
**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 March 31, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 0-26542

CRAFT BREW ALLIANCE, INC.

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of incorporation or organization)

91-1141254

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

929 North Russell Street

Portland, Oregon 97227

(Address of principal executive offices)

(503) 331-7270

(Registrant's telephone number, including Area Code)

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

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

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

Large Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

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

The number of shares of the registrant's common stock outstanding as of April 29, 2014 was 19,015,782.

CRAFT BREW ALLIANCE, INC.
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>March 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,894	\$ 2,726
Accounts receivable, net	11,035	11,370
Inventories	18,490	16,639
Deferred income tax asset, net	1,553	1,345
Other current assets	4,047	3,403
Total current assets	<u>38,019</u>	<u>35,483</u>
Property, equipment and leasehold improvements, net	103,917	104,193
Goodwill	12,917	12,917
Intangible and other assets, net	17,412	17,693
Total assets	<u>\$ 172,265</u>	<u>\$ 170,286</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 16,749	\$ 14,742
Accrued salaries, wages and payroll taxes	4,938	4,616
Refundable deposits	7,774	8,252
Other accrued expenses	1,685	1,381
Current portion of long-term debt and capital lease obligations	491	710
Total current liabilities	<u>31,637</u>	<u>29,701</u>
Long-term debt and capital lease obligations, net of current portion	11,088	11,050
Fair value of derivative financial instruments	239	-
Deferred income tax liability, net	17,510	17,719
Other liabilities	598	584
Total liabilities	<u>61,072</u>	<u>59,054</u>
Commitments and contingencies		
Common shareholders' equity:		
Common stock, \$0.005 par value. Authorized 50,000,000 shares; issued and outstanding 18,993,053 and 18,972,247	95	95
Additional paid-in capital	137,282	136,972
Accumulated other comprehensive loss	(148)	-
Accumulated deficit	(26,036)	(25,835)
Total common shareholders' equity	<u>111,193</u>	<u>111,232</u>
Total liabilities and common shareholders' equity	<u>\$ 172,265</u>	<u>\$ 170,286</u>

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

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

	Three Months Ended March 31,	
	2014	2013
Sales	\$ 47,017	\$ 39,381
Less excise taxes	3,191	2,772
Net sales	43,826	36,609
Cost of sales	31,986	27,666
Gross profit	11,840	8,943
Selling, general and administrative expenses	12,062	11,760
Operating loss	(222)	(2,817)
Interest expense	(101)	(156)
Other income (expense), net	(6)	(23)
Loss before income taxes	(329)	(2,996)
Income tax benefit	(128)	(1,222)
Net loss	<u>\$ (201)</u>	<u>\$ (1,774)</u>
Basic and diluted net loss per share	<u>\$ (0.01)</u>	<u>\$ (0.09)</u>
Shares used in basic per share calculations	<u>18,976</u>	<u>18,884</u>
Shares used in diluted per share calculations	<u>18,976</u>	<u>18,884</u>

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

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

	Three Months Ended March 31,	
	<u>2014</u>	<u>2013</u>
Net loss	\$ (201)	\$ (1,774)
Unrealized gain (loss) on derivative hedge transactions, net of tax	(148)	57
Comprehensive loss	<u>\$ (349)</u>	<u>\$ (1,717)</u>

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

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

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$ (201)	\$ (1,774)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,096	1,953
Deferred income taxes	(326)	(1,230)
Stock-based compensation	171	102
Excess tax benefit from employee stock plans	(93)	-
Other	(270)	144
Changes in operating assets and liabilities:		
Accounts receivable, net	336	(436)
Inventories	(1,353)	(2,368)
Other current assets	(645)	(297)
Accounts payable and other accrued expenses	2,228	3,352
Accrued salaries, wages and payroll taxes	322	(1,172)
Refundable deposits	268	409
Net cash provided by (used in) operating activities	2,533	(1,317)
Cash flows from investing activities:		
Expenditures for property, equipment and leasehold improvements	(2,352)	(1,902)
Net cash used in investing activities	(2,352)	(1,902)
Cash flows from financing activities:		
Principal payments on debt and capital lease obligations	(152)	(163)
Proceeds from issuances of common stock	46	94
Excess tax benefit from employee stock plans	93	-
Net cash used in financing activities	(13)	(69)
Increase (decrease) in cash and cash equivalents	168	(3,288)
Cash and cash equivalents:		
Beginning of period	2,726	5,013
End of period	<u>\$ 2,894</u>	<u>\$ 1,725</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 124	\$ 182
Cash paid for income taxes, net	74	2
Supplemental disclosure of non-cash information:		
Purchases of Property, equipment and leasehold improvements included in Accounts payable	\$ 508	\$ 540

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, 2013 ("2013 Annual Report"). These consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements are unaudited but, in the opinion of management, reflect all material adjustments necessary to present fairly our consolidated financial position, results of operations and cash flows for the periods presented. All such adjustments were of a normal, recurring nature. The results of operations for such interim periods are not necessarily indicative of the results of operations for the full year.

Note 2. Recent Accounting Pronouncements

ASU 2014-08

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) and Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 amends the definition for what types of asset disposals are to be considered discontinued operations, as well as amends the required disclosures for discontinued operations and assets held for sale. ASU 2014-08 also enhances the convergence of the FASB's and the International Accounting Standard Board's reporting requirements for discontinued operations. ASU 2014-08 is effective for annual periods beginning on or after December 15, 2014, and interim periods within annual periods beginning on or after December 15, 2015. We do not expect the adoption of ASU 2014-08 to have a material effect on our financial position, results of operations or cash flows.

ASU 2013-11

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." ASU 2013-11 amends the guidance related to the presentation of unrecognized tax benefits and allows for the reduction of a deferred tax asset for a net operating loss ("NOL") carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. ASU 2013-11 is effective for annual and interim periods for fiscal years beginning after December 15, 2013, and early adoption is permitted. The adoption of ASU 2013-11 in January 2014 did not have any effect on our financial position, results of operations or cash flows.

Note 3. Cash and Cash Equivalents

Under our cash management system, we utilize a controlled disbursement account to fund cash distribution checks presented for payment by the holder. Checks issued but not yet presented to banks may result in overdraft balances for accounting purposes. As of March 31, 2014, and December 31, 2013, bank overdrafts of \$0.2 million and \$0.7 million, respectively, were included in Accounts payable on our Consolidated Balance Sheets. Changes in book overdrafts from period to period are reported in the Consolidated Statements of Cash Flows as a component of operating activities within Accounts payable and Other accrued expenses.

Note 4. Inventories

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

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

Inventories consisted of the following (in thousands):

	March 31, 2014	December 31, 2013
Raw materials	\$ 4,608	\$ 4,934
Work in process	3,831	3,313
Finished goods	7,476	5,927
Packaging materials	642	442
Promotional merchandise	1,509	1,539
Pub food, beverages and supplies	424	484
	<u>\$ 18,490</u>	<u>\$ 16,639</u>

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

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

In connection with our merger with Kona Brewing Company ("KBC") in 2010, we assumed an obligation for a promissory note payable ("Related Party Note") to a counterparty that was a significant KBC shareholder and remains a shareholder of Craft Brew Alliance, Inc. The Related Party Note is secured by the equipment comprising a photovoltaic cell generation system installed at our brewery located in Kailua-Kona, Hawaii. Accrued interest on the Related Party Note is due and payable monthly at a fixed interest rate of 4.75%, with monthly loan payments of \$16,129. Any unpaid principal and unpaid accrued interest will be due and payable on November 15, 2014. The balance on the Related Party Note was \$119,000 and \$165,000 as of March 31, 2014 and December 31, 2013, respectively.

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

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

	Three Months Ended March 31,	
	2014	2013
Gross sales to A-B	\$ 38,452	\$ 32,266
Margin fee paid to A-B, classified as a reduction of Sales	600	404
Handling, inventory management, royalty and other fees paid to A-B, classified in Cost of sales	93	100

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

	March 31, 2014	December 31, 2013
Amounts due from A-B related to beer sales pursuant to the A-B distributor agreement	\$ 7,980	\$ 8,457
Refundable deposits due to A-B	(1,999)	(2,728)
Amounts due to A-B for services rendered	(1,717)	(1,852)
Net amount due from A-B	<u>\$ 4,264</u>	<u>\$ 3,877</u>

Operating Leases

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

Three Months Ended March 31,	
2014	2013
\$ 32	\$ 32

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):

Three Months Ended March 31,	
2014	2013
\$ 110	\$ 106

Note 6. Derivative Financial Instruments**Interest Rate Swap Contract**

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

We have assessed our vulnerability to certain business and financial risks, including interest rate risk associated with our variable-rate long-term debt. To mitigate this risk, in 2008 we entered into a five-year interest rate swap contract with Bank of America, N.A. ("BofA"), to hedge the variability of interest payments associated with our variable-rate borrowings under our Term Loan with BofA. The swap contract expired July 1, 2013. Effective January 23, 2014, we entered into a new interest rate swap contract with BofA, to hedge the variability of interest payments associated with our variable-rate borrowings under our Term Loan with BofA. The new swap contract terminates on September 29, 2023, and had a total notional value of \$8.0 million as of March 31, 2014. Through this swap agreement, we pay interest at a fixed rate of 2.9% and receive interest at a floating-rate of the one-month LIBOR, which was 0.15% at March 31, 2014. Since the interest rate swap hedges the variability of interest payments on variable rate debt with similar terms, it qualifies for cash flow hedge accounting treatment. As of March 31, 2014, unrealized net losses of \$239,000 were recorded in Accumulated other comprehensive loss as a result of this hedge. The effective portion of the gain or loss on the derivative is reclassified into Interest expense in the same period during which we record Interest expense associated with the Term Loan. There was no hedge ineffectiveness recognized during the first quarter of 2014 or 2013.

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

	Fair Value of Derivative Instrument	
	March 31, 2014	December 31, 2013
Fair value of interest rate swap	\$ (239)	\$ -

The effect of this interest rate swap contract that was accounted for as a derivative instrument on our Consolidated Statements of Operations for the three-month periods ended March 31, 2014 and 2013 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 March 31,			
2014	\$ (239)	Interest expense	\$ 41
2013	\$ 92	Interest expense	\$ 94

See also Note 7.

Note 7. Fair Value Measurements

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

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

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

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

Fair Value at March 31, 2014	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,850	\$ -	\$ -	\$ 2,850
Interest rate swap	-	(239)	-	(239)
	<u>\$ 2,850</u>	<u>\$ (239)</u>	<u>\$ -</u>	<u>\$ 2,611</u>

Fair Value at December 31, 2013	Level 1	Level 2	Level 3	Total
Money market funds	\$ 2,650	\$ -	\$ -	\$ 2,650

We did not have any financial liabilities recorded at fair value on a recurring basis at December 31, 2013.

The fair value of our money market funds was based on statements from our financial institution. The fair value of our interest rate swap was based on quarterly statements from the issuing bank. There were no changes to our valuation techniques during the three months ended March 31, 2014 or 2013.

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

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

	March 31, 2014	December 31, 2013
Fixed-rate debt on balance sheet	\$ 884	\$ 960
Fair value of fixed-rate debt	\$ 909	\$ 985

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

Note 8. Segment Results and Concentrations

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

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

2014	Three Months Ended March 31,		
	Beer Related	Pubs	Total
Net sales	\$ 37,814	\$ 6,012	\$ 43,826
Gross profit	\$ 11,047	\$ 793	\$ 11,840
Gross margin	29.2%	13.2%	27.0%

2013	Three Months Ended March 31,		
	Beer Related	Pubs	Total
Net sales	\$ 31,250	\$ 5,359	\$ 36,609
Gross profit	\$ 8,326	\$ 617	\$ 8,943
Gross margin	26.6%	11.5%	24.4%

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 March 31,	
2014	2013
80.5%	80.9%

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

March 31,	December 31,
2014	2013
72.3%	74.4%

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

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

	Three Months Ended March 31,	
	2014	2013
Stock-based compensation expense	\$ 171	\$ 102

At March 31, 2014, we had total unrecognized stock-based compensation expense of \$1.1 million, which will be recognized over the weighted average remaining vesting period of 2.8 years.

Note 10. Earnings Per Share

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

	Three Months Ended March 31,	
	2014	2013
Weighted average common shares used for basic EPS	18,976	18,884
Dilutive effect of stock-based awards	-	-
Shares used for diluted EPS	18,976	18,884
Stock-based awards not included in diluted per share calculations as they would be antidilutive	126	214

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, 2013 ("2013 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 2013 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. is an independent craft brewing company that was formed through the merger of leading Pacific Northwest craft brewers – Widmer Brothers Brewing and Redhook Ale Brewery – in 2008. Since our formation, we have remained focused on preserving and growing one-of-a-kind craft beers and brands. Today, we are comprised of five unique and pioneering craft beer and cider brands:

- Redhook Ale Brewery founded by Gordon Bowker and Paul Shipman in 1981 in Seattle, Washington;
- Widmer Brothers Brewing founded by brothers Kurt and Rob Widmer in 1984 in Portland, Oregon;
- Kona Brewing Co. founded by father and son team Cameron Healy and Spoon Khalsa in 1994 in Kona, Hawaii;
- Omission Beer, internally developed by our brewing team as the first beer brand specially crafted to remove gluten, and launched in 2012 in Portland, Oregon; and
- Square Mile Cider Company, the first non-beer brand family created by Craft Brew Alliance, and launched in 2013.

Since our formation, we have focused our business activities on satisfying consumers through the brewing, marketing and selling of high-quality craft beers in the United States. Today, as an independent craft brewer, we possess several distinct advantages, unique in the craft beer category. These advantages derive from the combination of: i) our innovative portfolio of distinct craft beer and cider brand families; ii) evolving national brewing footprint with national sales and marketing reach; iii) expertise in developing partnerships and new growth strategies; iv) leadership team with significant beer and growth-company expertise; v) proven ability to manage brand lifecycles, from development to turnaround; and vi) successful track record managing mergers, divestitures and acquisitions.

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

We distribute our beers to retailers through independent wholesalers that are aligned with the Anheuser-Busch, LLC (“A-B”) network. These sales are made pursuant to a Master Distributor Agreement (the “A-B Distributor Agreement”) with A-B. As a result of this distribution arrangement, we believe that, under alcohol beverage laws in a majority of states, these wholesalers would own the exclusive right to distribute our beers in their respective markets if the A-B Distributor Agreement expires or is terminated. Redhook and Widmer Brothers beers are distributed in all 50 states and Kona beers are distributed in 40 states. Omission Beer continues to expand into new markets in the U.S. and internationally. Square Mile is currently available in 10 states in the West. Separate from our A-B wholesalers, we maintain an internal independent sales and marketing organization with resources across the key functions of brand management, field marketing, field sales, and national retail sales.

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

Following is a summary of our financial results:

Three Months Ended March 31,	Net Sales	Net Loss	Number of Barrels Sold
2014	\$43.8 million	\$(0.2) million	182,800
2013	\$36.6 million	\$(1.8) million	155,700

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 March 31,	
	2014	2013
Sales	107.3%	107.6%
Less excise tax	7.3	7.6
Net sales	100.0	100.0
Cost of sales	73.0	75.6
Gross profit	27.0	24.4
Selling, general and administrative expenses	27.5	32.1
Operating loss	(0.5)	(7.7)
Interest expense	(0.2)	(0.4)
Interest and other income (expense), net	0.0	(0.1)
Loss before income taxes	(0.8)	(8.2)
Income tax benefit	(0.3)	(3.3)
Net loss	<u>(0.5)%</u>	<u>(4.8)%</u>

(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 March 31,		
	Beer Related	Pubs	Total
2014			
Net sales	\$ 37,814	\$ 6,012	\$ 43,826
Gross profit	\$ 11,047	\$ 793	\$ 11,840
Gross margin	29.2%	13.2%	27.0%
2013			
Net sales	\$ 31,250	\$ 5,359	\$ 36,609
Gross profit	\$ 8,326	\$ 617	\$ 8,943
Gross margin	26.6%	11.5%	24.4%

Sales by Category

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

Sales by Category	Three Months Ended March 31,		Dollar Change	% Change
	2014	2013		
A-B and A-B related	\$ 37,852	\$ 31,862	\$ 5,990	18.8%
Contract brewing and beer related ⁽¹⁾	3,153	2,160	993	46.0%
Excise taxes	(3,191)	(2,772)	(419)	15.1%
Net beer related sales	37,814	31,250	6,564	21.0%
Pubs ⁽²⁾	6,012	5,359	653	12.2%
Net sales	<u>\$ 43,826</u>	<u>\$ 36,609</u>	<u>\$ 7,217</u>	19.7%

(1) Beer related includes international beer sales.

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

Shipments by Category

Shipments by category were as follows (in barrels):

Three Months Ended March 31,	2014 Shipments	2013 Shipments	Barrel Change	% Change	Change in Depletions⁽¹⁾
A-B and A-B related	167,300	144,800	22,500	15.5%	8%
Contract brewing and beer related ⁽²⁾	13,100	8,500	4,600	54.1%	
Pubs	2,400	2,400	-	-	
Total	<u>182,800</u>	<u>155,700</u>	<u>27,100</u>	17.4%	

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

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

The increase in sales to A-B and A-B related in the three-month period ended March 31, 2014 compared to the same period of 2013 was primarily due to the increase in shipments, a shift in package mix towards bottle, which has a higher selling price per barrel than draft, and price increases.

The increase in contract brewing and beer related sales in the three -month period ended March 31, 2014 compared to the same period of 2013 was primarily due to an increase in international shipments of our beers, which sell at a higher rate per barrel than contract brewing sales, as well as an increase in contract brewing shipments.

Pubs sales increased in the three-month period ended March 31, 2014 compared to the same period of 2013, primarily a result of our Kona Pubs in Hawaii and our Redhook Pub in Woodinville, Washington experiencing increased sales as a result of higher guest counts. The Redhook Pub in Woodinville, Washington was closed for four weeks during the three-month period ended March 31, 2013 for a full remodel and re-opened at the end of May 2013 after being closed for twelve weeks in total.

The increase in excise taxes in the three-month period ended March 31, 2014 compared to the same period of 2013 was due to the increase in shipments.

Shipments by Brand

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

Three Months Ended March 31,	2014 Shipments	2013 Shipments	Increase	% Change	Change in Depletions
Kona	63,800	51,800	12,000	23.2%	11%
Widmer Brothers	57,800	51,400	6,400	12.5%	(1)%
Redhook	50,600	45,000	5,600	12.4%	15%
Total ⁽¹⁾	<u>172,200</u>	<u>148,200</u>	<u>24,000</u>	16.2%	8%

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

The increase in our Kona brand shipments in the three-month period ended March 31, 2014 compared to the same period of 2013 was primarily due to the continued sales growth of our Longboard Lager and Big Wave Golden Ale.

The increase in our Widmer Brothers brand shipments in the three -month period ended March 31, 2014 compared to the same period of 2013 was primarily due to increases in shipments of Omission beer and Upheaval IPA, a new brand for Widmer Brothers, partially offset by a decline in sales of Hefeweizen.

The increase in our Redhook brand shipments in the three-month period ended March 31, 2014 compared to the same period of 2013 was primarily the result of our new KCCO Black Lager, a craft beer developed in partnership with theChive, the world's largest photo entertainment website, as well as further penetration into existing markets, particularly by our Long Hammer IPA, as well as Game Changer Ale, which was co-developed with Buffalo Wild Wings.

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The difference between the percentage change in shipments and percentage change in depletions for the three-month period ended March 31, 2014 compared to the same period of 2013 was a result of continuing the optimization of our supply chain processes, including brewing, to more closely align with the seasonality of our beer sales.

Shipments by Package

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

Three Months Ended March 31,	2014		2013	
	Shipments	% of Total	Shipments	% of Total
Draft	45,300	26.3%	47,300	31.9%
Packaged	126,900	73.7%	100,900	68.1%
Total	172,200	100.0%	148,200	100.0%

The shift in package mix from draft to packaged in the three-month period ended March 31, 2014 compared to the same period of 2013 was primarily the result of the increases in volumes on our Kona, Omission and Redhook packaged beers and lower volumes on our Widmer Brothers draft beer. Increased competition across the industry, as a result of both the entry of large, multi-national brewers into the craft beer segment and the significant increase in small, local breweries nationally, is putting pressure on on-premise draft sales.

Cost of Sales

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

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

	Three Months Ended March 31,		Dollar	
	2014	2013	Change	% Change
Beer Related	\$ 26,767	\$ 22,924	\$ 3,843	16.8%
Pubs	5,219	4,742	477	10.1%
Total	\$ 31,986	\$ 27,666	\$ 4,320	15.6%

The increase in Beer Related Cost of sales in the three-month period ended March 31, 2014 compared to the same period of 2013 was primarily due to the increase in shipments discussed above, as well as the mix shift from draft to packaged product as the per barrel equivalent cost of packaged is higher than draft. These cost increases were partially offset by increased efficiencies, primarily through better capacity utilization, of our breweries.

Pubs Cost of sales increased in the three-month period ended March 31, 2014 compared to the same period of 2013 primarily due to the increase in sales and cost increases across various categories, including labor, merchandise and administrative costs.

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

	Three Months Ended March 31,	
	2014	2013
Capacity utilization	68.0%	57.9%

Gross Profit

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

	Three Months Ended March 31,		Dollar Change	% Change
	2014	2013		
Beer Related	\$ 11,047	\$ 8,326	\$ 2,721	32.7%
Pubs	793	617	176	28.5%
Total	<u>\$ 11,840</u>	<u>\$ 8,943</u>	<u>\$ 2,897</u>	32.4%

The increase in gross profit in the three-month period ended March 31, 2014 compared to the same period of 2013 was primarily due to the increase in shipment volumes and the improved operating efficiencies of our breweries discussed above.

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

	Three Months Ended March 31,	
	2014	2013
Beer Related	29.2%	26.6%
Pubs	13.2%	11.5%
Overall	27.0%	24.4%

The increase in the Beer Related gross margin rate in the three-month period ended March 31, 2014 compared to the same period of 2013 was primarily due to the improved operating efficiencies of our breweries as a result of better capacity utilization, as discussed above. The increase in the Pubs gross margin rate in the three-month period ended March 31, 2014 was primarily due to the 2013 closure and post-renovation ramp-up of our Woodinville, Washington Pub, as discussed above.

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 March 31,		Dollar Change	% Change
	2014	2013		
As a % of Net sales	\$ 12,062	\$ 11,760	\$ 302	2.6%
	27.5%	32.1%		

The increase in SG&A for the three-month period ended March 31, 2014 compared to the same period of 2013 was primarily due to the timing of certain promotional activity spending and the planned increase in SG&A spending for 2014 when compared to 2013. SG&A decreased as a percentage of Net sales in the three-month period ended March 31, 2014 compared to the same period of 2013 primarily due to the increase in our Net sales.

Interest Expense

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

Three Months Ended		Dollar	% Change
March 31,			
2014	2013	Change	
\$ 101	\$ 156	\$ (55)	(35.3)%

	Three Months Ended March 31,	
	2014	2013
Average debt outstanding	\$ 11,667	\$ 13,000
Average interest rate	2.06%	1.91%

The decrease in Interest expense in the three-month period ended March 31, 2014 compared to the same period of 2013 was due to lower average outstanding borrowings.

Income Tax Provision

Our effective income tax rate was 38.9% for the first three months of 2014 and 40.8% in the first three months of 2013. The effective income tax rates reflect the impact of non-deductible expenses, primarily state and local taxes, meals and entertainment expenses and tax credits.

Liquidity and Capital Resources

We have required capital primarily for the construction and development of our production breweries, to support our expansion and growth plans and to fund our working capital needs. Historically, we have financed our capital requirements through cash flows from operations, bank borrowings and the sale of common and preferred stock. We anticipate meeting our obligations for the twelve months beginning April 1, 2014 primarily from cash flows generated from operations. In addition, we may borrow under our line of credit facility as the need arises. Capital resources available to us at March 31, 2014 included \$2.9 million of Cash and cash equivalents and \$22 million available under our line of credit facility.

We had \$6.4 million of working capital and our debt as a percentage of total capitalization (total debt and common shareholders' equity) was 9.4% at March 31, 2014.

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

	Three Months Ended	
	March 31,	
	2014	2013
Cash flows provided by (used in) operating activities	\$ 2,533	\$ (1,317)
Cash flows used in investing activities	(2,352)	(1,902)
Cash flows used in financing activities	(13)	(69)
Increase (decrease) in Cash and cash equivalents	\$ 168	\$ (3,288)

Cash provided by operating activities of \$2.5 million in the first three months of 2014 resulted from our Net loss of \$(0.2) million, net non-cash expenses of \$1.6 million and changes in our operating assets and liabilities as discussed in more detail below.

Accounts receivable, net, decreased \$0.4 million to \$11.0 million at March 31, 2014 compared to \$11.4 million at December 31, 2013. This decrease was primarily due to a \$0.5 million decrease in our receivable from A-B, which totaled \$8.0 million at March 31, 2014. Historically, we have not had collection problems related to our accounts receivable.

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Inventories increased \$1.9 million to \$18.5 million at March 31, 2014 compared to \$16.6 million at December 31, 2013, primarily to support an expected increase in shipment volume in the quarter ending June 30, 2014.

Accounts payable increased \$2.0 million to \$16.7 million at March 31, 2014 compared to \$14.7 million at December 31, 2013, primarily due to increased inventory purchases to support our expected increased level of sales.

As of March 31, 2014, 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 \$41,000, tax-effected; and
- federal alternative minimum tax (“AMT”) credit carry forwards of \$408,000.

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

Capital expenditures of \$2.5 million in the first three months of 2014 were primarily directed to beer production capacity and efficiency improvements and Pubs remodeling. As of March 31, 2014 we had \$0.5 million of the \$2.5 million of expenditures recorded in Accounts payable on our Consolidated Balance Sheets, compared to \$0.3 million of capital expenditures recorded in Accounts payable at December 31, 2013. We anticipate capital expenditures of approximately \$15 million to \$20 million in 2014 primarily for capacity and efficiency improvements, quality initiatives and restaurant and retail.

We have a loan agreement (as amended, the “Loan Agreement”) with Bank of America, N.A., which is presently comprised of a \$22.0 million revolving line of credit (“Line of Credit”), including provisions for cash borrowings and up to \$2.5 million notional amount of letters of credit, and an \$10.7 million term loan (“Term Loan”). We may draw upon the Line of Credit for working capital and general corporate purposes. At March 31, 2014, we had no borrowings outstanding under the Line of Credit and we were in compliance with the financial covenants associated with the Loan Agreement.

Critical Accounting Policies and Estimates

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

Our critical accounting policies, as described in our 2013 Annual Report, relate to goodwill, indefinite-lived intangible assets, long-lived assets, refundable deposits on kegs, revenue recognition and deferred taxes. There have been no changes to our critical accounting policies since December 31, 2013.

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 2013 Annual Report on Form 10-K, which was filed with the SEC on March 6, 2014.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

During the first quarter of 2014, no changes in our internal control over financial reporting were identified in connection with the evaluation required by Exchange Act Rule 13a-15 or 15d-15 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

There have been no changes in our reported risk factors and no new risk factors have been identified since the filing of our 2013 Annual Report on Form 10-K, which was filed with the SEC on March 6, 2014.

Item 6. Exhibits

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

10.1	Form of Performance Share Award Agreement for Executive Officers
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 May 7, 2014
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CRAFT BREW ALLIANCE, INC.

May 7, 2014

BY: /s/ Joseph K. O'Brien
Joseph K. O'Brien
Controller and Chief Accounting Officer

**FORM OF PERFORMANCE SHARE AWARD
AGREEMENT FOR EXECUTIVE OFFICERS**

THIS PERFORMANCE SHARE AWARD AGREEMENT (this "Agreement") is entered into effective as of _____, 20__ (the "Grant Date"), by **CRAFT BREW ALLIANCE, INC.**, a Washington corporation (the "Company"), and _____ (the "Participant").

RECITALS

A. The Company has adopted the [2010/2014] Stock Incentive Plan (the "Plan"). Capitalized terms that are used but not defined in this Agreement will have the meanings given those terms in the Plan.

B. The Committee has designated the Participant to receive an Award of Performance Units (referred to in this Agreement as Performance Shares) under the Plan.

NOW, THEREFORE, the Company and the Participant agree as follows:

1. Performance Share Award. The Company grants to the Participant an Award (the "Award") of up to _____ shares of Common Stock (the "Performance Shares") for the period beginning on the Grant Date and ending on March 31, 20__ (the "Performance Period"). The actual number of Performance Shares that will be issued to the Participant pursuant to the Award will be determined as described below, based on the actual results of the Company for the three fiscal years ending December 31, 20__ (the "Measurement Period"). The Award is subject to all of the provisions of the Plan and the terms and conditions specified in this Agreement.

2. Performance Goals. As long as the Participant remains employed by the Company, the Performance Shares earned under this section will vest on the last day of the Performance Period specified above (the "Vesting Date"), subject to the written certification by the Committee of the achievement of the Performance Goals set forth on Exhibit A. The number of Performance Shares, if any, that may be earned based on the Performance Goals will be as set forth in Schedule 1, subject to the Flex set forth in Schedule 2 for performance above or below 100% of the respective Performance Goal.

Schedule 1. Award Earned Relative to Performance Goals.

Performance Goal	% of Award Earned

Schedule 2. Flex. For each 1% shortfall as to achievement of a given Performance Goal up to 20%, the number of Performance Shares earned is reduced by 3.5% (the "Cutback"). No Performance Shares will be earned with respect to a given Performance Goal as to which achievement is below 80%. For each 1% overachievement of a Performance Goal, the number of Performance Shares earned will be increased by 6%. In no event will the number of shares earned under either Performance Goal be greater than 125% of the number of shares expected to be earned at 100% attainment of the Performance Goal.

Achievement Threshold	Performance Shares Earned
104.167%	125%
104%	124%
103%	118%
102%	112%
101%	106%
100%	100%
99%	96.5%
98%	93%
97%	89.5%
96%	86%
95%	82.5%
94%	79%
93%	75.5%
92%	72%
91%	68.5%
90%	65%
89%	61.5%
88%	58%
87%	54.5%
86%	51%
85%	47.5%
84%	44%
83%	40.5%
82%	37%
81%	33.5%
80%	30%
Below 80%	0

3. Settlement of Award. The Award will be settled on a settlement date selected by the Committee as soon as practicable after the end of the Performance Period, and in no case later than 30 days following the Vesting Date, by the delivery to the Participant of an unrestricted certificate for all the Performance Shares vested under this Agreement.

4. Other Documents. The Participant will be required to furnish to the Company such other documents or representations as the Company may require to assure compliance with applicable laws and regulations as a condition of the Company's obligation to issue any Performance Shares.

5. Forfeiture. Except to the extent otherwise determined by the Committee in its sole discretion pursuant to the provisions of Section 10 of the Plan, the Participant's rights in all Performance Shares subject to this Agreement that have not vested will be forfeited, and the Award will be canceled and the Participant will not receive any Performance Shares or other payment with respect to the Award, upon termination of the Participant's employment (or business relationship) with the Company and its Affiliates for any reason prior to the Vesting Date.

6. **Capitalization Adjustments.** Capitalization adjustments to the Performance Shares, if any, will be made as required by Section 10.1 of the Plan.

7. **Rights as Shareholder.** Prior to the issuance of Performance Shares in settlement of the Award, the Participant will have no rights as a shareholder of the Company with respect to the Award or the Performance Shares.

8. **Tax Withholding and Reimbursement.** Participant must satisfy all federal, state and local tax withholding obligations relating to the settlement of the Award. The Company is authorized to require the Participant to remit to the Company, or to withhold from the Participant's other compensation, any withholding and payroll taxes imposed on the Company in connection with or with respect to the settlement of the Award. Subject to the prior written approval of the Committee in its sole discretion, the Participant, by written notice to the Committee which complies with any applicable timing restrictions imposed pursuant to Rule 16b-3 under the Exchange Act, may elect to have withholding taxes satisfied by withholding Common Stock from the shares of Common Stock otherwise issuable to the Participant in settlement of the Award.

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

10. **Code Section 409A.** This Agreement is intended to be exempt from the requirements of Code Section 409A by reason of all payments under this Agreement being "short-term deferrals" within the meaning of Treas. Reg. § 1.409A-1(b)(4). All provisions of this Agreement shall be interpreted in a manner consistent with preserving this exemption.

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

"Company"

CRAFT BREW ALLIANCE, INC.

By _____

[Name]

[Title]

"Participant"

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: May 7, 2014

By: /s/ Andrew J. Thomas
Andrew J. Thomas
Chief Executive Officer

CERTIFICATION

I, Mark D. Moreland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Craft Brew Alliance, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 7, 2014

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

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

In connection with the Quarterly Report of Craft Brew Alliance, Inc. (the “Registrant”) on Form 10-Q for the quarter ended March 31, 2014, as filed with the Securities and Exchange Commission on May 7, 2014 (the “Report”), Andrew J. Thomas, the Chief Executive Officer of the Registrant, and Mark D. Moreland, the Chief Financial Officer and Treasurer of the Registrant, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

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

Date: May 7, 2014

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

BY: /s/ Mark D. Moreland
Mark D. Moreland
Chief Financial Officer and Treasurer
(Principal Financial Officer)



FOR IMMEDIATE RELEASE

CRAFT BREW ALLIANCE ANNOUNCES FIRST QUARTER 2014 RESULTS

*Reports Net Sales Growth of 20% and Increase in Gross Margin;
Confirms 2014 Financial Outlook*

Portland, Ore. (May 7, 2014) – Craft Brew Alliance, Inc. (“CBA”) (Nasdaq: BREW), an independent craft brewing company, today reported its financial results for the first quarter ended March 31, 2014. The results for the first quarter are in line with management’s expectations, and the Company confirms previously reported 2014 guidance.

Significant first quarter 2014 financial highlights include:

- Net sales and total beer shipments increased 20% and 17%, respectively, in the first quarter due to the continued organic growth of our complementary portfolio of time-tested and new beers such as Widmer Brothers Upheaval IPA, Redhook KCCO Black Lager, Kona Longboard Lager and Omission Beer.
- Depletion volume grew 8% over the first quarter of 2013, which we attribute to the continued activation of our distinctive portfolio strategy.
- Our first quarter gross margin rate increased 260 basis points to 27.0% in the first quarter, compared to 24.4% for the first quarter last year, which reflects the improved efficiencies of our breweries, primarily due to better capacity utilization.
- Capacity utilization increased to 68% in the first quarter of 2014 compared to 58% in the first quarter of 2013.
- As a percentage of net sales, our selling, general and administrative expense (“SG&A”) decreased to 28% in the first quarter of 2014 from 32% in the first quarter of 2013, primarily due to the increase in our net sales.
- Diluted loss per share for the first quarter of 2014 improved to \$(0.01), compared to \$(0.09) for the same period last year.

“Our solid first quarter performance is in line with our expectations and represents an important step forward as we continue to accelerate the power of CBA’s advantaged strategy,” said Andy Thomas, Chief Executive Officer of CBA. “This past quarter is the first under the company’s new executive leadership team, and the initial progress we made in continuing to grow revenue, synchronize our supply chain and increase our gross margin reflects the strong impact this team will make in the future.”

Thomas continued, “In the first quarter, our double digit growth in net sales reflects the realization of a disciplined approach to our portfolio strategy, with particular momentum from Kona, Redhook and Omission. Widmer Brothers kicked off 30th Anniversary celebrations this year – becoming the second brand in our family to pass the 30-year mile marker. We believe that all of the anniversary activities planned throughout the year will lead to continued excitement and progress as Widmer Brothers enters its next chapter.”

Components of anticipated 2014 financial results and developments

We are confirming previously issued guidance regarding our anticipated full year 2014 results, as follows:

- Depletion growth estimate of 7% to 11%, reflecting the continued strength of the Kona, Redhook and Omission brands and ongoing stabilization of the Widmer Brothers brand.
- Average price increases of approximately 1% to 2%.
- Growth in contract brewing revenue of 25% to 50% as a result of new partnerships.
- Gross margin rate of 28.5% to 30.5%. As we continue to optimize our brewing locations and improve our capacity utilization and efficiency, we expect our gross margin rate to expand 500-700 basis points over the next five years.
- SG&A expense of \$52 million to \$54 million, primarily reflecting reinvestment into our sales and marketing infrastructure.
- Capital expenditures of approximately \$15 million to \$20 million, continuing our investments in capacity and efficiency improvements, quality initiatives and restaurant and retail.

“Our sales, margin and earnings performance for the quarter were consistent with our expectations and are consistent with our previously reported full year guidance,” said Chief Financial Officer Mark Moreland. “While the favorable comparisons to last year are buoyed by last year’s supply chain imbalances, we are pleased with this quarter’s continued strength in our brands’ depletions and our realization of brewery performance efficiencies. Lastly, with regards to the annual guidance, we will continue to focus on full-year estimates with the understanding that quarter-to-quarter performance will exhibit volatility.”

Forward-Looking Statements

Statements made in this press release that state the Company's or management's intentions, hopes, beliefs, expectations or predictions of the future, including depletions and sales growth, the level or effect of SG&A expense, the amount of capital spending, and the benefits or improvements to be realized from strategic initiatives and capital projects, are forward-looking statements. It is important to note that the Company's actual results could differ materially from those projected in such forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained from time to time in the Company's SEC filings, including, but not limited to, the Company's report on Form 10-K for the year ended December 31, 2013. Copies of these documents may be found on the Company's website, www.craftbrew.com, or obtained by contacting the Company or the SEC.

About Craft Brew Alliance

CBA is an independent, publicly traded craft brewing company that was formed through the merger of leading Pacific Northwest craft brewers – Widmer Brothers Brewing and Redhook Ale Brewery – in 2008. With an eye toward preserving and growing one-of-a-kind craft beers and brands, CB A welcomed Kona Brewing Company in 2010, and then launched Omission beer in 2012 and Square Mile Cider Company in 2013.

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

Craft Brew Reports First Quarter 2014 Results and Confirms Full-Year 2014 Guidance

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

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

	Three Months Ended	
	March 31,	
	2014	2013
Sales	\$ 47,017	\$ 39,381
Less excise taxes	3,191	2,772
Net sales	43,826	36,609
Cost of sales	31,986	27,666
Gross profit	11,840	8,943
As percentage of net sales	27.0%	24.4%
Selling, general and administrative expenses	12,062	11,760
Operating loss	(222)	(2,817)
Interest expense	(101)	(156)
Other income (expense), net	(6)	(23)
Loss before income taxes	(329)	(2,996)
Income tax benefit	(128)	(1,222)
Net loss	<u>\$ (201)</u>	<u>\$ (1,774)</u>
Loss per share:		
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.09)</u>
Weighted average shares outstanding:		
Basic	18,976	18,884
Diluted	18,976	18,884
Total shipments (in barrels):		
Core Brands	172,200	148,200
Contract Brewing	10,600	7,500
Total shipments	<u>182,800</u>	<u>155,700</u>
Change in depletions ⁽¹⁾	<u>8%</u>	<u>5%</u>

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

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

	March 31,	
	2014	2013
Current assets:		
Cash and cash equivalents	\$ 2,894	\$ 1,725
Accounts receivable, net	11,035	10,948
Inventories	18,490	13,998
Deferred income tax asset, net	1,553	1,336
Other current assets	4,047	4,107
Total current assets	38,019	32,114
Property, equipment and leasehold improvements, net	103,917	103,272
Goodwill	12,917	12,917
Intangible and other non-current assets, net	17,412	17,481
Total assets	\$ 172,265	\$ 165,784
Current liabilities:		
Accounts payable	\$ 16,749	\$ 16,120
Accrued salaries, wages and payroll taxes	4,938	4,095
Refundable deposits	7,774	8,203
Other accrued expenses	1,685	1,103
Current portion of long-term debt and capital lease obligations	491	645
Total current liabilities	31,637	30,166
Long-term debt and capital lease obligations, net	11,088	12,246
Other long-term liabilities	18,347	16,713
Total common shareholders' equity	111,193	106,659
Total liabilities and common shareholders' equity	\$ 172,265	\$ 165,784

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

	Three Months Ended	
	March 31,	
	2014	2013
Cash Flows From Operating Activities:		
Net loss	\$ (201)	\$ (1,774)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,096	1,953
Deferred income taxes	(326)	(1,230)
Other, including stock-based compensation and excess tax benefit from employee stock plans	(192)	246
Changes in operating assets and liabilities:		
Accounts receivable	336	(436)
Inventories	(1,353)	(2,368)
Other current assets	(645)	(297)
Accounts payable and other accrued expenses	2,228	3,352
Accrued salaries, wages and payroll taxes	322	(1,172)
Refundable deposits	268	409
Net cash provided by (used in) operating activities	2,533	(1,317)
Cash Flows from Investing Activities:		
Expenditures for property, equipment and leasehold improvements	(2,352)	(1,902)
Net cash used in investing activities	(2,352)	(1,902)
Cash Flows from Financing Activities:		
Principal payments on debt and capital lease obligations	(152)	(163)
Issuance of common stock	46	94
Excess tax benefit from employee stock plans	93	-
Net cash used in financing activities	(13)	(69)
Increase (decrease) in cash and cash equivalents	168	(3,288)
Cash and cash equivalents, beginning of period	2,726	5,013
Cash and cash equivalents, end of period	\$ 2,894	\$ 1,725

Supplemental Disclosures Regarding Non-GAAP Financial Information

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

	Three Months Ended March 31,	
	2014	2013
Net loss	\$ (201)	\$ (1,774)
Interest expense	101	156
Income tax provision	(128)	(1,222)
Depreciation expense	2,036	1,890
Amortization expense	60	63
Stock-based compensation	171	102
Loss on disposal of assets	23	29
Adjusted EBITDA	<u>\$ 2,062</u>	<u>\$ (756)</u>

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

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

