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

FORM 10-Q

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

For The Quarterly Period Ended September 30, 2017

OR

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

For the transition period from _______________ to ______________

Commission File Number 0-26542

CRAFT BREW ALLIANCE, INC.

(Exact name of registrant as specified in its charter)

Washington	**91-1141254**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

929 North Russell Street
Portland, Oregon 97227
(Address of principal executive offices)

(503) 331-7270
(Registrant's telephone number, including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. (See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth 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 ☐
	Emerging Growth Company ☐

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

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

The number of shares of the registrant's common stock outstanding as of November 2, 2017 was 19,296,521.

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 405	$ 442
Accounts receivable, net	28,894	24,008
Inventory, net	17,659	19,091
Assets held for sale	23,462	—
Other current assets	1,372	2,495
Total current assets	71,792	46,036
Property, equipment and leasehold improvements, net	106,380	121,970
Goodwill	12,917	12,917
Intangible, equity method investment and other assets, net	20,925	19,482
Total assets	$ 212,014	$ 200,405
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 25,088	$ 16,076
Accrued salaries, wages and payroll taxes	6,170	4,967
Refundable deposits	5,477	6,486
Other accrued expenses	7,587	4,108
Current portion of long-term debt and capital lease obligations	1,731	1,317
Total current liabilities	46,053	32,954
Long-term debt and capital lease obligations, net of current portion	23,527	27,946
Fair value of derivative financial instruments	322	424
Deferred income tax liability, net	18,051	18,181
Other liabilities	1,623	1,239
Total liabilities	89,576	80,744
Commitments and contingencies (Note 12)		
Common shareholders' equity:		
Common stock, $0.005 par value. Authorized 50,000,000 shares; issued and outstanding 19,296,521 and 19,261,245	96	96
Additional paid-in capital	141,713	140,687
Accumulated other comprehensive loss	(199)	(262)
Accumulated deficit	(19,172)	(20,860)
Total common shareholders' equity	122,438	119,661
Total liabilities and common shareholders' equity	$ 212,014	$ 200,405

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Sales	$ 60,040	$ 58,660	$ 171,010	$ 166,747
Less excise taxes	3,402	3,457	9,520	10,044
Net sales	56,638	55,203	161,490	156,703
Cost of sales	37,254	38,229	111,108	110,514
Gross profit	19,384	16,974	50,382	46,189
Selling, general and administrative expenses	16,328	15,876	47,357	46,348
Operating income (loss)	3,056	1,098	3,025	(159)
Interest expense	(179)	(186)	(533)	(520)
Other income (expense), net	(59)	7	(46)	19
Income (loss) before income taxes	2,818	919	2,446	(660)
Income tax provision (benefit)	1,067	367	758	(264)
Net income (loss)	$ 1,751	$ 552	$ 1,688	$ (396)
Basic and diluted net income (loss) per share	$ 0.09	$ 0.03	$ 0.09	$ (0.02)
Shares used in basic per share calculations	19,296	19,244	19,278	19,213
Shares used in diluted per share calculations	19,443	19,343	19,401	19,213

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net income (loss)	$ 1,751	$ 552	$ 1,688	$ (396)
Unrealized gain (loss) on derivative hedge transactions, net of tax	15	84	63	(190)
Comprehensive income (loss)	$ 1,766	$ 636	$ 1,751	$ (586)

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

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

	Nine Months Ended September 30,	
	2017	**2016**
Cash flows from operating activities:		
Net income (loss)	$ 1,688	$ (396)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,904	8,056
Loss on sale or disposal of Property, equipment and leasehold improvements	164	16
Deferred income taxes	(168)	174
Stock-based compensation	945	642
Other	906	13
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,886)	(4,816)
Inventories	1,371	(2,902)
Other current assets	1,124	410
Accounts payable and other accrued expenses	13,096	736
Accrued salaries, wages and payroll taxes	1,203	389
Refundable deposits	(884)	545
Net cash provided by operating activities	22,463	2,867
Cash flows from investing activities:		
Expenditures for Property, equipment and leasehold improvements	(16,170)	(12,206)
Proceeds from sale of Property, equipment and leasehold improvements	95	8
Expenditures for long-term deposits	—	(925)
Investment in Wynwood	(2,101)	—
Net cash used in investing activities	(18,176)	(13,123)
Cash flows from financing activities:		
Principal payments on debt and capital lease obligations	(483)	(477)
Net borrowings (repayments) under revolving line of credit	(3,922)	10,138
Proceeds from issuances of common stock	98	172
Tax payments related to stock-based awards	(17)	(78)
Net cash provided by (used in) financing activities	(4,324)	9,755
Decrease in Cash and cash equivalents	(37)	(501)
Cash and cash equivalents:		
Beginning of period	442	911
End of period	$ 405	$ 410
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 540	$ 489
Cash paid for income taxes, net	216	102
Supplemental disclosure of non-cash information:		
Purchases of Property, equipment and leasehold improvements with capital leases	$ 400	$ 1,173
Purchases of Property, equipment and leasehold improvements included in Accounts payable at end of period	285	1,685

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, 2016 ("2016 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.

Reclassifications
Certain reclassifications have been made to the prior year's data to conform to the current year's presentation. None of the changes affect our previously reported consolidated Net sales, Gross profit, Operating income, Net income or Basic or diluted net income per share.

Note 2. Recent Accounting Pronouncements

ASU 2017-12
In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 refines and expands hedge accounting for both financial and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. ASU 2017-12 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2018, on a prospective basis. We do not expect the adoption of ASU 2017-12 to have a material effect on our financial position, results of operations or cash flows.

ASU 2017-09
In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting." ASU 2017-09 provides clarity and is expected to reduce both diversity in practice and the cost and complexity when accounting for a change to the terms of a stock-based award. ASU 2017-09 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, on a prospective basis. Early adoption is permitted. We do not expect the adoption of ASU 2017-09 to have a material effect on our financial position, results of operations or cash flows.

ASU 2017-04
In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment." ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. An entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if applicable. The loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. The same impairment test also applies to any reporting unit with a zero or negative carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2019, on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. We do not expect the adoption of ASU 2017-04 to have a material effect on our financial position, results of operations or cash flows.

ASU 2016-15
In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 addresses eight specific cash flow issues and how they should be reported on the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods, with early adoption permitted. We do not expect the adoption of ASU 2016-15 to have a material effect on our financial position, results of operations or cash flows.

ASU 2016-13
In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)." ASU 2016-13 addresses accounting for credit losses for assets that are not measured at fair value through net income on a recurring basis. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods, with early adoption permitted for fiscal years beginning after December 15, 2018. We do not expect the adoption of ASU 2016-13 to 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. We adopted this new accounting standard retrospectively in the first quarter of 2017. As of September 30, 2017 and December 31, 2016, we had $2.7 million and $2.1 million, respectively, of current deferred tax assets that are now classified as noncurrent on the Consolidated Balance Sheets under this new accounting standard.

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. The adoption of ASU 2015-11 in the first quarter of 2017 did not have a material effect on our financial position, results of operations or cash flows.

ASU 2014-09, ASU 2016-10 and ASU 2016-12
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.

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 ASU 2014-09.

In May 2016, the FASB issued 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 ASU 2014-09.

We are still evaluating the effects of the adoption of ASU 2014-09, ASU 2016-10 or ASU 2016-12 and are not yet able to determine if the adoption will have a material effect on our financial position, results of operations or cash flows.

Note 3. Cash and Cash Equivalents

We maintain cash balances with financial institutions that may exceed federally insured limits. We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of September 30, 2017 and December 31, 2016, 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 September 30, 2017 and December 31, 2016, bank overdrafts of $3.9 million and $1.1 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 are stated at the lower of standard cost or net realizable value.

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, equity method investment and other assets, net on our Consolidated Balance Sheets.

Inventories consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Raw materials	$ 7,920	$ 6,947
Work in process	2,202	2,996
Finished goods	5,383	6,601
Packaging materials	443	567
Promotional merchandise	1,138	1,353
Brewpub food, beverages and supplies	573	627
	$ 17,659	$ 19,091

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

Note 5. Equity Method Investment

On July 12, 2017, we purchased a 24.5% interest in Wynwood Brewing Company, LLC ("Wynwood") for $2.1 million in cash. Our investment is accounted for under the equity method of accounting and is recorded as a component of Intangible, equity method investment and other assets, net on our Consolidated Balance Sheets. The carrying value of our investment was $2.1 million as of September 30, 2017.

See also Note 6.

Note 6. Related Party Transactions

As of both September 30, 2017 and December 31, 2016, Anheuser-Busch, LLC ("A-B") owned approximately 31.5% of our outstanding common stock.

Transactions with A-B, Ambev and Anheuser-Busch Worldwide Investments, LLC ("ABWI")

In December 2015, we partnered with Ambev, the Brazilian subsidiary of Anheuser-Busch InBev SA, to distribute Kona beers into Brazil. In August 2016, we also entered into an International Distribution Agreement with ABWI, an affiliate of A-B, pursuant to which ABWI will distribute our malt beverage products in jurisdictions outside the United States, subject to the terms and conditions of our prior agreement with our other international distributor, CraftCan Travel LLC, and certain other limitations.

Transactions with A-B, Ambev and ABWI consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Gross sales to A-B and Ambev	$ 46,147	$ 45,312	$ 127,932	$ 131,206
International distribution fee earned from ABWI	850	900	2,550	900
Margin fee paid to A-B, classified as a reduction of Sales	649	330	1,806	1,144
Inventory management and other fees paid to A-B, classified in Cost of sales	97	98	289	290
Media and other reimbursement from A-B, classified as a reduction of Selling, general and administrative expenses	221	—	295	—

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

	September 30, 2017	December 31, 2016
Amounts due from A-B related to beer sales pursuant to the A-B distributor agreement	$ 16,772	$ 12,246
Amounts due from ABWI and A-B related to international distribution fee and media and other reimbursement	3,824	3,750
Refundable deposits due to A-B	(1,907)	(2,162)
Amounts due to A-B for services rendered	(5,597)	(1,782)
Net amount due from A-B	$ 13,092	$ 12,052

Transactions with Wynwood
As of September 30, 2017 we owned a 24.5% interest in Wynwood.

Transactions with Wynwood consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Master distributor fee earned from Wynwood	$ 3	$ —	$ 3	$ —
Royalty fee paid to Wynwood	31	—	31	—
Brewery representative reimbursement from Wynwood, classified as a reduction of Selling, general and administrative expenses	42	—	42	—
Share of Wynwood's loss, classified as a component of Other income (expense), net	37	—	37	—

Amounts due to or from Wynwood were as follows (in thousands):

	September 30, 2017	December 31, 2016
Amounts due from Wynwood related to Brewery representative reimbursements	$ 32	$ —
Amounts due to Wynwood for Royalty fees	(13)	—
Net amount due from Wynwood	$ 19	$ —

Operating Leases
We lease our headquarters office space, restaurant and storage facilities located in Portland, 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 continues to be employed by us. Lease payments to these lessors were as follows (in thousands) and are included in the Rent expense under all operating leases above:

Three Months Ended September 30,		Nine Months Ended September 30,	
2017	2016	2017	2016
$ 26	$ 30	$ 87	$ 90

We hold lease and sublease obligations for certain office space and the land underlying the brewery and pub location in Kona, Hawaii, with a company whose owners include a shareholder who owns more than 5% of our common stock. 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) and are included in the Rent expense under all operating leases above:

Three Months Ended September 30,		Nine Months Ended September 30,	
2017	2016	2017	2016
$ 143	$ 157	$ 431	$ 414

Note 7. 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 Term Loan contract and the interest rate swap terminate on September 30, 2023. The Term Loan contract had a total notional value of $7.1 million as of September 30, 2017. 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 1.23% at September 30, 2017.

Effective January 4, 2016, we entered into a $9.1 million notional amount interest rate swap contract with BofA, which expires January 1, 2019, 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. 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 1.23% at September 30, 2017.

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 September 30, 2017, unrealized net losses of $0.3 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 related debt. There was no hedge ineffectiveness during the first nine months of 2017 or 2016.

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

Fair Value of Derivative Instruments

	September 30, 2017	December 31, 2016
Fair value of interest rate swaps	$ (322)	$ (424)

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)
Three Months Ended September 30,			
2017	$ 24	**Interest expense**	$ 30
2016	$ 136	**Interest expense**	$ 67
Nine Months Ended September 30,			
2017	$ 101	**Interest expense**	$ 123
2016	$ (306)	**Interest expense**	$ 201

See also Note 8.

Note 8. 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 September 30, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Interest rate swaps	$ —	$ (322)	$ —	$ (322)
Fair Value at December 31, 2016				
Interest rate swaps	$ —	$ (424)	$ —	$ (424)

We did not have any assets measured at fair value on a recurring basis at September 30, 2017 or December 31, 2016.

The fair value of our interest rate swaps was based on quarterly statements from the issuing bank. There were no changes to our valuation techniques during the nine months ended September 30, 2017.

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.

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

	September 30, 2017	December 31, 2016
Fixed-rate debt on Consolidated Balance Sheets	$ 756	$ 935
Estimated fair value of fixed-rate debt	$ 762	$ 993

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 9. Segment Results and Concentrations

Our chief operating decision maker monitors Net sales and gross margins of our Beer Related operations and our Brewpubs operations. Beer Related operations include the brewing operations and related domestic and international beer and cider sales of our Kona, Widmer Brothers, Redhook and Omission beer brands and Square Mile cider brand. Brewpubs operations primarily include our brewpubs, 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 September 30,		
2017	**Beer Related**	**Brewpubs**	**Total**
Net sales	$ 49,073	$ 7,565	$ 56,638
Gross profit	$ 18,679	$ 705	$ 19,384
Gross margin	38.1%	9.3%	34.2%
2016			
Net sales	$ 47,165	$ 8,038	$ 55,203
Gross profit	$ 15,823	$ 1,151	$ 16,974
Gross margin	33.5%	14.3%	30.7%

	Nine Months Ended September 30,		
2017	**Beer Related**	**Brewpubs**	**Total**
Net sales	$ 140,359	$ 21,131	$ 161,490
Gross profit	$ 48,569	$ 1,813	$ 50,382
Gross margin	34.6%	8.6%	31.2%
2016			
Net sales	$ 134,476	$ 22,227	$ 156,703
Gross profit	$ 43,046	$ 3,143	$ 46,189
Gross margin	32.0%	14.1%	29.5%

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

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

Sales to wholesalers through the A-B distributor agreement represented the following percentage of our Sales:

Three Months Ended September 30,		Nine Months Ended September 30,	
2017	**2016**	**2017**	**2016**
77.2%	78.2%	75.2%	78.5%

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

September 30, 2017	December 31, 2016
71.3%	66.6%

Note 10. 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of sales	$ 50	$ 13	$ 86	$ 47
Selling, general and administrative expense	341	320	859	595
Total stock-based compensation expense	$ 391	$ 333	$ 945	$ 642

At September 30, 2017, we had total unrecognized stock-based compensation expense of $2.3 million, which will be recognized over the weighted average remaining vesting period of 2.1 years.

Note 11. 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Weighted average common shares used for basic EPS	19,296	19,244	19,278	19,213
Dilutive effect of stock-based awards	147	99	123	—
Shares used for diluted EPS	19,443	19,343	19,401	19,213
Stock-based awards not included in diluted per share calculations as they would be antidilutive	—	116	—	290

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

Note 12. Commitments and Contingencies

General
We are subject to various claims and pending or threatened lawsuits in the normal course of business. Although we do not anticipate that the resolution of legal proceedings arising in the normal course of business or the proceeding described below will have a material adverse effect on our financial position, results of operations or cash flows, we cannot predict this with certainty.

Legal
On February 28, 2017 and March 6, 2017, respectively, two lawsuits, Sara Cilloni and Simone Zimmer v. Craft Brew Alliance, Inc., and Theodore Broomfield v. Kona Brewing Co. LLC, Kona Brew Enterprises, LLP, Kona Brewery LLC, and Craft Brew Alliance, Inc., were filed in the United States District Court for the Northern Division of California. On April 7, 2017, the two lawsuits were consolidated into a single complaint under the Broomfield case. The consolidated lawsuit purports to be a class action brought on behalf of all persons who purchased Kona Brewing Company beer within the relevant statute of limitations period. The lawsuit alleges that the defendants misled customers regarding the state in which Kona Brewing Company beers are manufactured and in describing Kona Brewing Company beer as “craft beer.” We intend to vigorously defend against the foregoing action and, on April 28, 2017, we filed a motion to dismiss the complaint. The motion to dismiss was granted in part and denied in part on September 1, 2017. We have not recorded any liabilities with respect to the claims.

Note 13. Termination of Pabst Agreements

Termination of Agreements with Pabst
Effective May 1, 2017, we reached an agreement with Pabst Brewing Company, LLC, and Pabst Northwest Brewing Company, LLC (collectively, "Pabst") to terminate the brewing agreements that provided for brewing selected brands owned by Pabst at our brewery in Woodinville, Washington, through December 31, 2018. In conjunction with the termination of the brewing arrangements, Pabst's option to purchase the Woodinville brewery and adjacent pub pursuant to the Option and Agreement of Purchase and Sale dated as of January 8, 2016 (the "Option Agreement”) was also terminated. Pabst agreed to pay us $2.7 million in connection with the termination of the brewing agreements and Option Agreement. This payment is in addition to the $1.6 million of contract brewing volume shortfall fees for the 2016 calendar year recognized in the fourth quarter of 2016 and $1.7 million related to remaining volume shortfalls for the 2016 - 2017 contract year ended March 31, 2017, recognized in the first quarter of 2017. All payments were received from Pabst in the second quarter of 2017.

We have deferred recognition of the termination payment for the brewing agreements and Option Agreement in our Statements of Operations due to our potential obligation to pay Pabst up to $2.7 million if an agreement to sell the brewery to a specified buyer is entered into by December 31, 2017. We are under no obligation to enter into such a sales agreement.

Ceasing Production at our Woodinville, Washington Brewery
We ceased production at our Woodinville, Washington brewery as of July 1, 2017. As a result, we incurred approximately $250,000 in incremental employee and severance related costs and $150,000 to safely and properly prepare the brewing equipment to become idle, during the second and third quarters of 2017, respectively. We expect to incur up to $100,000 in additional expense during the fourth quarter of 2017 to further prepare the brewing equipment to be idle, which will be expensed as incurred. These expenses are recorded in our Consolidated Statements of Operations for the applicable periods.

See Note 14 for a discussion of the classification of the assets related to our Woodinville brewery as assets held for sale.

Note 14. Assets Held for Sale

Designating the Woodinville, Washington Brewery as Held for Sale
We designated our Woodinville, Washington brewery as held for sale on May 1, 2017 and, accordingly, we ceased depreciating the related assets and recorded them on our Consolidated Balance Sheets at the lower of carrying value or fair value less estimated selling costs. We expect to sell the Woodinville property, including the adjacent pub, within 12 months of the date it was classified as held for sale.

The proximity to our largest and most efficient owned brewery in Portland, Oregon, which recently underwent a capacity expansion, as well as the decrease in our contract brewing volume, made our Woodinville capacity redundant. Production volume from our Woodinville brewery has been transferred to our Portland brewery. We plan to continue operating the adjacent pub pending sale.

Assets held for sale were as follows (in thousands):

		September 30, 2017
Brewery equipment	$	6,972
Buildings		12,562
Land and improvements		3,451
Furniture, fixtures and other equipment		454
Construction in progress		23
	$	23,462

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, 2016 ("2016 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 2016 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 sixth largest craft brewing company in the U.S. and a leader in brewing, branding, and bringing to market world-class American craft beers.

Our distinctive portfolio combines the power of Kona Brewing Company, a dynamic national craft beer brand, with a strong regional breweries and innovative lifestyle brands, including Appalachian Mountain Brewery, Cisco Brewers, Omission Brewing Co., Redhook Brewery, Square Mile Cider Co., Widmer Brothers Brewing, and Wynwood Brewing Co. We nurture the growth and development of our brands in today's increasingly competitive beer market through our state-of-the-art brewing and distribution capability, integrated sales and marketing infrastructure, and strong focus on partnerships, local community and sustainability.

CBA 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. Following a successful strategic brewing and distribution partnership, Kona Brewing Co. joined CBA in 2010 and has become one of the fastest-growing craft brands in the U.S. As part of CBA, Kona has expanded its reach across all 50 U.S. states and approximately 30 international markets, while remaining deeply rooted in its home of Hawaii.

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 regional 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 our partner breweries gain access to our world-class leadership and national brewing and sales infrastructure to grow their brands. In December 2016, we announced a strategic partnership with Wynwood Brewing Co., a fast-growing craft brewery based in the heart of Miami's multicultural Wynwood arts district. In the third quarter of 2017, we acquired a 24.5% interest in Wynwood Brewing Co.

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

We proudly brew our craft beers in three company-owned breweries located in Portland, Oregon; Portsmouth, New Hampshire; and Kailua-Kona, Hawaii. In 2016, we entered into a contract brewing agreement with A-B Commercial Strategies, LLC ("ABCS"), an affiliate of Anheuser-Busch, LLC ("A-B"), and, during the second quarter of 2017, production began at ABCS's brewery in Fort Collins, Colorado. Additionally, we own and operate three small innovation breweries , which are primarily used for small batch production and experimental limited-release brews that could potentially scale for larger production; these innovation breweries are located in, Portland, Oregon, Seattle, Washington and Portsmouth, New Hampshire.

We distribute our beers to retailers through wholesalers that are aligned with the A-B network. These sales are made pursuant to a Master Distributor Agreement (the "A-B Distributor Agreement") with A-B, which extends through 2028. 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. Our Kona and Omission brands are distributed nationally and internationally, while we focus distribution of Appalachian Mountain Brewery, Cisco Brewers, Redhook, Square Mile Cider, Widmer Brothers and Wynwood Brewing in their respective home markets.

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 Brewpubs operations. Beer Related operations include the brewing, and domestic and international sales, of craft beers and ciders from our breweries. Brewpubs operations primarily include our six brewpubs, three 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:

Nine Months Ended September 30,	Net sales	Net income (loss)	Number of barrels sold
2017	$161.5 million	$1.7 million	586,300
2016	$156.7 million	$(0.4) million	604,000

Designation of Woodinville Brewery as Held for Sale
See Notes 13 and 14 of Notes to Consolidated Financial Statements included in Part I, Item 1 for a discussion of the termination of our agreements with Pabst Brewing Company, LLC, and Pabst Northwest Brewing Company, LLC (collectively, "Pabst") and the determination to classify our Woodinville brewery assets as held for sale.

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Sales	106.0 %	106.3 %	105.9 %	106.4 %
Less excise taxes	(6.0)	(6.3)	(5.9)	(6.4)
Net sales	100.0	100.0	100.0	100.0
Cost of sales	65.8	69.3	68.8	70.5
Gross profit	34.2	30.7	31.2	29.5
Selling, general and administrative expenses	28.8	28.8	29.3	29.6
Operating income (loss)	5.4	2.0	1.9	(0.1)
Interest expense	(0.3)	(0.3)	(0.3)	(0.3)
Other income (expense), net	(0.1)	—	—	—
Income (loss) before income taxes	5.0	1.7	1.5	(0.4)
Income tax provision (benefit)	1.9	0.7	0.5	(0.2)
Net income (loss)	3.1 %	1.0 %	1.0 %	(0.3)%

(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 September 30,		
2017	**Beer Related**	**Brewpubs**	**Total**
Net sales	$ 49,073	$ 7,565	$ 56,638
Gross profit	$ 18,679	$ 705	$ 19,384
Gross margin	38.1%	9.3%	34.2%
2016			
Net sales	$ 47,165	$ 8,038	$ 55,203
Gross profit	$ 15,823	$ 1,151	$ 16,974
Gross margin	33.5%	14.3%	30.7%

	Nine Months Ended September 30,		
2017	**Beer Related**	**Brewpubs**	**Total**
Net sales	$ 140,359	$ 21,131	$ 161,490
Gross profit	$ 48,569	$ 1,813	$ 50,382
Gross margin	34.6%	8.6%	31.2%
2016			
Net sales	$ 134,476	$ 22,227	$ 156,703
Gross profit	$ 43,046	$ 3,143	$ 46,189
Gross margin	32.0%	14.1%	29.5%

Sales by Category

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

Sales by Category	Three Months Ended September 30, 2017	2016	Dollar Change	% Change
A-B and A-B related(1)	$ 46,348	$ 45,882	$ 466	1.0 %
Contract brewing and beer related(2)	6,127	4,740	1,387	29.3 %
Excise taxes	(3,402)	(3,457)	55	(1.6)%
Net beer related sales	49,073	47,165	1,908	4.0 %
Brewpubs(3)	7,565	8,038	(473)	(5.9)%
Net sales	$ 56,638	$ 55,203	$ 1,435	2.6 %

Sales by Category	Nine Months Ended September 30, 2017	2016	Dollar Change	% Change
A-B and A-B related(1)	$ 128,676	$ 130,962	$ (2,286)	(1.7)%
Contract brewing and beer related(2)	21,203	13,558	7,645	56.4 %
Excise taxes	(9,520)	(10,044)	524	(5.2)%
Net beer related sales	140,359	134,476	5,883	4.4 %
Brewpubs(3)	21,131	22,227	(1,096)	(4.9)%
Net sales	$ 161,490	$ 156,703	$ 4,787	3.1 %

(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, and the international distribution fees earned from ABWI.

(2) Beer related includes international sales of our beers, and non-owned brands, not sold through A-B or Ambev, as well as fees earned through alternating proprietorship agreements and from contract brewing shortfall fees.

(3) Brewpubs 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 September 30,	2017 Shipments	2016 Shipments	Increase (Decrease)	% Change	Change in Depletions(1)
A-B and A-B related(2)	182,700	184,900	(2,200)	(1.2)%	(2)%
Contract brewing and beer related(3)	22,700	21,000	1,700	8.1 %	
Brewpubs	2,500	2,500	—	— %	
Total	207,900	208,400	(500)	(0.2)%	

Nine Months Ended September 30,	2017 Shipments	2016 Shipments	Increase (Decrease)	% Change	Change in Depletions(1)
A-B and A-B related(2)	512,000	540,000	(28,000)	(5.2)%	(1)%
Contract brewing and beer related(3)	67,200	56,500	10,700	18.9 %	
Brewpubs	7,100	7,500	(400)	(5.3)%	
Total	586,300	604,000	(17,700)	(2.9)%	

(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, and non-owned brands, not distributed through A-B or Ambev.

The increase in sales to A-B and A-B related in the three-month period ended September 30, 2017 compared to the same period of 2016 was primarily due to an increase in average unit pricing, partially offset by decreases in shipment volume as we continued to reduce our inventory levels at our wholesaler partners as part of our ongoing efforts to address slowing craft segment growth and the inventory pressures facing distributors in today's complex craft beer market.

The decrease in sales to A-B and A-B related in the nine-month period ended September 30, 2017 compared to the same period of 2016 was primarily due to a decrease in shipment volume as we continued to reduce our inventory levels at our wholesaler partners as part of our ongoing efforts to address slowing craft segment growth and the inventory pressures facing distributors in today's complex craft beer market, partially offset by an increase in average unit pricing. The decrease in sales to A-B and A-B related in the nine-month period ended September 30, 2017 compared to the same period of 2016 also benefited from $2.6 million of international distribution fees earned compared to $0.9 million earned in the comparable 2016 period related to our international distribution agreement with ABWI, which began in the third quarter of 2016.

The increases in Contract brewing and beer related sales in the three and nine-month periods ended September 30, 2017 compared to the same periods of 2016 were primarily due to an increase in our alternating proprietorship volume and an increase in international shipments of our beers. The nine-month period ended September 30, 2017 also benefited from $1.7 million of fees earned from Pabst Northwest Brewing Company ("Pabst") related to a contract brewing volume shortfall, as well as a slight increase in our contract brewing volume. The increase in the three-month period ended September 30, 2017 was partially offset by a decrease in our contract brewing volume.

Brewpubs sales decreased in the three and nine-month periods ended September 30, 2017 compared to the same periods of 2016, primarily as a result of decreases in guest counts across all of our brewpubs.

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):

Three Months Ended September 30,	2017 Shipments	2016 Shipments	Increase (Decrease)	% Change	Change in Depletions
Kona	122,500	110,200	12,300	11.2 %	9 %
Widmer Brothers	32,900	36,500	(3,600)	(9.9)%	(15)%
Redhook	24,400	33,100	(8,700)	(26.3)%	(27)%
Omission	12,600	11,300	1,300	11.5 %	2 %
All other(1)	12,800	11,000	1,800	16.4 %	10 %
Total(2)	205,200	202,100	3,100	1.5 %	(2)%

Nine Months Ended September 30,	2017 Shipments	2016 Shipments	Increase (Decrease)	% Change	Change in Depletions
Kona	335,500	310,900	24,600	7.9 %	10 %
Widmer Brothers	96,100	114,800	(18,700)	(16.3)%	(15)%
Redhook	71,700	97,500	(25,800)	(26.5)%	(25)%
Omission	33,900	33,700	200	0.6 %	(4)%
All other(1)	35,400	26,600	8,800	33.1 %	13 %
Total(2)	572,600	583,500	(10,900)	(1.9)%	(1)%

(1) All other includes the shipments and depletions from our Square Mile and Resignation brand families, as well as the non-owned Cisco Brewers, Appalachian Mountain Brewing and Wynwood 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 nine-month periods ended September 30, 2017 compared to the same periods of 2016 were primarily due to increases in domestic and international shipments, primarily led by demand for Hanalei Island IPA and Big Wave Golden Ale, partially offset by a decline in Castaway IPA.

The decreases in our Widmer Brothers brand shipments in the three and nine-month periods ended September 30, 2017 compared to the same periods of 2016 were led by decreases in Hefeweizen brand shipments, primarily due to a continued strategic focus on the home market of Oregon.

Our Redhook brand shipments decreased in the three and nine-month periods ended September 30, 2017 compared to the same periods of 2016, primarily due to a continued strategic focus on the home market of Washington, led by a decline in Longhammer IPA brand shipments.

Omission brand shipments increased in the three-month period ended September 30, 2017 compared to the same period of 2016, primarily led by an increased demand for our new brand Omission Ultimate Light, which was introduced in the first quarter of 2017 . Omission brand shipments remained relatively flat for the nine-month period ended September 30, 2017 compared to the same period of 2016 primarily due to the introduction of Omission Ultimate Light, offset by a decrease in Omission Pale Ale.

The increases in All other shipments in the three and nine-month periods ended September 30, 2017 compared to the same periods of 2016 were primarily due to increases in the shipment volumes related to our distribution agreements with Wynwood Brewing, Cisco Brewers and Appalachian Mountain Brewing, partially offset by decreases in our discontinued Resignation brand family.

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 September 30,	2017		2016	
	Shipments	% of Total	Shipments	% of Total
Draft	46,700	22.8%	46,000	22.8%
Packaged	158,500	77.2%	156,100	77.2%
Total	205,200	100.0%	202,100	100.0%

Nine Months Ended September 30,	2017		2016	
	Shipments	% of Total	Shipments	% of Total
Draft	130,900	22.9%	136,700	23.4%
Packaged	441,700	77.1%	446,800	76.6%
Total	572,600	100.0%	583,500	100.0%

The package mix was relatively consistent in the three and nine-month periods ended September 30, 2017 compared to the same periods of 2016.

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

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

	Three Months Ended September 30,		Dollar	
	2017	2016	Change	% Change
Beer Related	$ 30,394	$ 31,342	$ (948)	(3.0)%
Brewpubs	6,860	6,887	(27)	(0.4)%
Total	$ 37,254	$ 38,229	$ (975)	(2.6)%

	Nine Months Ended September 30,		Dollar	
	2017	2016	Change	% Change
Beer Related	$ 91,790	$ 91,430	$ 360	0.4 %
Brewpubs	19,318	19,084	234	1.2 %
Total	$ 111,108	$ 110,514	$ 594	0.5 %

The decrease in Beer Related Cost of sales in the three-month period ended September 30, 2017 compared to the same period of 2016 was primarily due to decreases in cost of goods, partially offset by increases in brewery costs on a per barrel basis and alternating proprietorship volume. The increase in Beer Related Cost of sales for the nine-month period ended September 30, 2017 compared to the same period of 2016 was primarily due to increases in brewery costs on a per barrel basis, alternating proprietorship volume and distribution rates on a per barrel basis, partially offset by decreases in shipment volume and cost of goods.

Brewpubs Cost of sales in the three-month period ended September 30, 2017 was flat compared to the same period of 2016 due a decrease in guest counts offset by an increase in employee related costs. The increase in Brewpubs Cost of sales in the nine-month period ended September 30, 2017 compared to the same period of 2016 was primarily due to increases in employee related costs and rent and other startup costs related to our Seattle brewpub, partially offset by a decrease in guest counts.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Capacity Utilization	63%	71%	62%	69%

In June 2014, we initiated full-scale brewing with our brewing partner in Memphis, Tennessee. This partnership provided us scalable capacity and we had the ability to produce up to 100,000 barrels at this location annually. Production ceased with this brewing partner during the second quarter of 2017. In 2016, we entered into a contract brewing agreement with ABCS with the ability to have up to 300,000 barrels produced annually and, during the second quarter of 2017, production began in their facilities. Our capacity utilization declined in the three and nine-month periods ended September 30, 2017 compared to the same periods of 2016 due to reductions in wholesaler inventories, as well as a larger percentage of our beer being brewed by ABCS as part of our contract brewing relationship and brewery footprint evolution in process.

As discussed in Notes 13 and 14 of Notes to Consolidated Financial Statements included in Part I, Item 1 of this report, we ceased production at our Woodinville, Washington brewery during the second quarter of 2017, which reduced the capacity of our owned breweries beginning in the third quarter of 2017. As a result, beginning with the third quarter of 2017, for both the three and nine-month periods, our capacity utilization calculation was revised to exclude, from the denominator, the production capacity of our Woodinville, Washington brewery, which we have estimated to be approximately 220,000 barrels per year.

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

	Three Months Ended September 30,		Dollar	
	2017	2016	Change	% Change
Beer Related	$ 18,679	$ 15,823	$ 2,856	18.0 %
Brewpubs	705	1,151	(446)	(38.7)%
Total	$ 19,384	$ 16,974	$ 2,410	14.2 %

	Nine Months Ended September 30,		Dollar	
	2017	2016	Change	% Change
Beer Related	$ 48,569	$ 43,046	$ 5,523	12.8 %
Brewpubs	1,813	3,143	(1,330)	(42.3)%
Total	$ 50,382	$ 46,189	$ 4,193	9.1 %

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Beer Related	38.1%	33.5%	34.6%	32.0%
Brewpubs	9.3%	14.3%	8.6%	14.1%
Overall	34.2%	30.7%	31.2%	29.5%

The increase in Beer Related Gross profit and gross margin in the three-month period ended September 30, 2017 compared to the same period of 2016 was primarily due to a decrease in cost of goods, increased unit pricing and increased alternating proprietorship volume, partially offset by an increase in brewery costs on a per barrel basis. The increase in Beer Related Gross profit and gross margin in the nine-month period ended September 30, 2017 compared to the same period of 2016 was primarily due to increased unit pricing and alternating proprietorship volume, a decrease in cost of goods, as well as $1.7 million of fees earned from Pabst related to a contract brewing volume shortfall in the first quarter of 2017 and a $1.7 million increase in the ABWI international distribution fee earned. The favorable benefits to Beer Related Gross profit in the nine-month period ended September 30, 2017 were partially offset by an increase in brewery costs on a per barrel basis, a decrease in shipment volume and an increase in distribution rates on a per barrel basis.

The decreases in the Brewpubs Gross profit and gross margin in the three and nine-month periods ended September 30, 2017 compared to the same periods of 2016 were primarily due to decreased guest counts and increased employee related costs and costs related to preparations to open our Seattle brewpub.

Selling, General and Administrative Expenses

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

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

	Three Months Ended September 30,		Dollar	
	2017	**2016**	**Change**	**% Change**
Selling, general and administrative expenses	$ 16,328	$ 15,876	$ 452	2.8%
As a % of Net sales	28.8%	28.8%		

	Nine Months Ended September 30,		Dollar	
	2017	**2016**	**Change**	**% Change**
Selling, general and administrative expenses	$ 47,357	$ 46,348	$ 1,009	2.2%
As a % of Net sales	29.3%	29.6%		

The increase in SG&A for the three-month period ended September 30, 2017 compared to the same period of 2016 was primarily due to in market promotional costs, as well as an increase in technology related expenses, partially offset by a decrease in general and administrative costs. The increase in SG&A for the nine-month period ended September 30, 2017 compared to the same period of 2016 was primarily due to increases in employee benefit related costs, technology related expenses and professional fees, partially offset by the timing of creative and media spend, as well as lower general and administrative costs.

Interest Expense

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

Three Months Ended September 30,		Dollar	
2017	**2016**	**Change**	**% Change**
$ 179	$ 186	$ (7)	(3.8)%

Nine Months Ended September 30,		Dollar	
2017	**2016**	**Change**	**% Change**
$ 533	$ 520	$ 13	2.5 %

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Average debt outstanding	$25,299	$29,796	$26,238	$27,274
Average interest rate	2.34%	1.59%	2.08%	1.56%

The fluctuations in Interest expense in the three and nine-month periods ended September 30, 2017 compared to the same periods of 2016 were primarily due to decreases in our average debt outstanding, partially offset by increases in our average interest rate. The decreases in our average debt outstanding were due to principal payments made on our term loan and decreases in amounts outstanding on our line of credit, which fluctuate with our operating capital needs.

Income Tax Provision
Our effective income tax rate was 31.0% for the first nine months of 2017 and 40.0% in the first nine months of 2016. 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. In the second quarter of 2017, we recognized a tax credit for a biofuel project at our New Hampshire brewery. The tax credit will be claimed on our 2016 tax return and is based upon a study completed in the second quarter of 2017. We expect the effective tax rate for all of 2017 to approximate 36%.

Liquidity and Capital Resources

We have required capital primarily for the construction and development of our production breweries, to support our brewery footprint evolution, 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 October 1, 2017 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 September 30, 2017 included $0.4 million of Cash and cash equivalents and $25.9 million available under our line of credit facility.

At September 30, 2017 and December 31, 2016, we had $25.7 million and $13.1 million of working capital, respectively, and our debt as a percentage of total capitalization (total debt and common shareholders' equity) was 17.1% and 19.6%, respectively.

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

	Nine Months Ended September 30,	
	2017	**2016**
Net cash provided by operating activities	$ 22,463	$ 2,867
Net cash used in investing activities	(18,176)	(13,123)
Net cash provided by (used in) financing activities	(4,324)	9,755
Decrease in Cash and cash equivalents	$ (37)	$ (501)

Cash provided by operating activities of $22.5 million in the first nine months of 2017 resulted from our Net income of $1.7 million, net non-cash expenses of $9.8 million and changes in our operating assets and liabilities as discussed in more detail below.

Accounts receivable, net, increased $4.9 million to $28.9 million at September 30, 2017 compared to $24.0 million at December 31, 2016. This increase was primarily due to a $4.6 million increase in our receivable from A-B attributable to the timing of shipments, partially offset by payments being received for 2016 amounts due from ABWI and A-B related to the international distribution fee and media reimbursement. The receivable from A-B totaled $20.6 million at September 30, 2017. The increase was also due to an increase in receivables related to the alternating proprietorship arrangement with one of our partners and an increase in international sales not through A-B or Ambev. Historically, we have not had collection problems related to our accounts receivable.

Inventories decreased $1.4 million to $17.7 million at September 30, 2017 compared to $19.1 million at December 31, 2016. The decrease from December 31, 2016 was primarily due to decreases in work in process and finished goods as a result of having production begin at ABCS where we do not own the inventory, as well as ceasing production at our Washington brewery and at our partner brewery in Memphis, where we owned the inventory. The decrease was partially offset by an increase in raw materials as we purchased hops under raw material contracts.

Accounts payable increased $9.0 million to $25.1 million at September 30, 2017 compared to $16.1 million at December 31, 2016, primarily due to the timing of payments related to our contract brewing relationship with ABCS, as well as an increase in bank overdrafts.

As of September 30, 2017, we had the following net operating loss carryforwards ("NOLs") and federal credit carry forwards available to offset payment of future income taxes:

- state NOLs of $23,700, tax-effected; and
- federal alternative minimum tax ("AMT") credit carry forwards of $0.2 million.

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 $16.2 million in the first nine months of 2017 were primarily directed to beer production capacity and efficiency improvements. As of September 30, 2017, we had an additional $0.3 million of expenditures recorded in Accounts payable on our Consolidated Balance Sheets, compared to $0.9 million at December 31, 2016. Beginning in 2015, we are investing approximately $10 million in our Oregon Brewery to expand capacity with expected completion in the fourth quarter of 2017. Also beginning in 2015 through expected completion in 2019, we are investing approximately $20 million in a new Hawaiian Brewery. We anticipate total capital expenditures of approximately $18.0 million to $20.0 million in 2017 primarily for capacity and efficiency improvements, quality initiatives and restaurant and retail, including spending for the expansion projects.

Loan Agreement

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 term loan (“Term Loan”) with an original principal balance of $10.1 million. We may draw upon the Line of Credit for working capital and general corporate purposes until expiration on November 30, 2020. The maturity date of the Term Loan is September 30, 2023. At September 30, 2017, we had $14.1 million of borrowings outstanding under the Line of Credit and $9.3 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 September 30, 2017, our marginal rate was 0.75%, resulting in an annual interest rate of 1.99%.

Accrued interest for the Term Loan is due and payable monthly. Principal payments on the Term Loan are due monthly in accordance with an agreed-upon schedule set forth in the Loan Agreement, with any unpaid principal balance and unpaid accrued interest due and payable on September 30, 2023.

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. As of September 30, 2017, we were in compliance with all financial covenants.

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 2016 Annual Report on Form 10-K, 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, 2016.

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 2016 Annual Report on Form 10-K, which was filed with the SEC on March 16, 2017.

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, our disclosure controls and procedures were not effective, solely due to the material weakness in internal control over financial reporting described below, to ensure that information required to be disclosed in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. While reasonable assurance is a high level of assurance, it does not mean absolute assurance. Disclosure controls and internal control over financial reporting cannot prevent or detect all errors, misstatements or fraud. In addition, the design of a control system must recognize that there are resource constraints, and the benefits associated with controls must be proportionate to their costs.

In connection with the filing of our Annual Report on Form 10-K for the year ended December 31, 2016, our Chief Executive Officer and Chief Financial Officer concluded that we had a material weakness in internal control over financial reporting due to the lack of personnel with adequate knowledge of the design, operation and documentation of internal controls over non-routine transactions; and ineffective management review over the accounting for non-routine transactions, including accounting for revenue. This material weakness resulted in incorrectly accounting for several complex, non-routine transactions during 2016, including transactions related to revenue recognition. This material weakness had not been fully remediated as of the end of the period covered by this report.

Rule 12b-2 under the Exchange Act defines a material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Changes in Internal Control Over Financial Reporting

During the third quarter of 2017, other than as described below, 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.

To address material weaknesses identified in connection with the preparation of our Annual Report on Form 10-K for the year ended December 31, 2016, management developed a remediation plan which includes:

- revising the design of existing controls, and designing and implementing additional key controls related to identifying and accounting for non-routine transactions, which include protocols for engaging third-party accounting experts, where necessary;
- establishing protocols to ensure key controls operate on a timely basis to prevent and detect misstatement; and
- providing additional GAAP technical accounting and internal control related training to both accounting and non-accounting departments.

As of September 30, 2017, these changes are ongoing. We anticipate that these plans will be fully implemented and tested during 2017 such that our internal control deficiency will be remediated in that timeframe.

Index

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 12 of Notes to Consolidated Financial Statements included in Part 1, Item 1 of this report.

Item 1A. Risk Factors

There have been no changes in our reported risk factors since the filing of our 2016 Annual Report on Form 10-K, which was filed with the SEC on March 16, 2017.

Item 6. Exhibits

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

31.1	Certification of Chief Executive Officer of Craft Brew Alliance, Inc. pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of Chief Financial Officer of Craft Brew Alliance, Inc. pursuant to Exchange Act Rule 13a-14(a)
32.1	Certification pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350
99.1	Press Release dated November 8, 2017
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

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.

November 8, 2017	By: /s/ Edwin A. Smith
	Edwin A. Smith *Corporate Controller and* *Principal Accounting Officer*

EXHIBIT 31.1

CERTIFICATION

I, Andrew J. Thomas, certify that:

1. I have reviewed this quarterly report on Form 10−Q of Craft Brew Alliance, Inc. (the “Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the Registrant and we have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: November 8, 2017

By: /s/ Andrew J. Thomas

Andrew J. Thomas

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Joseph K. Vanderstelt, certify that:

1. I have reviewed this quarterly report on Form 10−Q of Craft Brew Alliance, Inc. (the “Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a−15(e) and 15d−15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a−15(f) and 15d−15(f)) for the Registrant and we have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: November 8, 2017

By: /s/ Joseph K. Vanderstelt

Joseph K. Vanderstelt

Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of Craft Brew Alliance, Inc. (the "Registrant") on Form 10-Q for the quarter ended September 30, 2017, as filed with the Securities and Exchange Commission on November 8, 2017 (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: November 8, 2017

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

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

FOR IMMEDIATE RELEASE

CRAFT BREW ALLIANCE REPORTS THIRD QUARTER RESULTS; KONA DEPLETIONS UP 9% IN THIRD QUARTER AND 10% YEAR TO DATE

Third quarter financial results reflect continued robust performance for Kona and strong improvements in CBA's overall business fundamentals

Portland, Ore. (Nov. 8, 2017) - Craft Brew Alliance, Inc. ("CBA") (Nasdaq: BREW), a leading craft brewing company, today announced financial results for the third quarter ended September 30, 2017. Third quarter results include continued robust depletion growth for Kona, as well as strong EPS performance driven by improving fundamentals, including revenue per barrel growth, gross margin expansion, and ongoing tighter management of Selling, General & Administrative (SG&A) expenses.

Kona Continues to Outpace Across Segments

Against a backdrop of intensifying market pressure and competition, Kona continued to outperform all segments of the beer market, growing depletions by 9% in the third quarter and 10% year to date. As the cornerstone of CBA's "Kona Plus" portfolio strategy, Kona's strong brand identity and distinctive island-inspired beers resonate with consumers - from its home market of Hawaii, where Kona has grown 8% year to date, to around the world as evidenced by Kona's continued double-digit international shipment growth. Kona flagship Big Wave Golden Ale delivered 15% depletions growth in the third quarter, driving a 25% increase in depletions year-to-date, and Hanalei Island IPA, Kona's latest national beer launched earlier this year, remains a top seller in its category and a top 10 new craft brand nationally.

Strong Improvements in Business Fundamentals

Our progress strengthening CBA's business fundamentals accelerated in the third quarter. Net sales grew 3% compared to the same period last year, driven by stronger revenue management as reflected in improved revenue per barrel. Gross profit increased by 14%, and gross margin expanded by 350 basis points to 34.2% over the same period last year, as a result of higher revenue per barrel and brewery optimization efforts, including the shutdown of our Woodinville brewery, expansion of production in Fort Collins, and operational efficiencies in our largest-volume brewery in Portland. With ongoing cost control management, we continued to invest in the Kona brand, contributing to an increase of 30 basis points in SG&A expense.

Substantive Progress Leveraging AB Agreements

We continued to leverage our recent agreements with Anheuser-Busch ("AB"). Building on the successful launch of our contract brewing partnership earlier this year, we expanded CBA brewing volumes in AB's Fort Collins brewery. Additionally, as previously discussed, we continued working with AB on a deliberate and strategic approach to grow Kona internationally, which included the pilot distribution of Kona beers in key global beer markets. In 2018, we anticipate enhanced performance as a result of inclusion of our brands in AB's wholesaler planning process.

Clarifying Year-End Expectations

Based on our third quarter and year-to-date results, we are revising and tightening certain aspects of our 2017 guidance to provide more clarity around our expectations for the full year. We expect to deliver full-year revenue growth of 3.5% to 5%, underpinned by healthy increases in pricing and changes in mix, as well as previously disclosed recurring AB international distribution payments and a one-time contract brewing shortfall fee. We are revising our estimates for depletions, which we expect will range between flat and a decrease of 2%, as well as for shipments, which we estimate will range between a decrease of 2% and a decrease of 4%. Additionally, we expect gross margin to come in at the mid to high end of guidance and SG&A to be at the low end of the range. Further, we have narrowed the range for capital expenditures.

Third quarter and year-to-date 2017 financial highlights:

- Overall depletions decreased 2% for the quarter and 1% year to date, compared to the same periods last year, while depletions for Kona maintained strong growth, increasing 9% in the third quarter and 10% year to date.
- Shipments were relatively flat in the third quarter and down 3% year to date, compared to the same periods last year.
- Net sales increased 3% to $56.6 million in the third quarter and 3% to $161.5 million year to date over the comparable periods in 2016, primarily attributed to increases in average unit pricing and brand mix, alternating proprietorship sales, and, in the nine-month period, the benefit of international distribution fees earned from AB. The increases were partially offset by decreases in our brewpub sales and, in the nine-month period, a decrease in our shipment volumes as a result of previously discussed efforts to reduce inventory levels.
- Third quarter gross profit increased by 14%, to $19.4 million, over the third quarter in 2016. Year-to-date gross profit increased by 9%, to $50.4 million, compared to the same period last year, driven by pricing and brand mix, the AB international distribution payment, a one-time contract brewing shortfall fee, and overall improvements in cost of goods sold.
    - Third quarter gross margin increased by 350 basis points to 34.2% compared to the third quarter of 2016, driven by a 460-basis point expansion in beer gross margin through improved cost of goods sold and healthy pricing, offset by lower pub gross margin.
    - Year-to-date gross margin increased by 170 basis points to 31.2% compared to the same period in 2016, reflecting favorability in recurring non-operational benefits, including the AB international distribution payment, and one-time contract brewing shortfall fee, partially offset by lower cost absorption and a decrease in pub foot traffic.
- SG&A for the third quarter was $16.3 million, a 3% increase over the third quarter of 2016, and $47.4 million year to date, a 2% increase over the same period last year.
    - The third quarter increase primarily reflects increased in-market promotional costs, as well as costs related to the reorganization of our IT resources, partially offset by a decrease in general and administrative costs.
    - The increase in year-to-date SG&A expense is primarily due to increases in employee benefit-related costs, professional fees, and the reorganization of our IT resources, partially offset by the timing of creative and media spend.
- Diluted net income per share was $0.09 for the third quarter, an increase of $0.06 over the third quarter in 2016. For the year-to-date period, diluted net income per share was $0.09, an increase of $0.11 over the same period last year.

“We feel really good about our third quarter results across a number of dimensions -- be that in terms of our performance in the context of a fiercely competitive market, our absolute performance relative to last year, and our performance relative to our peers,” said Andy Thomas, chief executive officer, CBA. “Kona continues to distinguish itself with bright prospects for the future, our business fundamentals continue to improve, and our relationship with AB is providing ever greater value to our stakeholders.”

Updated financial guidance for full-year 2017:

- Average price increases of 1% to 2% are unchanged and do not reflect the recurring AB international distribution payments or the one-time contract brewing shortfall fee that will be recognized in the fourth quarter.
- Depletions are now expected to range between a decrease of 2% and flat compared to last year.
- Shipments are now expected to range between a decrease of 4% and a decrease of 2%, primarily reflecting our decision to focus the remainder of the year on maximizing our owned brand portfolio, led by Kona, alongside our existing partner portfolio, including Appalachian Mountain Brewery, Cisco Brewers, and Wynwood Brewing Co., and to not bring on additional partners at this time.
- Total gross margin remains in the range of 30.5% to 32.5%, and we expect to be at the mid to higher end of the range.
- SG&A ranging from $61 million to $63 million, reflecting an increase in marketing spend and SG&A cost optimization. As we leverage investments made in prior years and seek to improve efficiencies, we expect to be at the lower end of the range.
- Our capital expenditure range has been narrowed and is expected to be approximately $18 million to $20 million, reflecting continued work on previously disclosed projects, including the new Kona brewery and the Redhook brewpub in Seattle.

“CBA’s third quarter revenue growth, improved cost management, and operational efficiencies have contributed to our solid year-to-date results. Despite adjusting guidance ranges in some areas to reflect the dynamic market in which we operate, we remain confident in delivering EPS performance well ahead of last year,” said Joe Vanderstelt, chief financial officer, CBA.

Forward-Looking Statements

Statements made in this press release that state the Company’s or management’s intentions, hopes, beliefs, expectations or predictions for the future, including depletions, shipments and sales growth, price increases, lower inventory levels, 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 strategic initiatives and capital projects, are forward-looking statements. It is important to note that the Company’s actual results could differ materially from those projected in such forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained from time to time in the Company’s SEC filings, including, but not limited to, the Company’s report on Form 10-K for the year ended December 31, 2016. Copies of these documents may be found on the Company’s website, www.craftbrew.com, or obtained by contacting the Company or the SEC.

About Craft Brew Alliance

CBA is an independent craft brewing company that brews, brands, and brings to market world-class American craft beers.

Our distinctive portfolio combines the power of Kona Brewing Company, a dynamic, fast-growing national craft beer brand, with strong regional breweries and innovative lifestyle brands Appalachian Mountain Brewery, Cisco Brewers, Omission Brewing Co., Redhook Brewery, Square Mile Cider Co., Widmer Brothers Brewing, and Wynwood Brewing Co. CBA nurtures the growth and development of its brands in today’s increasingly competitive beer market through our state-of-the-art brewing and distribution capability, integrated sales and marketing infrastructure, and strong focus on partnerships, local community and sustainability.

Formed in 2008, CBA is headquartered in Portland, Oregon and operates breweries and brewpubs across the U.S. CBA beers are available in all 50 U.S. states and 30 different countries around the world. For more information about CBA and our brands, please visit www.craftbrew.com.

Contact:
Jenny McLean
Director of Communications
Craft Brew Alliance, Inc.
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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 September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Sales	$ 60,040	$ 58,660	$ 171,010	$ 166,747
Less excise taxes	3,402	3,457	9,520	10,044
Net sales	56,638	55,203	161,490	156,703
Cost of sales	37,254	38,229	111,108	110,514
Gross profit	19,384	16,974	50,382	46,189
As percentage of net sales	34.2 %	30.7%	31.2 %	29.5%
Selling, general and administrative expenses	16,328	15,876	47,357	46,348
Operating income (loss)	3,056	1,098	3,025	(159)
Interest expense	(179)	(186)	(533)	(520)
Other income (expense), net	(59)	7	(46)	19
Income (loss) before income taxes	2,818	919	2,446	(660)
Income tax provision (benefit)	1,067	367	758	(264)
Net income (loss)	$ 1,751	$ 552	$ 1,688	$ (396)
Basic and diluted net income (loss) per share	$ 0.09	$ 0.03	$ 0.09	$ (0.02)
Weighted average shares outstanding:				
Basic	19,296	19,244	19,278	19,213
Diluted	19,443	19,343	19,401	19,213
Total shipments (in barrels):				
Core Brands	205,200	202,100	572,600	583,500
Contract Brewing	2,700	6,300	13,700	20,500
Total shipments	207,900	208,400	586,300	604,000
Change in depletions [1]	(2)%	0%	(1)%	0%

(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)

	September 30, 2017	September 30, 2016
Current assets:		
Cash and cash equivalents	$ 405	$ 410
Accounts receivable, net	28,894	23,742
Inventory, net	17,659	20,906
Assets held for sale	23,462	—
Other current assets	1,372	2,029
Total current assets	71,792	47,087
Property, equipment and leasehold improvements, net	106,380	122,347
Goodwill	12,917	12,917
Intangible, equity method investment and other assets, net	20,925	19,548
Total assets	$ 212,014	$ 201,899
Current liabilities:		
Accounts payable	$ 25,088	$ 18,253
Accrued salaries, wages and payroll taxes	6,170	5,858
Refundable deposits	5,477	6,804
Other accrued expenses	7,587	1,943
Current portion of long-term debt and capital lease obligations	1,731	1,312
Total current liabilities	46,053	34,170
Long-term debt and capital lease obligations, net of current portion	23,527	29,020
Other long-term liabilities	19,996	19,821
Total common shareholders' equity	122,438	118,888
Total liabilities and common shareholders' equity	$ 212,014	$ 201,899

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

	Nine Months Ended September 30,	
	2017	**2016**
Cash flows from operating activities:		
Net income (loss)	$ 1,688	$ (396)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,904	8,056
Loss on sale or disposal of Property, equipment and leasehold improvements	164	16
Deferred income taxes	(168)	174
Other, including stock-based compensation	1,851	655
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,886)	(4,816)
Inventories	1,371	(2,902)
Other current assets	1,124	410
Accounts payable and other accrued expenses	13,096	736
Accrued salaries, wages and payroll taxes	1,203	389
Refundable deposits	(884)	545
Net cash provided by operating activities	22,463	2,867
Cash flows from investing activities:		
Expenditures for Property, equipment and leasehold improvements	(16,170)	(12,206)
Proceeds from sale of Property, equipment and leasehold improvements	95	8
Expenditures for long-term deposits	—	(925)
Investment in Wynwood	(2,101)	—
Net cash used in investing activities	(18,176)	(13,123)
Cash flows from financing activities:		
Principal payments on debt and capital lease obligations	(483)	(477)
Net borrowings (repayments) under revolving line of credit	(3,922)	10,138
Proceeds from issuances of common stock	98	172
Tax payments related to stock-based awards	(17)	(78)
Net cash provided by (used in) financing activities	(4,324)	9,755
Decrease in Cash and cash equivalents	(37)	(501)
Cash and cash equivalents, beginning of period	442	911
Cash and cash equivalents, end of period	$ 405	$ 410

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

	Twelve Months Ended September 30, 2017	Twelve Months Ended September 30, 2016	Change	% Change
Net sales	$ 207,294	$ 205,942	$ 1,352	0.7 %
Gross profit	$ 63,792	$ 61,674	$ 2,118	3.4 %
As percentage of net sales	30.8 %	29.9%	90 bps	
Selling, general and administrative expenses	60,233	59,567	666	1.1 %
Operating income	$ 3,559	$ 2,107	$ 1,452	68.9 %
Net income	$ 1,764	$ 863	$ 901	104.4 %
Basic and diluted net income per share	$ 0.09	$ 0.04	$ 0.05	125.0 %
Total shipments (in barrels):				
Core Brands	738,000	772,600	(34,600)	(4.5)%
Contract Brewing	19,900	29,200	(9,300)	(31.8)%
Total shipments	757,900	801,800	(43,900)	(5.5)%
Change in depletions (1)	(2)%	0%		

(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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net income (loss)	$ 1,751	$ 552	$ 1,688	$ (396)
Interest expense	179	186	533	520
Income tax provision (benefit)	1,067	367	758	(264)
Depreciation expense	2,371	2,651	7,709	7,926
Amortization expense	65	43	195	130
Stock-based compensation	391	333	945	642
Loss on disposal of assets	18	7	164	16
Adjusted EBITDA	$ 5,842	$ 4,139	$ 11,992	$ 8,574

CBA 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 management. We define Adjusted EBITDA as net income (loss) before interest, income taxes, depreciation and amortization, stock-based compensation and other non-cash charges, including net gain or loss on disposal of property, equipment and leasehold improvements. We use 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 (used in) 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 our indebtedness; and the exclusion of depreciation and amortization which represent significant and unavoidable operating costs, given the capital expenditures needed to maintain our 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 (used in) 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).