entity or persons or entities acting as a group does not cause a Change in Control Event. An increase in the percentage of stock owned by any one person or entity, or persons or entities acting as a group, as a result of a transaction in which the Company acquires its stock in exchange for property, is treated as an acquisition of stock; or

(b) A majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of appointment or election; or

(c) Any one person or entity, or more than one person or entity acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by that person or entity or persons or entities acting as a group) assets from the Company that have a total gross fair market value equal to at least 75 percent of the total gross fair market value of all the Company's assets immediately prior to the acquisition or acquisitions. Gross fair market value means the value of the Company's assets, or the value of the assets being disposed of, without regard to any liabilities associated with these assets.

In determining whether a Change in Control Event has occurred, the attribution rules under Section 318 of the Code will apply to determine stock ownership. The stock underlying a vested option is treated as owned by the individual who holds the vested option, and the stock underlying an unvested option is not treated as owned by the individual who holds the unvested option.

3. "**Good Reason**" shall mean the occurrence of one or more of the following events without your consent: (a) a material reduction in your base compensation; (b) a material reduction in your

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authority, duties, or responsibilities as the Company's Vice President, Chief Operating Officer; (c) a material reduction in the authority, duties, or responsibilities of the person or persons to whom you report (including, if applicable, a requirement that you report to a Company officer or employee instead of reporting directly to the Board); or (d) a relocation of your principal office to a location that is more than 100 miles from Portland, Oregon; provided, however, that "good reason" shall only be deemed to have occurred if: (i) within 90 days after the initial existence of the circumstances constituting "Good Reason," you provide the Company with a written notice describing such circumstances; (ii) the Company fails to cure the circumstances within 30 days after the Company receives your notice; and (iii) you terminate your employment with the Company within 90 days of the date of your notice.



June 20, 2016

Kenneth C. Kunze  
Craft Brew Alliance, Inc.  
315 Culver Blvd.  
Playa Del Rey, CA 90293

Re: Employment Agreement

Dear Ken:

This letter amends and supersedes your employment letter dated August 5, 2014, and any prior formal or informal agreement regarding your employment by Craft Brew Alliance, Inc. (the "Company"), with the exception of any confidentiality, noncompetition, and/or nonsolicitation agreement(s) you have entered into with the Company.

This letter constitutes your Employment Agreement (this "Agreement") with the Company, effective July 1, 2016 (the "Effective Date"). You and the Company are collectively referred to in this Agreement as "the Parties" (or individually as a "Party"). This Agreement sets forth the terms and conditions of your continued employment with the Company as its Vice President, Chief Marketing Officer as of the Effective Date. Capitalized terms not otherwise defined in the body of this Agreement have the meanings set forth on Exhibit A.

1. Term

The term of this Agreement shall be three years, from July 1, 2016, through June 30, 2019 (the "Contract Term"), subject to Section 3 of this Agreement. In the event that the Company experiences a Change in Control Event, the Contract Term will extend to the later of (a) the first anniversary of the Change in Control Event or (b) the date set forth in the preceding sentence. In the event of a termination by either Party without Cause or Good Reason on or before the end of the Contract term, the terminating Party shall provide the other Party with at least 60 days' written notice of termination.

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## 2. Compensation and Benefits

### 2.1 Base Compensation

As of the Effective Date, your annual base salary rate is \$256,000, subject to standard tax withholdings and other payroll deductions. Your base salary level will be reviewed annually for adjustment by the Compensation Committee of the Company's Board of Directors (the "Board"), with salary adjustments, if any, generally made effective as of January 1.

### 2.2 Short-Term Incentive Compensation

You will be eligible for short-term incentive ("STI") compensation under the Company's Annual Cash Incentive Bonus Plan. For 2016, your total STI target amount is \$140,800. For subsequent years, the performance targets and STI target amounts will be determined annually by the Compensation Committee.

### 2.3 Long-Term Incentive Compensation

You will also be eligible to participate in the Company's 2014 Stock Incentive Plan as determined by the Compensation Committee.

### 2.4 Living Allowance

Through December 31, 2016, you will also receive a monthly living allowance of \$4,500, to be grossed up to account for your tax liability on this payment so that the net payment to you each month is \$4,500. No living allowance will be paid after December 31, 2016.

### 2.5 Employee Benefits

You are eligible to participate in employee benefit programs made available to the Company's executive officers. You will receive paid time off consistent with the policies for executive officers of the Company.

## 3. Termination & Severance

### 3.1 Termination During Contract Term

Except as provided in Section 3.2, in the event that (a) the Company terminates your employment effective on a date prior to or as of the end of the Contract Term for any reason other than "Cause" or (b) you terminate your employment prior to or as of the end of the Contract Term due to "Good Reason," the Company will continue to pay you your then current base salary for 12 months from your termination date (the "Severance Period"). The severance payments under this paragraph shall not exceed two times the lesser of (y) the sum of your annualized compensation based upon your annual salary in the year preceding the year in which your employment is terminated (adjusted for any increase during that year that was expected to continue indefinitely if your employment had not terminated) and (z) the applicable dollar limit under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), for the calendar year in which your employment is terminated.

In addition, if you become entitled to severance pay under the first paragraph of this Section 3.1, the Company will also make a lump sum payment to you within 45 days of your termination of employment in an amount equal to the amount necessary to pay your COBRA premiums for

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continuation of group health insurance coverage during the Severance Period based on such premiums in effect on the date of your termination.

### 3.2 Termination in Connection with a Change in Control Event.

In the event that (a) the Company experiences a Change in Control Event and (b) either (i) the Company terminates your employment effective on a date prior to the first anniversary of the Change in Control Event for any reason other than "Cause" or (ii) you terminate your employment prior to the first anniversary of the Change in Control Event due to "Good Reason," and (c) in the case of a Change in Control Event described in Paragraph (c) of the definition of Change in Control Event, you represent and warrant that, as of the termination of your employment, you have not entered into any understanding or arrangement with the acquiring individual or entity regarding future employment, the Company will make a lump sum payment to you within 45 days of the termination of your employment equal to the sum of: (A) your then current monthly base salary multiplied by 18; (B) an amount equal to the amount necessary to pay your COBRA premiums for continuation of group health insurance coverage for 18 months based on such premiums in effect on the date of your termination; and (C) your full target STI bonus amount for the year in which your termination of employment occurs. The payments under this Section 3.2 are in lieu of the benefits under Section 3.1, and in no event will you be paid benefits under both Sections 3.1 and 3.2.

Notwithstanding the foregoing, in the event that (A) the Company experiences a Change in Control Event described in Paragraph (c) of the definition of Change in Control Event and (B) prior to the date of payment under this Section 3.2 you accept a position with the acquirer of the Company's assets, which in any other Change in Control Event would not be deemed Good Reason under Section 3.2(b)(ii), all benefits under Sections 3.1 and 3.2 will be forfeited.

The Parties agree and acknowledge that their intent is that none of the benefits payable under this Section 3.2 shall constitute an "excess parachute payment" under Section 280G of the Code that would give rise to an excise tax under Section 4999 of the Code or a loss of deduction under Section 280G of the Code. To give effect to that intent, and notwithstanding any other provision of this Agreement to the contrary, the Parties specifically agree that the aggregate amount of the benefits payable to you or for your benefit that constitute "parachute payments" within the meaning of Section 280G(b)(2) of the Code, under this Agreement or any other agreement or arrangement between you and the Company, shall not exceed 2.99 multiplied by your "base amount," as defined in Section 280G(b)(3) of the Code (the "Maximum Benefit Amount"). The Company shall make all calculations and determinations under this Section 3.2 (including application and interpretation of the Code and related regulatory, administrative and judicial authorities) in good faith, which calculations and determinations shall be binding on you absent manifest error. The Company shall provide you with a reasonable opportunity to review and comment on the Company's calculations. If at any time it is determined that the amount paid to you or for your benefit pursuant to this Agreement or any other agreement or arrangement between you and the Company exceeded the Maximum Benefit Amount, you shall immediately repay the excess to the Company, together with interest from the date of original payment to you at the discount rate applicable under Section 280G(d)(4) of the Code.

### 3.3 Termination at End of Contract Term

Following the Contract Term, if the Parties have not negotiated a replacement agreement or renewal of this Agreement, this Agreement shall terminate (except with respect to any obligations that expressly extend beyond termination) and employment may continue on an at-will basis with either Party

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free to end the employment relationship for any reason at any time, with or without Cause, Good Reason or notice, and without severance obligations.

### 3.4 Release of Claims

The Company will require you to execute an appropriate general release of all claims that you may have relating to your employment with the Company and termination of your employment as a condition to your receipt of any severance payments or other benefits under this Agreement other than those required by law or provided to employees generally. If such general release of claims is not executed within 30 days following the date your employment with the Company is terminated, all severance payments and other benefits payable after such 30-day period will be forfeited, and you agree to repay any severance payments, and the value of other benefits, paid to you during such period.

### 4. Code Section 409A

For purposes of this Agreement, a termination of your employment will be deemed to occur only when or if there has been a "separation from service" as such term is defined in Treasury Regulation Section 1.409A-1(h). The severance payments and other benefits under this Agreement are intended to be exempt from the requirements of Section 409A of the Code by reason of all payments under this Agreement being either "short-term deferrals" within the meaning of Treasury Regulation Section 1.409A-1(b)(4) or separation pay due to involuntary separation from service under Treasury Regulation Section 1.409A-1(b)(9)(iii). All provisions of this Agreement shall be interpreted in a manner consistent with preserving these exemptions.

### 5. Severability

In the event that a court of competent jurisdiction determines that a provision of this Agreement is unenforceable or not fully enforceable, the Parties agree that this Agreement is severable and should be enforced to the full extent allowed by law to best effectuate the intentions of the Parties.

### 6. Code of Conduct

By your signature below, you agree to comply with the Company's Code of Conduct and Ethics as in effect from time to time, and to be subject to the Company's policies and procedures in effect from time to time for senior executives of the Company.

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We appreciate your continued efforts on behalf of the Company and look forward to having you as a member of our team for years to come.

Sincerely,

/s/ Andrew J. Thomas

Andrew J. Thomas  
Chief Executive Officer

Acknowledged and Agreed:

/s/ Kenneth C. Kunze Date: July 1, 2016

Kenneth C. Kunze

Attachment: Exhibit A (Definitions)

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## EXHIBIT A

### Definitions

1. "**Cause**" shall mean that (a) you have engaged in conduct which has substantially and adversely impaired the interests of the Company, or would be likely to do so if you were to remain employed by the Company; (b) you have engaged in fraud, dishonesty or self-dealing relating to or arising out of your employment with the Company; (c) you have violated any criminal law relating to your employment or to the Company; (d) you have engaged in conduct which constitutes a material violation of a significant Company policy or the Company's Code of Conduct and Ethics as in effect from time to time, including, without limitation, violation of policies relating to discrimination, harassment, use of drugs and alcohol and workplace violence; or (e) you have repeatedly refused to obey lawful directions of the Board or the Company's Chief Executive Officer.

2. "**Change in Control Event**" shall mean the occurrence of any of the following events:

(a) Any one person or entity, or more than one person or entity acting as a group (as defined in Treasury Regulation Section 1.409A-3), acquires ownership of stock of the Company that, together with stock previously held by the acquirer, constitutes more than 50 percent of the total fair market value or total voting power of the Company's stock. If any one person or entity, or more than one person or entity acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the Company's stock, the acquisition of additional stock by the same person or entity or persons or entities acting as a group does not cause a Change in Control Event. An increase in the percentage of stock owned by any one person or entity, or persons or entities acting as a group, as a result of a transaction in which the Company acquires its stock in exchange for property, is treated as an acquisition of stock; or

(b) A majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of appointment or election; or

(c) Any one person or entity, or more than one person or entity acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by that person or entity or persons or entities acting as a group) assets from the Company that have a total gross fair market value equal to at least 75 percent of the total gross fair market value of all the Company's assets immediately prior to the acquisition or acquisitions. Gross fair market value means the value of the Company's assets, or the value of the assets being disposed of, without regard to any liabilities associated with these assets.

In determining whether a Change in Control Event has occurred, the attribution rules under Section 318 of the Code will apply to determine stock ownership. The stock underlying a vested option is treated as owned by the individual who holds the vested option, and the stock underlying an unvested option is not treated as owned by the individual who holds the unvested option.

3. "**Good Reason**" shall mean the occurrence of one or more of the following events without your consent: (a) a material reduction in your base compensation; (b) a material reduction in your authority, duties, or responsibilities as the Company's Vice President, Chief Marketing Officer; (c) a

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material reduction in the authority, duties, or responsibilities of the person or persons to whom you report (including, if applicable, a requirement that you report to a Company officer or employee instead of reporting directly to the Board); or (d) a relocation of your principal office to a location that is more than 100 miles from Los Angeles, California; provided, however, that "good reason" shall only be deemed to have occurred if: (i) within 90 days after the initial existence of the circumstances constituting "Good Reason," you provide the Company with a written notice describing such circumstances; (ii) the Company fails to cure the circumstances within 30 days after the Company receives your notice; and (iii) you terminate your employment with the Company within 90 days of the date of your notice.



June 20, 2016

John W. Glick  
Craft Brew Alliance, Inc.  
929 North Russell Street  
Portland, Oregon 97227

Re: Employment Agreement

Dear John:

This letter amends and supersedes your employment letter dated August 5, 2014, and any prior formal or informal agreement regarding your employment by Craft Brew Alliance, Inc. (the "Company"), with the exception of any confidentiality, noncompetition, and/or nonsolicitation agreement(s) you have entered into with the Company.

This letter constitutes your Employment Agreement (this "Agreement") with the Company, effective July 1, 2016 (the "Effective Date"). You and the Company are collectively referred to in this Agreement as "the Parties" (or individually as a "Party"). This Agreement sets forth the terms and conditions of your continued employment with the Company as its Vice President, Emerging Business as of the Effective Date. Capitalized terms not otherwise defined in the body of this Agreement have the meanings set forth on Exhibit A.

1. Term

The term of this Agreement shall be three years, from July 1, 2016, through June 30, 2019 (the "Contract Term"), subject to Section 3 of this Agreement. In the event that the Company experiences a Change in Control Event, the Contract Term will extend to the later of (a) the first anniversary of the Change in Control Event or (b) the date set forth in the preceding sentence. In the event of a termination by either Party without Cause or Good Reason on or before the end of the Contract term, the terminating Party shall provide the other Party with at least 60 days' written notice of termination.

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## 2. Compensation and Benefits

### 2.1 Base Compensation

As of the Effective Date, your annual base salary rate is \$255,000, subject to standard tax withholdings and other payroll deductions. Your base salary level will be reviewed annually for adjustment by the Compensation Committee of the Company's Board of Directors (the "Board"), with salary adjustments, if any, generally made effective as of January 1.

### 2.2 Short-Term Incentive Compensation

You will be eligible for short-term incentive ("STI") compensation under the Company's Annual Cash Incentive Bonus Plan. For 2016, your total STI target amount is \$102,000. For subsequent years, the performance targets and STI target amounts will be determined annually by the Compensation Committee.

### 2.3 Long-Term Incentive Compensation

You will also be eligible to participate in the Company's 2014 Stock Incentive Plan as determined by the Compensation Committee.

### 2.4 Employee Benefits

You are eligible to participate in employee benefit programs made available to the Company's executive officers. You will receive paid time off consistent with the policies for executive officers of the Company.

## 3. Termination & Severance

### 3.1 Termination During Contract Term

Except as provided in Section 3.2, in the event that (a) the Company terminates your employment effective on a date prior to or as of the end of the Contract Term for any reason other than "Cause" or (b) you terminate your employment prior to or as of the end of the Contract Term due to "Good Reason," the Company will continue to pay you your then current base salary for 12 months from your termination date (the "Severance Period"). The severance payments under this paragraph shall not exceed two times the lesser of (y) the sum of your annualized compensation based upon your annual salary in the year preceding the year in which your employment is terminated (adjusted for any increase during that year that was expected to continue indefinitely if your employment had not terminated) and (z) the applicable dollar limit under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "Code"), for the calendar year in which your employment is terminated.

In addition, if you become entitled to severance pay under the first paragraph of this Section 3.1, the Company will also make a lump sum payment to you within 45 days of your termination of employment in an amount equal to the amount necessary to pay your COBRA premiums for continuation of group health insurance coverage during the Severance Period based on such premiums in effect on the date of your termination.

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### 3.2 Termination in Connection with a Change in Control Event.

In the event that (a) the Company experiences a Change in Control Event and (b) either (i) the Company terminates your employment effective on a date prior to the first anniversary of the Change in Control Event for any reason other than "Cause" or (ii) you terminate your employment prior to the first anniversary of the Change in Control Event due to "Good Reason," and (c) in the case of a Change in Control Event described in Paragraph (c) of the definition of Change in Control Event, you represent and warrant that, as of the termination of your employment, you have not entered into any understanding or arrangement with the acquiring individual or entity regarding future employment, the Company will make a lump sum payment to you within 45 days of the termination of your employment equal to the sum of: (A) your then current monthly base salary multiplied by 18; (B) an amount equal to the amount necessary to pay your COBRA premiums for continuation of group health insurance coverage for 18 months based on such premiums in effect on the date of your termination; and (C) your full target STI bonus amount for the year in which your termination of employment occurs. The payments under this Section 3.2 are in lieu of the benefits under Section 3.1, and in no event will you be paid benefits under both Sections 3.1 and 3.2.

Notwithstanding the foregoing, in the event that (A) the Company experiences a Change in Control Event described in Paragraph (c) of the definition of Change in Control Event and (B) prior to the date of payment under this Section 3.2 you accept a position with the acquirer of the Company's assets, which in any other Change in Control Event would not be deemed Good Reason under Section 3.2(b)(ii), all benefits under Sections 3.1 and 3.2 will be forfeited.

The Parties agree and acknowledge that their intent is that none of the benefits payable under this Section 3.2 shall constitute an "excess parachute payment" under Section 280G of the Code that would give rise to an excise tax under Section 4999 of the Code or a loss of deduction under Section 280G of the Code. To give effect to that intent, and notwithstanding any other provision of this Agreement to the contrary, the Parties specifically agree that the aggregate amount of the benefits payable to you or for your benefit that constitute "parachute payments" within the meaning of Section 280G(b)(2) of the Code, under this Agreement or any other agreement or arrangement between you and the Company, shall not exceed 2.99 multiplied by your "base amount," as defined in Section 280G(b)(3) of the Code (the "Maximum Benefit Amount"). The Company shall make all calculations and determinations under this Section 3.2 (including application and interpretation of the Code and related regulatory, administrative and judicial authorities) in good faith, which calculations and determinations shall be binding on you absent manifest error. The Company shall provide you with a reasonable opportunity to review and comment on the Company's calculations. If at any time it is determined that the amount paid to you or for your benefit pursuant to this Agreement or any other agreement or arrangement between you and the Company exceeded the Maximum Benefit Amount, you shall immediately repay the excess to the Company, together with interest from the date of original payment to you at the discount rate applicable under Section 280G(d)(4) of the Code.

### 3.3 Termination at End of Contract Term

Following the Contract Term, if the Parties have not negotiated a replacement agreement or renewal of this Agreement, this Agreement shall terminate (except with respect to any obligations that expressly extend beyond termination) and employment may continue on an at-will basis with either Party free to end the employment relationship for any reason at any time, with or without Cause, Good Reason or notice, and without severance obligations.

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### 3.4 Release of Claims

The Company will require you to execute an appropriate general release of all claims that you may have relating to your employment with the Company and termination of your employment as a condition to your receipt of any severance payments or other benefits under this Agreement other than those required by law or provided to employees generally. If such general release of claims is not executed within 30 days following the date your employment with the Company is terminated, all severance payments and other benefits payable after such 30-day period will be forfeited, and you agree to repay any severance payments, and the value of other benefits, paid to you during such period.

### 3.5 Competition During Severance Period

If, during the Severance Period, you become employed or associated with a brewing or other company that the Company determines, in its reasonable discretion, is a competitor of the Company or the portion of the Company's business relating to alcoholic beverages, your severance payments and benefits under Section 3.1 will terminate as of the effective date of such employment or association. The foregoing does not supersede or replace any provision of any noncompetition agreement between you and the Company.

### 4. Code Section 409A

For purposes of this Agreement, a termination of your employment will be deemed to occur only when or if there has been a "separation from service" as such term is defined in Treasury Regulation Section 1.409A-1(h). The severance payments and other benefits under this Agreement are intended to be exempt from the requirements of Section 409A of the Code by reason of all payments under this Agreement being either "short-term deferrals" within the meaning of Treasury Regulation Section 1.409A-1(b)(4) or separation pay due to involuntary separation from service under Treasury Regulation Section 1.409A-1(b)(9)(iii). All provisions of this Agreement shall be interpreted in a manner consistent with preserving these exemptions.

### 5. Severability

In the event that a court of competent jurisdiction determines that a provision of this Agreement is unenforceable or not fully enforceable, the Parties agree that this Agreement is severable and should be enforced to the full extent allowed by law to best effectuate the intentions of the Parties.

### 6. Code of Conduct

By your signature below, you agree to comply with the Company's Code of Conduct and Ethics as in effect from time to time, and to be subject to the Company's policies and procedures in effect from time to time for senior executives of the Company.

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We appreciate your continued efforts on behalf of the Company and look forward to having you as a member of our team for years to come.

Sincerely,

/s/ Andrew J. Thomas

Andrew J. Thomas  
Chief Executive Officer

Acknowledged and Agreed:

/s/ John W. Glick Date: June 30, 2016

John W. Glick

Attachment: Exhibit A (Definitions)

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## EXHIBIT A

### Definitions

1. "**Cause**" shall mean that (a) you have engaged in conduct which has substantially and adversely impaired the interests of the Company, or would be likely to do so if you were to remain employed by the Company; (b) you have engaged in fraud, dishonesty or self-dealing relating to or arising out of your employment with the Company; (c) you have violated any criminal law relating to your employment or to the Company; (d) you have engaged in conduct which constitutes a material violation of a significant Company policy or the Company's Code of Conduct and Ethics as in effect from time to time, including, without limitation, violation of policies relating to discrimination, harassment, use of drugs and alcohol and workplace violence; or (e) you have repeatedly refused to obey lawful directions of the Board or the Company's Chief Executive Officer.

2. "**Change in Control Event**" shall mean the occurrence of any of the following events:

(a) Any one person or entity, or more than one person or entity acting as a group (as defined in Treasury Regulation Section 1.409A-3), acquires ownership of stock of the Company that, together with stock previously held by the acquirer, constitutes more than 50 percent of the total fair market value or total voting power of the Company's stock. If any one person or entity, or more than one person or entity acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the Company's stock, the acquisition of additional stock by the same person or entity or persons or entities acting as a group does not cause a Change in Control Event. An increase in the percentage of stock owned by any one person or entity, or persons or entities acting as a group, as a result of a transaction in which the Company acquires its stock in exchange for property, is treated as an acquisition of stock; or

(b) A majority of the members of the Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of appointment or election; or

(c) Any one person or entity, or more than one person or entity acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by that person or entity or persons or entities acting as a group) assets from the Company that have a total gross fair market value equal to at least 75 percent of the total gross fair market value of all the Company's assets immediately prior to the acquisition or acquisitions. Gross fair market value means the value of the Company's assets, or the value of the assets being disposed of, without regard to any liabilities associated with these assets.

In determining whether a Change in Control Event has occurred, the attribution rules under Section 318 of the Code will apply to determine stock ownership. The stock underlying a vested option is treated as owned by the individual who holds the vested option, and the stock underlying an unvested option is not treated as owned by the individual who holds the unvested option.

3. "**Good Reason**" shall mean the occurrence of one or more of the following events without your consent: (a) a material reduction in your base compensation; (b) a material reduction in your authority, duties, or responsibilities as the Company's Vice President, Emerging Business; (c) a material reduction in the authority, duties, or responsibilities of the person or persons to whom you report

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(including, if applicable, a requirement that you report to a Company officer or employee instead of reporting directly to the Board); or (d) a relocation of your principal office to a location that is more than 100 miles from Portland, Oregon; provided, however, that "good reason" shall only be deemed to have occurred if: (i) within 90 days after the initial existence of the circumstances constituting "Good Reason," you provide the Company with a written notice describing such circumstances; (ii) the Company fails to cure the circumstances within 30 days after the Company receives your notice; and (iii) you terminate your employment with the Company within 90 days of the date of your notice.

## 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 3, 2016

By: /s/ Andrew J. Thomas

Andrew J. Thomas

*Chief Executive Officer*

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## 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 3, 2016

By: /s/ Joseph K. Vanderstelt

Joseph K. Vanderstelt  
*Chief Financial Officer*

**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, 2016, as filed with the Securities and Exchange Commission on August 3, 2016 (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 3, 2016

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)

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## FOR IMMEDIATE RELEASE

### CRAFT BREW ALLIANCE REPORTS LARGEST NET SALES, SHIPMENTS, AND DEPLETIONS IN COMPANY HISTORY

*Second Quarter Growth Driven by 24% Shipment Increase for Kona, Incremental Volume from Appalachian Mountain Brewery and Cisco Brewers, and Ongoing Operational Optimization*

**Portland, OR (Aug. 3, 2016)** - [Craft Brew Alliance, Inc.](#) ("CBA") (Nasdaq: BREW), a leading craft brewing company, today announced results for the second quarter ended June 30, 2016. The results, which include the largest net sales, shipments and depletions in the company's history, reflect CBA's continued progress strengthening the topline by harnessing the growth potential of its "Kona Plus" strategy, while actualizing the future with strategic partners Appalachian Mountain Brewery and Cisco Brewers and optimizing its brewery operations for long-term business health.

As a result of the strong topline growth and gross margin improvement in the second quarter, along with the anticipated incremental operational benefits in the second half of the year, CBA is maintaining its full-year guidance.

#### **Select second quarter financial highlights**

- Net sales for the second quarter were \$62.3 million, an increase of \$3.7 million or 6.4% compared to the second quarter of 2015, primarily driven by a 3.9% increase in revenue per barrel and a 3% increase in overall shipments.
    - Shipments of our owned and partnership beers increased by 10,700 barrels, or 4.7%, to 239,000 barrels, over the second quarter of 2015.
    - Depletions for Kona continued to outpace the growth of craft, increasing by 18% for the quarter and driving CBA's overall depletion volume up by 3% for the quarter, compared to the same period in 2015.
    - Our increase in net sales is also attributed to fees earned from our alternating proprietorship with Appalachian Mountain Brewery, which began in the first quarter of 2016.
  - Second quarter gross margin rate increased 100 basis points to 32.9%, compared to 31.9% for the second quarter last year, which led to a \$1.8 million, or 9.7%, increase in gross profit.
    - Our Beer gross margin rate increased 70 basis points to 35.3% in the second quarter, compared to 34.6% in the second quarter last year, which is mainly due to an increase in pricing and lower component costs. Looking at the balance of the year, we expect to see incremental gross margin improvement as we optimize key cost reduction projects completed in the first two quarters, including the Portland bottling line modernization and beer loss centrifuge, and the Portsmouth canning line.
    - Our Brewpub gross margin rate increased by 180 basis points to 15.2%, compared to 13.4% in the second quarter of 2015, and reflects an increase in guest counts and sales, primarily at our Hawaiian brewpubs.
  - Selling, general and administrative (SG&A) expense as a percent of net sales decreased to 26.6% compared to 27.8% for the second quarter of 2015. Our SG&A expense for the quarter was \$16.5 million, which represents a 1.8% increase over the second quarter of 2015, and is primarily due to emerging business and international support, as well as brand marketing.
  - Net income for the quarter was \$2.3 million, an increase of \$871,000 or 63% compared to the second quarter of 2015.
    - Diluted earnings per share for the second quarter was \$0.12, an increase of \$0.05 compared to the second quarter of 2015.
-

### **Select year-to-date financial highlights**

- Net sales increased by 1.3%, primarily attributed to improved pricing, alternating proprietorship fees, and increased guest counts at our brewpubs; partially offset by a decrease in overall shipment volumes.
  - Shipments of our owned and partnership beers decreased by 5,400 barrels, or 1.4%, over the comparable period in 2015, due to the planned shutdown of our largest-volume brewery (Portland) in the first quarter of 2016 and continued competitive challenges faced by Redhook, Widmer Brothers, and Omission. The second quarter decrease in shipments was offset by Kona, which increased shipments by 19.3%, as well as growth of Appalachian Mountain Brewery and Cisco.
  - Depletions for Kona increased by 19%, while overall depletions were flat compared to the same time period in 2015.
- Year-to-date gross margin rate is 28.8%, a decrease of 100 basis points compared to 29.8% for the same period last year, which primarily reflects the planned shutdown of our largest-volume brewery in the first quarter 2016, partially offset by an increase in pricing and mix, and a decrease in component costs.
  - Our Beer gross margin rate decreased 140 basis points to 31.2%, compared to 32.6% in the same period last year.
  - Our Brewpub gross margin rate increased by 230 basis points to 14.0%, compared to 11.7% in the same period of 2015. The increase reflects higher guest counts, primarily in our Hawaiian brewpubs.
- SG&A for the first half of 2016 increased by \$1.3 million, or 4.3%, compared to the same period in 2015, primarily due to emerging business and international support, and brand marketing.
- Diluted loss per share for the first half of 2016 was \$0.05, compared to diluted earnings per share of \$0.01 for the same period last year.

### **Trailing twelve-month financial highlights**

- 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, 2016 and June 30, 2015.
  - For those periods, our Beer shipments decreased 0.8%, depletions were flat, and net sales increased 2.8%.
  - Our Beer gross margin expanded by 80 basis points to 32.5% and Brewpubs gross margin expanded by 150 basis points to 14.0% for the same 12-month periods, for a combined gross margin expansion of 90 basis points to 30.0%.

“Against a backdrop of increasing competition and dynamic industry change, CBA’s ability to deliver the largest net sales, depletions and shipments in our history while making steady improvements to our core business health, is tangible validation of our strategy,” said Andy Thomas, chief executive officer, CBA. “Our solid second quarter performance not only reflects significant progress in strengthening our topline by sustaining Kona’s remarkable growth and supporting it with a stronger regional portfolio of strategic partners, it starts to reveal the benefits of our gross margin investments.”

### **Anticipated financial results for the full year 2016**

We are reconfirming previously issued guidance regarding our anticipated full year 2016 results, as follows:

- Full-year shipment growth between 1% and 2%, which reflects the planned first-quarter decrease due to the Portland brewery closure, offset by volume growth during peak selling seasons and ramp up of partner volumes, including Appalachian Mountain Brewery, Cisco Brewers and Pabst Brewing.
  - Average price increases of 1% to 2%.
  - Gross margin of 31.0% to 32.5%.
  - SG&A ranging from \$58 million to \$59 million as a result of tighter cost controls and our commitment to improved leverage. Increases compared to 2015 are primarily focused against our sales team, our growing international business, and strategic marketing investments.
  - Capital expenditures between \$19 million and \$23 million as we continue to support strategic investments, which include the Portland brewery expansion and efficiency initiatives, the Kona brewery expansion, the Portsmouth brewery canning line, and the new Redhook brewpub in Seattle. The increase in 2016 expenditures compared to last year’s guidance reflects the effect of lower-than-anticipated spend on active projects in 2015.
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"We are pleased to see such a strong rebound in the second quarter and remain committed to our full year guidance," said Joe Vanderstelt, chief financial officer, CBA. "Kona, Cisco, AMB, and our International business will all contribute to our topline objectives, while the operational enhancements we absorbed this past quarter will generate significant efficiencies and allow us to achieve our gross margin targets and ultimately improve our bottom line."

#### **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, and gross margin rate improvement, the level and effect of SG&A expense and business development, anticipated capital spending, and the benefits or improvements to be realized from cost controls, operational enhancements, strategic partners, 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, 2015. Copies of these documents may be found on the Company's website, [www.craftbrew.com](http://www.craftbrew.com), or obtained by contacting the Company or the SEC.

#### **About Craft Brew Alliance**

CBA 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 approximately 30 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](http://www.craftbrew.com).

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**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,	
	2016	2015	2016	2015
Sales	\$ 66,294	\$ 62,638	\$ 108,087	\$ 107,257
Less excise taxes	4,016	4,107	6,587	7,017
Net sales	62,278	58,531	101,500	100,240
Cost of sales	41,780	39,841	72,285	70,388
Gross profit	20,498	18,690	29,215	29,852
As percentage of net sales	32.9%	31.9%	28.8%	29.8%
Selling, general and administrative expenses	16,548	16,263	30,472	29,216
Operating income (loss)	3,950	2,427	(1,257)	636
Interest expense	(187)	(150)	(334)	(271)
Other income, net	6	7	12	13
Income (loss) before income taxes	3,769	2,284	(1,579)	378
Income tax expense (benefit)	1,508	894	(631)	151
Net income (loss)	\$ 2,261	\$ 1,390	\$ (948)	\$ 227
Basic and diluted net loss per share	\$ 0.12	\$ 0.07	\$ (0.05)	\$ 0.01
Weighted average shares outstanding:				
Basic	19,216	19,145	19,198	19,130
Diluted	19,232	19,177	19,198	19,164
Total shipments (in barrels):				
Core Brands	239,000	228,300	381,400	386,800
Contract Brewing	7,000	10,600	14,200	19,800
Total shipments	246,000	238,900	395,600	406,600
Change in depletions <sup>(1)</sup>	3%	0%	0%	1%

(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)

	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Current assets:		
Cash and cash equivalents	\$ 335	\$ 1,277
Accounts receivable, net	27,330	21,572
Inventory, net	22,982	19,350
Deferred income tax asset, net	2,414	1,746
Other current assets	2,766	4,510
Total current assets	55,827	48,455
Property, equipment and leasehold improvements, net	121,665	110,354
Goodwill	12,917	12,917
Intangible and other assets, net	18,649	16,916
Total assets	<u>\$ 209,058</u>	<u>\$ 188,642</u>
Current liabilities:		
Accounts payable	\$ 25,294	\$ 18,571
Accrued salaries, wages and payroll taxes	4,383	5,000
Refundable deposits	7,164	7,426
Other accrued expenses	2,082	2,043
Current portion of long-term debt and capital lease obligations	807	1,100
Total current liabilities	39,730	34,140
Long-term debt and capital lease obligations, net of current portion	30,250	18,368
Other long-term liabilities	21,323	19,895
Total common shareholders' equity	117,755	116,239
Total liabilities and common shareholders' equity	<u>\$ 209,058</u>	<u>\$ 188,642</u>

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

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (948)	\$ 227
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,362	4,727
Loss on sale or disposal of Property, equipment and leasehold improvements	9	306
Deferred income taxes	(664)	67
Other, including stock-based compensation and excess tax benefit from employee stock plans	236	616
Changes in operating assets and liabilities:		
Accounts receivable, net	(8,404)	(9,831)
Inventories	(5,034)	62
Other current assets	(327)	(97)
Accounts payable and other accrued expenses	8,051	5,330
Accrued salaries, wages and payroll taxes	(1,086)	(114)
Refundable deposits	625	(181)
Net cash provided by (used in) operating activities	(2,180)	1,112
<b>Cash flows from investing activities:</b>		
Expenditures for Property, equipment and leasehold improvements	(9,220)	(5,816)
Proceeds from sale of Property, equipment and leasehold improvements	8	387
Net cash used in investing activities	(9,212)	(5,429)
<b>Cash flows from financing activities:</b>		
Principal payments on debt and capital lease obligations	(350)	(245)
Net borrowings under revolving line of credit	11,237	4,900
Proceeds from issuances of common stock	—	58
Tax payments related to stock-based awards	(71)	(151)
Excess tax benefit from employee stock plans	—	51
Net cash provided by financing activities	10,816	4,613
<b>Increase (decrease) in Cash and cash equivalents</b>	<b>(576)</b>	<b>296</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>911</b>	<b>981</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 335</b>	<b>\$ 1,277</b>

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

	Twelve Months Ended		Change	% Change
	June 30,			
	2016	2015		
Net sales	\$ 205,428	\$ 199,750	\$ 5,678	2.8 %
Gross profit	\$ 61,559	\$ 58,148	\$ 3,411	5.9 %
As percentage of net sales	30.0%	29.1%	90 bps	
Selling, general and administrative expenses	59,188	54,946	4,242	7.7 %
Operating income	<u>\$ 2,371</u>	<u>\$ 3,202</u>	<u>\$ (831)</u>	(26.0)%
Net income	<u>\$ 1,043</u>	<u>\$ 1,510</u>	<u>\$ (467)</u>	(30.9)%
Basic and diluted net income per share	<u>\$ 0.05</u>	<u>\$ 0.08</u>	<u>\$ (0.03)</u>	(37.5)%
Total shipments (in barrels):				
Core Brands	782,200	779,800	2,400	0.3 %
Contract Brewing	31,200	39,900	(8,700)	(21.8)%
Total shipments	<u>813,400</u>	<u>819,700</u>	<u>(6,300)</u>	(0.8)%
Change in depletions <sup>(1)</sup>	<u>0%</u>	<u>3%</u>		

(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 (loss)**  
**(In thousands)**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income (loss)	\$ 2,261	\$ 1,390	\$ (948)	\$ 227
Interest expense	187	150	334	271
Income tax expense (benefit)	1,508	894	(631)	151
Depreciation expense	2,704	2,380	5,275	4,607
Amortization expense	43	59	87	120
Stock-based compensation	289	303	309	624
Loss on disposal of assets	7	91	9	306
Adjusted EBITDA	\$ 6,999	\$ 5,267	\$ 4,435	\$ 6,306

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 income (loss) before interest, income taxes, depreciation and amortization, stock compensation and other non-cash charges, including net gain or loss on disposal of property, equipment and leasehold improvements. 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).

