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, 2016

OR

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

For the transition period from ________________ to _______________

Commission File Number 0-26542

CRAFT BREW ALLIANCE, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Large Accelerated Filer ☐	Accelerated Filer ☒
Non-accelerated Filer ☐ (Do not check if a smaller reporting company)	Smaller Reporting Company ☐

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

The number of shares of the registrant's common stock outstanding as of April 26, 2016 was 19,187,777.

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)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 1,110	$ 911
Accounts receivable, net	17,263	18,926
Inventory, net	20,033	18,300
Deferred income tax asset, net	3,872	1,905
Other current assets	2,618	2,439
Total current assets	44,896	42,481
Property, equipment and leasehold improvements, net	120,689	116,867
Goodwill	12,917	12,917
Intangible and other assets, net	18,008	18,069
Total assets	$ 196,510	$ 190,334
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 19,452	$ 17,100
Accrued salaries, wages and payroll taxes	5,247	5,468
Refundable deposits	6,340	6,559
Other accrued expenses	1,550	2,009
Current portion of long-term debt and capital lease obligations	602	507
Total current liabilities	33,191	31,643
Long-term debt and capital lease obligations, net of current portion	26,913	18,991
Fair value of derivative financial instruments	902	569
Deferred income tax liability, net	19,355	19,669
Other liabilities	806	724
Total liabilities	81,167	71,596
Commitments and contingencies		
Common shareholders' equity:		
Common stock, $0.005 par value. Authorized 50,000,000 shares; issued and outstanding 19,179,006 and 19,179,006	96	96
Additional paid-in capital	139,554	139,534
Accumulated other comprehensive loss	(558)	(352)
Accumulated deficit	(23,749)	(20,540)
Total common shareholders' equity	115,343	118,738
Total liabilities and common shareholders' equity	$ 196,510	$ 190,334

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, 2016	Three Months Ended March 31, 2015
Sales	$ 41,793	$ 44,619
Less excise taxes	2,571	2,910
Net sales	39,222	41,709
Cost of sales	30,505	30,547
Gross profit	8,717	11,162
Selling, general and administrative expenses	13,924	12,953
Operating loss	(5,207)	(1,791)
Interest expense	(147)	(121)
Other income, net	6	6
Loss before income taxes	(5,348)	(1,906)
Income tax benefit	(2,139)	(743)
Net loss	$ (3,209)	$ (1,163)
Basic and diluted net loss per share	$ (0.17)	$ (0.06)
Shares used in basic and diluted per share calculations	19,179	19,115

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

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

	Three Months Ended March 31,	
	2016	**2015**
Net loss	$ (3,209)	$ (1,163)
Unrealized loss on derivative hedge transactions, net of tax	(206)	(79)
Comprehensive loss	$ (3,415)	$ (1,242)

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, 2016	2015
Cash flows from operating activities:		
Net loss	$ (3,209)	$ (1,163)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,615	2,288
Loss on sale or disposal of Property, equipment and leasehold improvements	2	215
Deferred income taxes	(2,155)	(757)
Stock-based compensation	20	280
Other	552	(140)
Changes in operating assets and liabilities:		
Accounts receivable, net	1,663	(2,449)
Inventories	(2,188)	(4,491)
Other current assets	(178)	9
Accounts payable and other accrued expenses	1,732	4,409
Accrued salaries, wages and payroll taxes	(221)	88
Refundable deposits	(328)	(149)
Net cash used in operating activities	(1,695)	(1,860)
Cash flows from investing activities:		
Expenditures for Property, equipment and leasehold improvements	(5,651)	(3,228)
Proceeds from sale of Property, equipment and leasehold improvements	—	385
Net cash used in investing activities	(5,651)	(2,843)
Cash flows from financing activities:		
Principal payments on debt and capital lease obligations	(225)	(122)
Net borrowings under revolving line of credit	7,770	4,900
Net cash provided by financing activities	7,545	4,778
Increase in Cash and cash equivalents	199	75
Cash and cash equivalents:		
Beginning of period	911	981
End of period	$ 1,110	$ 1,056
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 132	$ 148
Cash paid for income taxes, net	62	40
Supplemental disclosure of non-cash information:		
Purchase of Property, equipment and leasehold improvements with capital lease	$ 473	$ —
Purchases of Property, equipment and leasehold improvements included in Accounts payable at end of period	1,495	819

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

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

Note 1. Basis of Presentation

The accompanying consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 Annual Report”). These consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements are unaudited but, in the opinion of management, reflect all material adjustments necessary to present fairly our consolidated financial position, results of operations and cash flows for the periods presented. All such adjustments were of a normal, recurring nature. The results of operations for such interim periods are not necessarily indicative of the results of operations for the full year.

Note 2. Recent Accounting Pronouncements

ASU 2016-10
In April 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-10, "Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing." ASU 2016-10 clarifies aspects of Topic 606 related to identifying performance obligations and the licensing implementation guidance, while retaining the related core principles for those areas. The effective date and transition requirements for ASU 2016-10 are the same as the effective date and transition requirements in Topic 606 (ASU 2014-09). While we do not expect the adoption of ASU 2016-10 to have a material effect on our business, we are still evaluating any potential impact that adoption of ASU 2016-10 may have on our financial position, results of operations or cash flows.

ASU 2016-09
In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation - Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 simplifies the accounting for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods.We are still evaluating any potential impact that adoption of ASU 2016-09 may have on our financial position, results of operations or cash flows.

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

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

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

ASU 2015-15
In August 2015, the FASB issued ASU 2015-15, “Interest - Imputation of Interest (Subtopic 835-30).” ASU 2015-15 provides guidance as to the presentation and subsequent measurement of debt issuance costs associated with line of credit arrangements. The amendments are effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The amendments are to be applied on a retrospective basis, wherein the balance sheet of each individual period presented is adjusted to reflect the period-specific effects of applying the new guidance. The adoption of ASU 2015-15 did not have a material effect on our financial position, results of operations or cash flows.

ASU 2015-14
In August 2015, the FASB issued ASU No. 2015-14, "Revenue From Contracts With Customers (Topic 606)." The amendments in this ASU defer the effective date of ASU 2014-09. Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are still evaluating the effect of the adoption of ASU 2014-09.

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

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

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

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

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

As part of our cash management system, we use a controlled disbursement account to fund cash distribution checks presented for payment by the holder. Checks issued but not yet presented to banks may result in overdraft balances for accounting purposes. As of March 31, 2016 and December 31, 2015, bank overdrafts of $1.5 million and $2.2 million, respectively, were included in Accounts payable on our Consolidated Balance Sheets. Changes in bank overdrafts from period to period are reported in the Consolidated Statements of Cash Flows as a component of operating activities within Accounts payable and Other accrued expenses.

Note 4. Inventories

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

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

Inventories consisted of the following (in thousands):

	March 31, 2016	December 31, 2015
Raw materials	$ 5,768	$ 5,468
Work in process	3,673	3,822
Finished goods	7,399	6,109
Packaging materials	1,086	727
Promotional merchandise	1,431	1,477
Pub food, beverages and supplies	676	697
	$ 20,033	$ 18,300

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

Note 5. Related Party Transactions

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

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Gross sales to A-B and Ambev	$ 32,256	$ 35,666
Margin fee paid to A-B, classified as a reduction of Sales	358	538
Inventory management and other fees paid to A-B, classified in Cost of sales	87	90

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

	March 31, 2016	December 31, 2015
Amounts due from A-B related to beer sales pursuant to the A-B distributor agreement	$ 11,084	$ 12,576
Refundable deposits due to A-B	(2,286)	(2,291)
Amounts due to A-B for services rendered	(1,635)	(1,645)
Net amount due from A-B	$ 7,163	$ 8,640

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

Three Months Ended March 31,	
2016	2015
$ 30	$ 30

We lease or sublease certain office space and the land underlying the brewery and pub location in Kona, Hawaii, from a company whose owners include a shareholder who owns more than 5% of our common stock and a former nonexecutive officer whose employment ended in 2015. 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,	
2016	2015
$ 129	$ 132

Note 6. Derivative Financial Instruments

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

We have assessed our vulnerability to certain business and financial risks, including interest rate risk associated with our variable-rate long-term debt. To mitigate this risk, effective January 23, 2014, we entered into an interest rate swap contract with Bank of America, N.A. ("BofA") for 75% of the Term Loan balance, to hedge the variability of interest payments associated with our variable-rate borrowings under our Term Loan with BofA. The current swap contract terminates on September 29, 2023, and had a total notional value of $7.5 million as of March 31, 2016. Through this swap agreement, we pay interest at a fixed rate of 2.86% and receive interest at a floating-rate of the one-month LIBOR, which was 0.44% at March 31, 2016.

On November 25, 2015, we entered into a $9.1 million notional amount interest rate swap agreement effective January 4, 2016, 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 0.44% at March 31, 2016.

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

As of March 31, 2016, unrealized net losses of $902,000 were recorded in Accumulated other comprehensive loss as a result of these hedges. The effective portion of the gain or loss on the derivatives is reclassified into Interest expense in the same period during which we record Interest expense associated with the Term Loan. There was no hedge ineffectiveness during the first quarter of 2016 or 2015.

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

Fair Value of Derivative Instruments

	March 31, 2016	December 31, 2015
Fair value of interest rate swaps	$ (902)	$ (569)

The effect of our interest rate swap contracts that were accounted for as a derivative instrument on our Consolidated Statements of Operations for the three-month periods ended March 31, 2016 and 2015 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,			
2016	$ (333)	**Interest expense**	$ 63
2015	$ (128)	**Interest expense**	$ 52

See also Note 7.

Note 7. Fair Value Measurements

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

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

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

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

Fair Value at March 31, 2016	Level 1	Level 2	Level 3	Total
Interest rate swaps	$ —	$ (902)	$ —	$ (902)
Fair Value at December 31, 2015				
Interest rate swaps	$ —	$ (569)	$ —	$ (569)

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

The fair value of our interest rate swaps were based on quarterly statements from the issuing bank. There were no changes to our valuation techniques during the first quarter of 2016.

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

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

	March 31, 2016	December 31, 2015
Fixed-rate debt on balance sheet	$ 1,021	$ 676
Estimated fair value of fixed-rate debt	$ 1,055	$ 706

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

Note 8. Segment Results and Concentrations

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

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

	Three Months Ended March 31,		
2016	**Beer Related**	**Pubs**	**Total**
Net sales	$ 32,479	$ 6,743	$ 39,222
Gross profit	$ 7,854	$ 863	$ 8,717
Gross margin	24.2%	12.8%	22.2%
2015			
Net sales	$ 35,558	$ 6,151	$ 41,709
Gross profit	$ 10,566	$ 596	$ 11,162
Gross margin	29.7%	9.7%	26.8%

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

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

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

Three Months Ended March 31,	
2016	**2015**
76.3%	78.7%

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

March 31, 2016	December 31, 2015
64.2%	66.4%

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

Stock-Based Compensation Expense

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

	Three Months Ended March 31,	
	2016	**2015**
Cost of sales	14	29
Selling, general and administrative expense	6	251
Total stock-based compensation expense	$ 20	$ 280

At March 31, 2016, we had total unrecognized stock-based compensation expense of $1.3 million, which will be recognized over the weighted average remaining vesting period of 2.9 years.

Note 10. Earnings Per Share

Because we were in a loss position for all periods presented, there is no difference between the number of shares used for the basic and diluted per share calculations.

	Three Months Ended March 31,	
	2016	2015
Stock-based awards not included in diluted per share calculations as they would be antidilutive (in thousands)	253	165

Note 11. Agreement with Pabst Northwest Brewing Company

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

In conjunction with the brewing agreements, we granted Pabst an option to purchase the Woodinville brewery and adjacent pub, as well as related assets (together, the "Property"), at any time prior to termination of the brewing agreement. The purchase price of the Property will be $25.0 million if Pabst exercises the option during the first year of the agreement, $26.0 million if exercise occurs during the second year of the agreement, and $28.0 million if Pabst exercises the option during the third year of the agreement and on or before the close of business on December 31, 2018. Under the option agreement, Pabst conducted an additional diligence review of environmental and title issues relating to the Property, and, upon completion, did not exercise its right to terminate either the brewery agreements or the option agreement. If Pabst does not exercise its option to purchase the Property, it may be required to pay us a termination fee.

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

This quarterly report on Form 10-Q includes forward-looking statements. Generally, the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “will,” “may,” “plan” and similar expressions or their negatives identify forward-looking statements, which generally are not historical in nature. These statements are based upon assumptions and projections that we believe are reasonable, but are by their nature inherently uncertain. Many possible events or factors could affect our future financial results and performance, and could cause actual results or performance to differ materially from those expressed, including those risks and uncertainties described in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 Annual Report”), and those described from time to time in our future reports filed with the Securities and Exchange Commission (the “SEC”). Caution should be taken not to place undue reliance on these forward-looking statements, which speak only as of the date of this quarterly report.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto included herein, as well as the audited Consolidated Financial Statements and Notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our 2015 Annual Report. The discussion and analysis includes period-to-period comparisons of our financial results. Although period-to-period comparisons may be helpful in understanding our financial results, we believe that they should not be relied upon as an accurate indicator of future performance.

Overview

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

Craft Brew Alliance was formed in 2008 through the merger of Redhook Brewery and Widmer Brothers Brewing, the two largest craft brewing pioneers in the Northwest at the time. Since then, the Alliance has continued to grow, welcoming Kona Brewing Co. in 2008, and expanding with innovative category leaders and strategic partners. Today, we are home to three of the earliest trail blazers in craft beer: Redhook Ale Brewery, Washington’s largest craft brewery, founded in 1981; Widmer Brothers Brewing, Oregon's largest craft brewery, founded in 1984; and Kona Brewing Company, Hawaii's oldest and largest craft brewery, founded in 1994. As part of Craft Brew Alliance, these craft brewing legends have expanded their reach across the U.S. and approximately 30 international markets, while remaining deeply rooted to their local communities.

In addition to growing and nurturing distinctive brands steeped in local heritage, Craft Brew Alliance is committed to developing innovative new category leaders, such as Omission Beer, which is the #1 beer in the gluten-free beer segment, Square Mile Cider, the #1 local hard cider in the Pacific Northwest, and Resignation Brewery's line of KCCO beers in partnership with theChive.com, which represents the first-ever virtual brewery conceived by an online media platform.

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

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

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

We distribute our beers to retailers through wholesalers that are aligned with the Anheuser-Busch, LLC ("A-B") network. These sales are made pursuant to a Master Distributor Agreement (the "A-B Distributor Agreement") with A-B. As a result of this distribution arrangement, we believe that, under alcohol beverage laws in a majority of states, these wholesalers would own the exclusive right to distribute our beers in their respective markets if the A-B Distributor Agreement expires or is terminated. Kona, Redhook and Widmer Brothers beers are distributed in all 50 states. Omission Beer continues to expand into new markets in the U.S. and internationally, while Square Mile Cider is currently available in 12 states in the West. In December 2015 we partnered with Ambev, the Brazilian subsidiary of Anheuser-Busch InBev SA, to distribute Kona beers into Brazil. Separate from our A-B wholesalers, we maintain an internal independent sales and marketing organization with resources across the key functions of brand management, field marketing, field sales, and national retail sales.

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

Following is a summary of our financial results:

Three Months Ended March 31,	Net sales	Net loss	Number of Barrels Sold
2016	$39.2 million	$(3.2) million	149,600
2015	$41.7 million	$(1.2) million	167,700

Agreement with Pabst Northwest Brewing Company

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

Results of Operations

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

	Three Months Ended March 31,	
	2016	2015
Sales	106.6 %	107.0 %
Less excise taxes	(6.6)	(7.0)
Net sales	100.0	100.0
Cost of sales	77.8	73.2
Gross profit	22.2	26.8
Selling, general and administrative expenses	35.5	31.1
Operating loss	(13.3)	(4.3)
Interest expense	(0.4)	(0.3)
Other income, net	—	—
Loss before income taxes	(13.6)	(4.6)
Income tax benefit	(5.5)	(1.8)
Net loss	(8.2)%	(2.8)%

(1) Percentages may not add due to rounding.

Segment Information

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

	Three Months Ended March 31,		
2016	Beer Related	Pubs	Total
Net sales	$ 32,479	$ 6,743	$ 39,222
Gross profit	$ 7,854	$ 863	$ 8,717
Gross margin	24.2%	12.8%	22.2%
2015			
Net sales	$ 35,558	$ 6,151	$ 41,709
Gross profit	$ 10,566	$ 596	$ 11,162
Gross margin	29.7%	9.7%	26.8%

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, 2016	2015	Dollar Change	% Change
A-B and A-B related[(1)]	$ 31,898	$ 35,128	$ (3,230)	(9.2)%
Contract brewing and beer related[(2)]	3,152	3,340	(188)	(5.6)%
Excise taxes	(2,571)	(2,910)	339	(11.6)%
Net beer related sales	32,479	35,558	(3,079)	(8.7)%
Pubs[(3)]	6,743	6,151	592	9.6 %
Net sales	$ 39,222	$ 41,709	$ (2,487)	(6.0)%

(1) A-B and A-B related includes domestic and international sales of our owned brands sold through A-B and Ambev, as well as non-owned brands sold pursuant to master distribution agreements.
(2) Beer related includes international beer sales not sold through A-B or Ambev, as well as fees earned through an alternating proprietorship agreement.
(3) Pubs sales include sales of promotional merchandise and sales of beer directly to customers.

Shipments by Category

Shipments by category were as follows (in barrels):

Three Months Ended March 31,	2016 Shipments	2015 Shipments	Decrease	% Change	Change in Depletions[(1)]
A-B and A-B related[(2)]	135,100	151,400	(16,300)	(10.8)%	(3)%
Contract brewing and beer related[(3)]	12,400	14,200	(1,800)	(12.7)%	
Pubs	2,100	2,100	—	— %	
Total	149,600	167,700	(18,100)	(10.8)%	

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

The decrease in sales to A-B and A-B related in the three-month period ended March 31, 2016 compared to the same period of 2015 was primarily due to a decrease in domestic shipments, partially offset by the initial shipments to Ambev. The decrease in sales to A-B and A-B related in the three months ended March 31, 2016 were partially offset by an increase in pricing. The decrease in shipments was due to lower shipments of Redhook and Widmer Brothers brands as a result of the shift in marketing focus to their home markets of Washington and Oregon, respectively, as well as our Omission brand. The decreases were partially offset by the continued successful focus on national distribution of Kona. During the first quarter of 2016, we closed our largest and most efficient brewery, located in Portland, for approximately two weeks as we installed new equipment to further increase capacity and efficiency. This closure resulted in a temporary decrease of shipments across our brands in the first quarter of 2016 compared to the same period of 2015.

The decrease in Contract brewing and beer related sales in the three-month period ended March 31, 2016 compared to the same period of 2015 was primarily due to a decrease in our contract brewing volume, partially offset by an increase in international shipments of our beers, which sell at a higher rate per barrel than contract brewing sales, as we expanded into additional countries. The decrease in Contract brewing and beer related was also partially offset by alternating proprietorship fees earned from Appalachian Mountain Brewing Company for leasing the Portsmouth Brewery, which began during the first quarter of 2016.

Pubs sales increased in the three-month period ended March 31, 2016 compared to the same period of 2015, primarily as a result of higher guest counts at our Kona Pub on the island of Oahu in Hawaii, partially offset by a decrease in guest counts at our Redhook Pub in Woodinville, Washington. The Hawaii pubs also have higher revenue per guest than the Redhook and Widmer Brothers pubs. The increase in Pubs sales at our Kona Pub on Oahu was primarily due to the closure of the pub in the first quarter of 2015 for three weeks for a full remodel.

Excise taxes vary directly with the volume of beer shipped.

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

Three Months Ended March 31,	2016 Shipments	2015 Shipments	Increase (Decrease)	% Change	Change in Depletions
Kona	70,600	63,200	7,400	11.7 %	19 %
Widmer Brothers	33,400	40,400	(7,000)	(17.3)%	(14)%
Redhook	26,200	39,700	(13,500)	(34.0)%	(22)%
Omission	8,700	10,800	(2,100)	(19.4)%	(10)%
All other(1)	3,500	4,400	(900)	(20.5)%	(22)%
Total(2)	142,400	158,500	(16,100)	(10.2)%	(3)%

(1) All other includes the shipments and depletions from our Square Mile and Resignation brand families, as well as the non-owned Appalachian Mountain Brewing brand family, shipped by us pursuant to a distribution agreement.
(2) 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, 2016 compared to the same period of 2015 was primarily due to an increase in domestic and international shipments, primarily led by demand for Big Wave Golden Ale.

The decrease in our Redhook brand shipments in the three-month period ended March 31, 2016 compared to the same period of 2015 was primarily due to a shift in marketing focus to its home market of Washington, led by decreased shipments of ESB and Longhammer IPA.

The decrease in our Widmer Brothers brand shipments in the three-month period ended March 31, 2016 compared to the same period of 2015 was primarily due to a shift in marketing focus to its home market of Oregon, led by a decrease in Hefeweizen brand shipments.

The decrease in our Omission brand shipments in the three-month period ended March 31, 2016 compared to the same period of 2015 was primarily due to lower demand for the Pale Ale style.

The decrease in our All other shipments in the three-month period ended March 31, 2016 compared to the same period of 2015 was primarily due to decreases in our Resignation and Square Mile brand families, partially offset by the shipment volume related to our new distribution agreement with Appalachian Mountain Brewing.

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 March 31,	2016		2015	
	Shipments	% of Total	Shipments	% of Total
Draft	37,500	26.3%	39,500	24.9%
Packaged	104,900	73.7%	119,000	75.1%
Total	142,400	100.0%	158,500	100.0%

The shift in package mix from packaged to draft in the three-month period ended March 31, 2016 compared to the same period of 2015 was primarily the result of a greater reduction in our packaged shipments compared to our draft shipments due to the temporary closure of our Portland brewery.

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

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Dollar Change	% Change
Beer Related	$ 24,625	$ 24,992	$ (367)	(1.5)%
Pubs	5,880	5,555	325	5.9 %
Total	$ 30,505	$ 30,547	$ (42)	(0.1)%

The decrease in Beer Related Cost of sales in the three-month period ended March 31, 2016 compared to the same period of 2015 was primarily due to the decrease in shipment volume and component material costs on a per barrel basis. The decrease in Cost of sales was partially offset by an increase in brewery costs per barrel at our owned breweries, primarily due to a decrease in brewing volume as a result of the temporary closure of our most efficient brewery, located in Portland, Oregon.

Pubs Cost of sales increased in the three-month period ended March 31, 2016 compared to the same period of 2015, primarily due to an increase in Sales at our Kona Pub on the island of Oahu.

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Capacity utilization	52%	58%

In June 2014, we initiated full-scale brewing with our brewing partner in Memphis, Tennessee. This partnership provides us scalable capacity and we anticipate producing up to 100,000 barrels at this location in 2016.

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Dollar Change	% Change
Beer Related	$ 7,854	$ 10,566	$ (2,712)	(25.7)%
Pubs	863	596	267	44.8 %
Total	$ 8,717	$ 11,162	$ (2,445)	(21.9)%

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Beer Related	24.2%	29.7%
Pubs	12.8%	9.7%
Overall	22.2%	26.8%

The decrease in Gross profit in the three-month period ended March 31, 2016 compared to the same period of 2015 was primarily due to the increase in brewery costs per barrel at our owned breweries, as we temporarily closed our most efficient brewery in Portland, Oregon, and a decrease in shipment volume. In the three-month period ended March 31, 2016, the decrease in Gross profit was partially offset by the decrease in component material costs and price increases.

The decrease in the Beer Related gross margin in the three-month period ended March 31, 2016 compared to the same period of 2015 was primarily due to higher brewery costs per barrel, partially offset by the lower component material costs per barrel and improved unit pricing.

The increase in the Pubs gross margin in the three-month period ended March 31, 2016 compared to the same period of 2015 was primarily due to the closure of our Pub on the island of Oahu in the first quarter of 2015.

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, 2016	Three Months Ended March 31, 2015	Dollar Change	% Change
	$ 13,924	$ 12,953	$ 971	7.5%
As a % of Net sales	35.5%	31.1%		

The increase in SG&A for the three-month period ended March 31, 2016 compared to the same period of 2015 was primarily due to an increase in emerging business and international support, brand marketing, and employee-related costs. SG&A increased as a percentage of Net sales in the three-month period ended March 31, 2016 compared to the same period of 2015 primarily due to the decline in Net sales along with the increase in SG&A expense.

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

Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Dollar Change	% Change
$ 147	$ 121	$ 26	21.5%

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Average debt outstanding	$ 22,931	$ 18,152
Average interest rate	1.46%	1.53%

The increase in Interest expense in the three-month periods ended March 31, 2016 compared to the same period of 2015 was primarily due to the increase in our average debt outstanding. Our average debt outstanding increased as we have borrowed on our line of credit facility to support our expansion and growth plans, and to fund our working capital needs.

Income Tax Provision
Our effective income tax rate was 40.0% for the first three months of 2016 and 39.0% in the first three months of 2015. The effective income tax rates reflect the impact of non-deductible expenses (primarily meals and entertainment expenses), state and local taxes, tax credits, and income excluded from taxation under the domestic production activities exclusion.

Liquidity and Capital Resources

We have required capital primarily for the construction and development of our production breweries, to support our expansion and growth plans, and to fund our working capital needs. Historically, we have financed our capital requirements through cash flows from operations, bank borrowings and the sale of common and preferred stock. We anticipate meeting our obligations for the twelve months beginning April 1, 2016 primarily from cash flows generated from operations and borrowing under our line of credit facility as the need arises. Capital resources available to us at March 31, 2016 included $1.1 million of Cash and cash equivalents and $23.5 million available under our line of credit facility.

At March 31, 2016 and December 31, 2015, we had $11.7 million and $10.8 million of working capital, respectively, and our debt as a percentage of total capitalization (total debt and common shareholders' equity) was 19.3% and 14.1%, respectively.

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

	Three Months Ended March 31,	
	2016	2015
Net cash used in operating activities	$ (1,695)	$ (1,860)
Net cash used in investing activities	(5,651)	(2,843)
Net cash provided by financing activities	7,545	4,778
Increase in Cash and cash equivalents	$ 199	$ 75

Cash used in operating activities of $1.7 million in the first three months of 2016 resulted from our Net loss of $3.2 million, partially offset by net non-cash expenses of $1.0 million and changes in our operating assets and liabilities as discussed in more detail below.

Accounts receivable, net, decreased $1.6 million to $17.3 million at March 31, 2016 compared to $18.9 million at December 31, 2015. This decrease was primarily due to the timing of shipments and a $1.5 million decrease in our receivable from A-B, which totaled $11.1 million at March 31, 2016. Historically, we have not had collection problems related to our accounts receivable.

Inventories increased $1.7 million to $20.0 million at March 31, 2016 compared to $18.3 million at December 31, 2015. The increase from December 31, 2015 is due to the timing of shipments in the fourth quarter of 2015 and first quarter of 2016.

Accounts payable increased $2.4 million to $19.5 million at March 31, 2016 compared to $17.1 million at December 31, 2015, primarily due to timing of payments related to capital expenditures, raw and component materials and marketing.

As of March 31, 2016, we had the following net operating loss carryforwards (“NOLs”) and federal credit carry forwards available to offset payment of future income taxes:

- federal NOLs of $5.5 million, or $1.9 million tax effected;
- state NOLs of $245,000, tax-effected;
- federal alternative minimum tax (“AMT”) credit carry forwards of $343,000; and
- federal insurance contributions act ("FICA") credit carry forwards of $44,000, tax-effected.

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

Capital expenditures of $5.7 million in the first three months of 2016 were primarily directed to beer production capacity and efficiency improvements. As of March 31, 2016, we had an additional $1.5 million of expenditures recorded in Accounts payable on our Consolidated Balance Sheets, compared to $1.3 million at December 31, 2015. We anticipate capital expenditures of approximately $19 million to $23 million in 2016 primarily for capacity and efficiency improvements, quality initiatives and restaurant and retail. In 2015, we began investing approximately $10 million in our Oregon Brewery to expand capacity to 750,000 barrels per year, with expected completion in the first half of 2017. Also beginning in 2015 through expected completion in early 2018, we are investing approximately $20 million in a new Hawaiian Brewery to expand capacity to 100,000 barrels per year.

We have a loan agreement (as amended, the “Loan Agreement”) with Bank of America, N.A., which consists of a $40.0 million revolving line of credit (“Line of Credit”), including provisions for cash borrowings and up to $2.5 million notional amount of letters of credit, and a $9.9 million term loan (“Term Loan”). 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 March 31, 2016, we had $16.5 million of borrowings outstanding under the Line of Credit and $9.9 million outstanding under the Term Loan.

Under the Loan Agreement, interest accrues at an annual rate based on the London Inter-Bank Offered Rate (“LIBOR”) Daily Floating Rate plus a marginal rate. The marginal rate varies from 0.75% to 1.75% for the Line of Credit and Term Loan based on our funded debt ratio. At March 31, 2016, our marginal rate was 0.75%, resulting in an annual interest rate of 1.19%.

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

Critical Accounting Policies and Estimates

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

Our critical accounting policies, as described in our 2015 Annual Report, relate to goodwill, indefinite-lived intangible assets, long-lived assets, refundable deposits on kegs, revenue recognition and deferred taxes. There have been no changes to our critical accounting policies since December 31, 2015.

Seasonality

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

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our reported market risks and risk management policies since the filing of our 2015 Annual Report on Form 10-K, which was filed with the SEC on March 2, 2016.

Item 4. Controls and Procedures

Disclosure Controls and Procedures
Our management, including our Chief Executive Officer and our Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) or 15d-15(e)) under the Securities Exchange Act of 1934 ("Exchange Act") as of the end of the period covered by this Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. While reasonable assurance is a high level of assurance, it does not mean absolute assurance. Disclosure controls and internal control over financial reporting cannot prevent or detect all errors, misstatements or fraud. In addition, the design of a control 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 2016, no changes in our internal control over financial reporting were identified in connection with the evaluation required by Exchange Act Rule 13a-15 or 15d-15 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1A. Risk Factors

There have been no changes in our reported risk factors and no new risk factors have been identified since the filing of our 2015 Annual Report on Form 10-K, which was filed with the SEC on March 2, 2016.

Item 6. Exhibits

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

10.1	Separation Agreement between Kurt D. Widmer and Craft Brew Alliance, Inc., dated as of February 24, 2016.
10.2†	Option and Agreement of Purchase and Sale dated as of January 8, 2016, by and between Craft Brew Alliance, Inc. and Pabst Northwest Brewing Company, LLC.
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 4, 2016
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

† Confidential treatment has been requested with respect to omitted portions of this exhibit. A complete copy of the agreement, including the redacted terms, has been separately filed with the Securities and Exchange Commission.

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 4, 2016	By: /s/ Joseph K. Vanderstelt
	Joseph K. Vanderstelt
	Chief Financial Officer

Exhibit 10.1

SEPARATION AGREEMENT

The parties to this Separation Agreement (this "Agreement") are Kurt D. Widmer ("Widmer") and Craft Brew Alliance, Inc. (the "Company"). This Agreement is effective as of February 24, 2016 (the "Effective Date").

RECITALS

A. Widmer was employed by the Company pursuant to a letter agreement dated May 26, 2010 (the "Employment Letter").

B. Widmer voluntarily terminated his employment with the Company effective January 8, 2016 (the "Termination Date").

C. The Company wishes to provide Widmer with a severance benefit in exchange for his agreement to refrain from becoming employed by or associated with any competitor.

AGREEMENT

The Company and Widmer agree as follows:

1. Widmer's voluntary termination of employment was not (A) a termination by the Company or (B) a "good reason" termination under the Employment Letter, and Widmer is not entitled to the severance and other benefits provided for in the Employment Letter.

2. Widmer's employment with the Company ended on the Termination Date. The Company has paid or will pay Widmer all earned and unpaid wages and all unused Paid Time Off accrued through the Termination Date as provided in the Employment Letter. The Company will accomplish this payment by mailing to Widmer a check for such amounts to the home address he has on record with the Company. Widmer recognizes that the payment will be reduced by regular deductions and withholdings.

3. Subject to the terms and conditions of this Agreement, including without limitation the covenant not to compete set forth in Paragraph 5 below, the Company will pay Widmer a severance benefit (“Severance”) as follows:

(A) On April 1, 2016, $127,793.00;

(B) On April 3, 2017, $64,400.00; and

(C) On April 2, 2018, $64,400.00.

The Company will accomplish the payment of the Severance by mailing to Widmer a check for such amounts to the home address he has on record with the Company. Widmer recognizes that the payment will be reduced by required deductions and withholdings.

4. If Widmer fails to execute the Release Agreement attached hereto as Exhibit A within 30 days following the Effective Date, all of Widmer's rights with respect to the Severance will be forfeited.

5. Until the Severance has been fully paid, Widmer covenants and agrees to not become employed by or associated with (including without limitation as a shareholder, member, partner, director, officer, manager, investor, organizer, founder, employee, consultant, agent, or representative) a brewing or other company that the Company determines, in its reasonable discretion, is a competitor of the Company or Anheuser-Busch, LLC; provided, however, that for the avoidance of doubt, competitors for purposes of this Agreement do not include wineries or distillers that do not also manufacture or sell malt beverages. In the event Widmer fails to comply with the foregoing covenant, as the sole remedy of the Company, Widmer's Severance will terminate as of the effective date of such employment or association. Widmer acknowledges and agrees that the foregoing noncompetition covenant is not subject to ORS 653.295 because it is not an agreement entered into between an employer and an employee.

6. If the Compensation Committee of the Board of Directors determines, in its reasonable discretion, that Widmer has breached this Agreement in any way, violated any policies applicable to emeritus directors, or engaged in conduct that may reflect poorly on the Company’s reputation, Widmer's Severance will terminate as of the date of such determination.

7. The Severance supersedes and is lieu of any other severance, bonus, incentive, or other compensation to which Widmer may be entitled, including, without limitation, under the Employment Letter.

8. If the Company receives a reference request from a prospective employer of Widmer, the Company will respond consistent with its press releases regarding Widmer. Widmer is permitted to seek references from individual employees of the Company.

9. Widmer will make no negative or disparaging oral or written remarks or statements about the Company, its officers, directors, or employees, or its products to any person or entity, either publicly or privately, including, without limitation, on any social networking, blog, or similar Internet site. Company will make no negative or disparaging oral or written remarks or statements about Widmer to any person or entity, either publicly or privately, including, without limitation, on any social networking, blog, or similar Internet site.

10. Widmer acknowledges and reaffirms Widmer's continuing obligations under any Confidentiality Agreement that Widmer entered into in connection with Widmer's employment with the Company, and Widmer will strictly comply with the terms of such Confidentiality Agreement.

11. Except as otherwise provided in this Agreement, including without limitation Paragraph 10 above, this Agreement constitutes the entire agreement of the parties concerning the subject matter of this Agreement.

12. The parties acknowledge that the only consideration for this Agreement is the consideration expressly described herein, that each party fully understands the meaning and intent of this Agreement, and that this Agreement has been executed voluntarily.

13. For purposes of Section 409A of the Internal Revenue Code ("Section 409A), each payment under this Agreement will be considered a "separate payment" and not one of a series of payments. The Severance payment under Section 3(A) of this Agreement is intended to be exempt from the requirements of Section 409A of the Internal Revenue Code by reason of being a "short-term deferral" within the meaning of Treasury Regulation Section 1.409A-1(b)(4). All provisions of this Agreement shall be interpreted in a manner consistent with preserving this exemption. All other payments of Severance under this Agreement are intended to comply with the requirements of Section 409A, and will be interpreted and administered consistently with the requirements of Section 409A, including regulations and other guidance issued thereunder. As used in this Agreement, "termination of employment" and similar terms mean "separation from service" as defined and interpreted in Section 409A, Treasury Regulation 1.409A-1(h), or in subsequent regulations or other guidance issued by the Internal Revenue Service. Any payment made under this Agreement that is subject to Section 409A may not be accelerated or delayed except as specifically permitted under Section 409A. In no event will Company be liable for any tax, interest, or penalties that may be imposed on Widmer under Section 409A or any damages for failing to comply with Section 409A.

14. If any litigation, suit, or proceeding is instituted to enforce, interpret, or rescind this Agreement, or otherwise in connection with the subject matter of this Agreement, the prevailing party shall be entitled to recover, in addition to any other relief awarded, its attorneys' fees and costs at trial, any appeal, collection of the award, or the enforcement of any order.

EMPLOYEE	CRAFT BREW ALLIANCE, INC.
/s/ Kurt D. Widmer	By: /s/ Andrew J. Thomas
Kurt D. Widmer	Name: Andrew J. Thomas
Date: February 26, 2016	Title: President and Chief Executive Officer
	Date: February 26, 2016

Exhibit A

RELEASE AGREEMENT

The parties to this Release Agreement ("Agreement") are Kurt D. Widmer ("Employee") and Craft Brew Alliance, Inc. (the "Company").

1. Employee's employment with the Company terminated, effective January 8, 2016, and Employee and the Company have entered into a Separation Agreement dated February 24, 2016 (the “Separation Agreement”).

2. Employee completely releases and forever discharges the Company and each of its past, present, and future related entities and each of their respective past, present, and future members, managers, partners, shareholders, officers, directors, agents, employees, attorneys, insurers, successors, and assigns (the “Released Parties”) from any and all claims, rights, demands, actions, liabilities, and causes of action of every kind and character, whether known or unknown, matured or unmatured, which Employee may now have or has ever had, arising from or in any way related to Employee's employment with the Company, including without limitation the conditions of employment or the termination thereof, whether based on tort, contract (express or implied), other common law, or any federal, state, or local statute, regulation, ordinance, or other law, including, but not limited to, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, the Age Discrimination in Employment Act (the "ADEA"), and any similar state or local law, based on any act or omission prior to Employee's execution of this Agreement, except with respect to the Company’s obligations to pay severance under the Separation Agreement.

3. The Company specifically denies any liability or wrongdoing whatsoever. Neither this Agreement nor any of its provisions, terms, or conditions constitute an admission of liability or wrongdoing or may be offered or received in evidence in any action or proceeding as evidence of an admission of liability or wrongdoing.

4. Employee understands that he is releasing and waiving any ADEA claims he may have against the Released Parties, as described in Section 2. Employee acknowledges that the Company is hereby advising him in writing to consult with an attorney before signing this Agreement and that he is being given at least 21 days to consider whether to execute this Agreement. Employee understands that he may sign this Agreement before the expiration of the 21-day period. By executing this Agreement on the date set forth below, Employee has knowingly and voluntarily waived the balance of that period, if any. Employee may revoke this Agreement by written notice, received by Stacia Bird at Craft Brew Alliance, 929 N. Russell Street, Portland, Oregon 97227, within seven days

following the date he signs this Agreement. If not revoked under the preceding sentence, this Agreement becomes effective and enforceable on the eighth day following the date Employee signs this Agreement.

EMPLOYEE

/s/ Kurt D. Widmer
Kurt D. Widmer
Date: February 26, 2016

CRAFT BREW ALLIANCE, INC.

By: /s/ Andrew J. Thomas
Name: Andrew J. Thomas
Title: President and Chief Executive Officer
Date: February 26, 2016

OPTION AND
AGREEMENT OF PURCHASE AND SALE

THIS **OPTION AND AGREEMENT OF PURCHASE AND SALE** (this "**Agreement**") is entered into as of January 8, 2016 (the "**Effective Date**"), by and between CRAFT BREW ALLIANCE, INC., a Washington corporation ("**Owner**"), and PABST NORTHWEST BREWING COMPANY, LLC, a Delaware limited liability company dba Rainier Brewing Company ("**PBC**").

RECITALS

A. Owner owns fee simple title to the real property described in attached Exhibit A, together with all improvements situated on such real property, and operates a commercial brewery and restaurant on such real property. The real property and improvements, together with all other rights, hereditaments, and tenements appurtenant to the real property and improvements, are collectively referred to herein as the "**Property**."

B. Owner owns certain assets and other rights described in attached Exhibit B associated with and used or useful in the operation of its commercial brewery and restaurant (the "**Associated Assets**"). The Property and the Associated Assets are sometimes collectively referred to herein as the "**Brewery**."

C. PBC desires to acquire an option to purchase the Brewery from Owner and Owner has agreed to grant PBC an exclusive option to purchase the Brewery, on the terms and conditions of this Agreement.

The parties therefore agree as follows:

AGREEMENT

1. Option

1.1 **Grant**. In consideration of and in connection with the parties' entry into and performance under an Alternating Proprietorship Agreement and Services Agreement, each between Owner and PBC and dated the same date as this Agreement, and any related agreements between Owner and PBC (such agreements, the "**Brewing Agreements**"), Owner grants to PBC the sole and exclusive option to purchase the Brewery (the "**Option**") in the manner and for the price stated in this Agreement.

1.2 **Option Term**. The term of the Option (the "**Term**") begins immediately upon the Effective Date and the Option must be exercised, if at all, prior to 5:00 p.m. Pacific time on December 31, 2018 (the "**Expiration Date**"), unless earlier terminated as provided in this Agreement.

1.3 **Exercise of Option**. The Option may be exercised, if at all, by written notice (the "**Exercise Notice**") delivered by PBC to Owner, stating that PBC has elected to exercise the Option. The Exercise Notice may be delivered and the Option exercised at any time prior to the Expiration Date. Upon exercise of the Option, PBC will be obligated to purchase the Brewery from Owner, and Owner will be obligated to sell the Brewery to PBC, for the price and in the manner described in this Agreement.

1.4 **Failure to Exercise Option; Payment to Owner**. If PBC fails for any reason to exercise the Option during the Term or this Agreement is earlier terminated, PBC will have no further claim against or interest in the Brewery and will provide Owner with any instruments that Owner reasonably requests to remove from the public record any cloud on title to the Property or the Associated Assets that is attributable to the Option. In addition, if the Option expires unexercised, or this Agreement earlier terminates under circumstances in which an Option Termination Fee (as hereinafter defined) is required to be paid under Section 9.2 below, PBC will pay to Owner, on or before January 31st of the year following such expiration or earlier termination, a termination fee calculated as follows (the "**Option Termination Fee**"):

1.4.1 If the average annual volume produced, sold, and shipped under the Brewing Agreements is less than *** bbls per year, the Option Termination Fee will be $***.

1.4.2 If the average annual volume produced, sold, and shipped under the Brewing Agreements is **** bbls per year or greater but less than *** bbls per year, the Option Termination Fee will be $***.

1.4.3 If the average annual volume that is produced, sold, and shipped under the Brewing Agreements is *** bbls per year or greater, the Option Termination Fee will be $***.

If the Option Termination Fee is due following a termination, average annual volume will be determined based on the average monthly volume for all completed months beginning with the first full month of production under the Brewing Agreements, multiplied by twelve. For the avoidance of any doubt, any volume produced for PBC by Owner or any affiliate of Owner under a co-packing or similar arrangement shall be included as if produced under the Brewing Agreements.

*** Confidential information has been omitted and filed with the Securities and Exchange Commission pursuant to a confidential treatment request.

2. Option Exercise Price

2.1 Purchase Price. The purchase price for the Brewery (the "**Purchase Price**") will be calculated as follows:

2.1.1 If the Option is exercised prior to the first anniversary of the Effective Date, the Purchase Price shall be $25,000,000;

2.1.2 If the Option is exercised after the first anniversary of the Effective Date but prior to the second anniversary thereof, the Purchase Price shall be $26,000,000; and

2.1.3 If the Option is exercised after the second anniversary of the Effective Date but prior to the Expiration Date, the Purchase Price shall be $28,000,000.

2.2 Payment of Purchase Price. The Purchase Price for the Brewery will be payable in cash at the Closing (as defined in Section 3.1), provided that PBC will be entitled to a credit at Closing in the amount paid for the Optionee Policy.

3. Closing

3.1 Closing Date, Time and Place. Closing of the sale and purchase of the Brewery (the "**Closing**") will occur on a mutually agreeable date (the "**Closing Date**") which must be not less than 120 days from the date of exercise (unless waived by Owner) and not more than 150 days from the date of exercise (unless waived by PBC) at the offices of the Brewery, unless otherwise agreed. Closing will be effective as of the close of business on the Closing Date, unless otherwise agreed. In all events the Closing must occur prior to May 15, 2019. An escrow (the "**Escrow**") for the Closing will be established at the office of Chicago Title Insurance Company (the "**Title Company**"), at 701 5th Avenue, Suite 2300, Seattle, Washington.

3.2 Closing Obligations. Not less than two (2) business days prior to the Closing Date, Owner and PBC will deposit the following documents and funds into the Escrow established with the Title Company, and the Title Company will close Escrow in accordance with the terms of this Agreement and the instructions of Owner and PBC not inconsistent with the terms hereof.

3.2.1 Owner. Owner will deposit the following:

3.2.1.1 The Deed (as defined in Section 3.6), duly executed and acknowledged;

3.2.1.2 A Bill of Sale and Assignment in a commercially reasonable form to be agreed consistent with the terms of this Agreement (the "**Bill of Sale**"), executed on behalf of Owner, to effect transfer of the Associated Assets to PBC;

3.2.1.3 An Assignment and Assumption of Contracts in a commercially reasonable form to be agreed consistent with the terms of this Agreement (the "**Assignment and Assumption of Contracts**"), executed on behalf of Owner;

3.2.1.4 A duly executed and completed Real Estate Excise Tax Affidavit;

3.2.1.5 A duly executed affidavit certifying that Owner is not a foreign person, trust, partnership, or corporation in compliance with the requirements of IRC § 1445(b);

3.2.1.6 A certificate executed on behalf of Owner in a form reasonably acceptable to PBC affirming as of the Closing Date that all of Owner's representations and warranties under this Agreement are true and correct in all material respects;

3.2.1.7 Such documents as PBC or the Title Company may reasonably require to evidence the authority of Owner to consummate the transactions contemplated by this Agreement; and

3.2.1.8 Such other documents, including without limitation escrow instructions that are reasonably required of Owner to close the sale and purchase in accordance with this Agreement.

3.2.5 **PBC.** PBC will deposit the following:

3.2.2.1 The cash payment of the Purchase Price calculated in accordance with Section 2, plus PBC's share of closing costs;

3.2.2.2 The Assignment and Assumption of Contracts, executed on behalf of PBC;

3.2.2.3 A duly executed and completed Real Estate Excise Tax Affidavit;

3.2.2.4 A certificate executed on behalf of PBC in a form reasonably acceptable to Owner affirming as of the Closing Date that all of PBC's representations and warranties under this Agreement are true and correct in all material respects;

3.2.2.5 Such documents as Owner or the Title Company may reasonably require to evidence the authority of PBC to consummate the transactions contemplated by this Agreement; and

3.2.2.6 Any other documents and funds, including without limitation escrow instructions that are reasonably required of PBC to close the sale and purchase in accordance with this Agreement.

3.3 **Closing Costs**. PBC and Owner each will pay one-half of the escrow fee of the Title Company with respect to the Closing. Owner will pay the premium for the Title Policy (hereinafter defined) that Owner is obligated to provide to PBC and the cost of any title curative endorsements and all conveyance or excise taxes attributable to the granting of the Option and the purchase and sale of the Property. PBC will pay all sales and use taxes attributable to the purchase and sale of the Associated Assets and all fees for recording the Deed, and any additional premium attributable to any extended coverage owner's policy of title insurance and any non-title curative endorsements requested by PBC in accordance with the terms of this Agreement.

3.4 **Expenses; Prorations**.

3.4.1 **Payment of Expenses.** All items of expense incurred by Owner with respect to the operations of the Brewery through the Closing Date will be paid by Owner at or as due after Closing, without proration. PBC will furnish to Owner for payment, promptly following receipt, any bills to be paid by Owner. Items of expense incurred after the Closing Date with respect to the Brewery will be paid by PBC.

3.4.2 **Prorations.** All real and personal property taxes and assessments payable with respect to the tax year in which Closing occurs and all gas, electric and other utility charges for which separate billings cannot be arranged will be prorated between Owner and PBC as of the close of business on the Closing Date based on the number of days in the billing period before and after the Closing Date. Any items to be prorated that are not ascertainable on the Closing Date shall be reconciled by the parties outside of Escrow within 120 days after the Closing Date.

3.5 **Title Insurance Policy**. The parties will cause the Title Company, at PBC's expense, to issue its standard form optionee's ALTA Title Insurance Policy dated as of the Effective Date, in an amount specified by PBC (but not more than $4,000,000), insuring PBS's rights to acquire the Property under this Agreement, subject only to the Permitted Exceptions and standard printed exceptions (together with endorsements thereto, the "**Optionee Policy**"). Owner will cause the Title Company to issue its standard form Owner's ALTA Title Insurance Policy, dated as of the Closing Date, in the amount of the Purchase Price, insuring fee simple title to the Property is vested in PBC, subject only to the Permitted Exceptions (as defined in Section 7.1.4) and standard printed exceptions (together with endorsements thereto, the "**Owner's Policy**"). PBC may request that the Title Company issue an extended coverage policy of title insurance and may request endorsements to such policy, but the receipt of extended coverage and endorsements will be at PBC's sole cost and will not be a condition to or requirement of Closing (such policy of title insurance, together with such extensions and endorsements as are issued, is hereinafter referred to as the "**Title Policy**"); *provided, however,* Owner shall execute and deliver to the Title Company any and all customary certificates and affidavits required in connection with the Title Policy.

3.6 **Conveyance**. At the Closing, Owner will execute, acknowledge, and deliver to PBC a Bargain and Sale Deed conveying the Property to PBC, subject only to the Permitted Exceptions (such instrument, the "**Deed**").

4. Warranties and Representations of Owner

Owner warrants and represents to PBC that the following matters (the "**Warranties**") are true and correct as of the Effective Date, and will remain true and correct as of the date of the Exercise Notice and the Closing Date, subject only to any exceptions disclosed to PBC in a written disclosure schedule (the "**Disclosure Schedule**") delivered to PBC on or before the Effective Date and any exceptions by reason of the operation of the last sentence of Sections 7.1.1 and 7.2.1 of this Agreement, if any:

4.1 **Organization; Authority**. Owner is a corporation validly existing and in good standing under the laws of Washington. Owner has full power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. Owner has duly approved this Agreement and has duly authorized the execution and delivery of this Agreement and the performance of its obligations hereunder. This Agreement, when executed, will constitute a valid and binding obligation of Owner, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditor's rights generally, and general principles of equity.

4.2 **No Conflicts; Consents**. The execution, delivery, and performance by Owner of this Agreement, and the consummation of the transactions contemplated hereby, do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of the organizational documents of Owner; (b) conflict with or result in a violation or breach of any provision of any law, rule or regulation applicable to Owner or the operation of the Brewery; or (c) require the consent, notice, or other action by any person under any contract or agreement to which Owner is a party or that is binding on the Brewery that is material to the grant of the Option or the operation of the Brewery following the Closing (a "**Brewery Contract**"), other than consents in connection with Brewery Contracts listed in the Disclosure Schedule and consents required under contracts or agreements entered into after the Effective Date in the ordinary course of business of the Brewery (the "**Ordinary Course**"); provided that, the parties agree that during the Term Owner shall obtain PBC's prior written consent (not to be unreasonably withheld, conditioned or delayed) to Owner's entry into (or modification of) any contract that would qualify as a Brewery Contract that is not terminable on 30 or fewer days' notice, with more than a *de minimis* termination fee; provided, further, to the extent that PBC approves such Brewery Contract or any modification thereof, such Brewery Contract or modification shall be deemed a Transferred Brewery Contract (as defined in Exhibit B) to the extent such Brewery Contract or modification survives the Closing Date. No consent, approval, declaration, or filing with, or notice to, any Governmental Entity (as defined in Exhibit B) is required by or with respect to Owner in connection with the execution and delivery of this Agreement and the completion of the transactions contemplated hereby.

4.3 **Assets**. Owner owns or leases all of the Associated Assets and has good and marketable title to, or a valid leasehold to, all such Associated Assets, free and clear of any Liens (other than Permitted Liens and Liens of record as of the Effective Date or incurred in the Ordinary Course thereafter for trade debt or refinancing of existing indebtedness secured by the Brewery that will be removed or satisfied prior to the Closing). Upon completion of the transactions contemplated by this Agreement, PBC will acquire good title to all of the Associated Assets, free and clear of any Liens (other than Permitted Liens). For purposes of this Agreement:

4.3.1 "**Liens**" mean any mortgage, pledge, lien (statutory or otherwise), charge, adverse claim of ownership, restriction on transfer (such as a right of first refusal or similar right), defect of title, security interest, or other encumbrance; and

4.3.2 "**Permitted Liens**" means easements, rights-of-way, reservations of rights, conditions or covenants, zoning, building or similar restrictions or other restrictions or encumbrances that are not violated by the current use or occupancy of the Brewery or do not, individually or in the aggregate materially interfere with the operation of the Brewery.

4.4 **Litigation; Compliance With Laws**. There is no litigation, arbitration, or administrative hearing pending before any Governmental Entity that concerns or affects the Property or any material portion of it, or the operations of the Brewery, and, to the knowledge of Owner, no such proceeding is threatened. To the knowledge of Owner, the Property and the operations of the Brewery are in compliance in all material respects with all laws, ordinances, and governmental approvals and decisions that relate to the Property and/or the Brewery.

4.5 **Environmental**. Without limiting the generality of Section 4.4 above, (a) prior to the Effective Date, Owner has made available to PBC all written environmental studies, analysis, or reports regarding the Property and the operations at the Brewery in Owner's possession or control as of the Effective Date documenting the nature and extent of Hazardous Substances (as defined below) at, on or in the Property and/or generated at the Brewery, and will make available any similar or additional documents received by Owner during the Term (collectively, the "**Environmental Reports**"); and (b) except as disclosed in the Environmental Reports, to the knowledge of Owner, there are no currently existing conditions involving the presence of Hazardous Substances at the Property and/or in connection with the operation of the Brewery, (i) that have been reported (or require reporting) to any Governmental Entity, (ii) that have adversely affected the Property and/or the operation of the Brewery in any material respect, or (iii) that are in violation of Environmental Laws in any material respect. For purposes of this Agreement:

4.5.1 "**Environmental Laws**" means the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901, et seq.; the Federal Water Pollution Control Act, 33 U.S.C. §§ 1251 et seq.; the Clean Air Act, 42 U.S.C. §§ 7401, et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. §§ 1471 et seq.; the Toxic Substances Control Act, 15 U.S.C. §§ 2601 through 2629; the Safe Drinking Water Act, 42 U.S.C. §§ 300f through 300j; the Oil Pollution Act, 33 U.S.C. §§ 2701 et seq.; and the Endangered Species Act, 16 U.S.C. §§ 1531 et seq.; and Washington State laws, including without limitation the Model Toxics Control Act, RCW 70.105D.010 et seq., water pollution control under RCW 90.48.010 et seq., and air pollution control under RCW 70.94.011 et seq; each, as amended from time to time, or any successor laws thereto, together with the rules, regulations and order promulgated thereunder; and

4.5.2 "**Hazardous Substances**" shall have the meaning attributed to it in RCW 70.105D.020(13) and shall also include petroleum hydrocarbons, asbestos, lead based paint and PCBs.

4.6 **No Condemnation or Assessment Proceedings**. There is no pending, or to the knowledge of Owner, threatened, condemnation or similar proceeding or assessment affecting the Property or any part of it, and, to the knowledge of Owner, no such proceeding is being proposed by any Governmental Entity.

4.7 **Site**. To the knowledge of Owner, there are no (i) pending changes in land use designation (comprehensive plan or zoning ordinance) that apply to the Property, or (ii) material encroachments onto the Property.

4.8 **Status of Owner**. Owner is not a foreign person, foreign partnership, foreign corporation, or foreign trust, as those terms are defined in IRC § 1445.

4.9 **Authority**. No consents, documents, or approvals that have not been obtained are necessary to the effectiveness of the grant of the Option by Owner.

4.10 **Brokers**. No broker, finder, investment banker or other third party is entitled to any brokerage, finder's, or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Owner. Owner agrees to indemnify, defend and hold PBC harmless from and against any and all Claims (as defined in Section 6.2) arising from a breach of the foregoing representation and warranty.

4.11 **No Further Representations; As-Is**. Except for the express warranties set forth in this Agreement or any conveyance document or other document executed by Owner in connection with this Agreement, the Brewery, including the Property and the Associated Assets, will be sold "As-Is" and without representation or warranty of any kind, whether express or implied, including without limitation, without any implied warranties of any nature, such as implied warranties of merchantability, non-infringement, or fitness for a particular purpose. PBC is not relying on any warranty, representation or covenant, express or implied, with respect to the Brewery, except as expressly set forth in this Agreement, any conveyance document or any other document executed by Owner in connection with this Agreement.

As used herein, the phrase "**to the knowledge of Owner**" or any variation of that phrase refers to matters within the actual knowledge of the executive officers of Owner and managers of the operations of the Brewery and do not include constructive or imputed notice or knowledge or any knowledge that may be acquired in the course of any diligence conducted by PBC; and the use of that phrase does not imply that Owner has undertaken any special inquiry or investigation with respect to the representation modified by the phrase.

5. Warranties and Representations of PBC

PBC warrants and represents to Owner that the following matters (the "**PBC Warranties**") are true and correct as of the Effective Date, and will remain true and correct as of the Closing Date:

5.1 **Organization; Authority**. PBC is a limited liability company validly existing and in good standing under the laws of its jurisdiction of formation. PBC has full power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. PBC has duly approved this Agreement and has duly authorized the execution and delivery of this Agreement and the performance of its obligations hereunder. This Agreement, when executed, will constitute a valid and binding obligation of PBC, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditor's rights generally, and general principles of equity.

5.2 **No Conflicts; Consents**. The execution, delivery, and performance by PBC of this Agreement, and the consummation of the transactions contemplated hereby, do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of the organizational documents of PBC; (b) conflict with or result in a violation or breach of any provision of any law, rule or regulation applicable to PBC; or (c) require the consent, notice, or other action by any person under any contract or agreement to which PBC is a party. No consent, approval, declaration, or filing with, or notice to, any Governmental Entity is required by or with respect to PBC in connection with the execution and delivery of this Agreement and the completion of the transactions contemplated hereby.

5.3 **Brokers**. No broker, finder, investment banker or other third party is entitled to any brokerage, finder's, or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of PBC. PBC hereby agrees to indemnify, defend and hold Owner harmless from and against any and all Claims arising from a breach of the foregoing representation and warranty.

6. Covenants of Owner

Owner covenants and agrees as follows:

6.1 **Information**. Owner will deliver to PBC, as PBC may reasonably request, copies of all documents related to the use or ownership of the Property or operations of the Brewery that Owner possesses or may obtain by reasonable inquiry and are reasonably related to the Brewery, the Associated Assets or the use or operation of the Brewery after the Closing, including without limitation leases relating to the Property (which current leases are listed in Section 6.1 of the Disclosure Schedule), all easements, covenants, or restrictions affecting title, any studies, surveys, or reports relating to the Property, all contracts pertaining and material to the Brewery or the Associated Assets, and other documents of a like nature, subject at all times to any confidentiality obligations to third parties or regulations of any Governmental Entity.

6.2 **Access**. Without limiting any of PBC's rights under the Brewing Agreements, Owner grants to PBC and its agents the right to enter on the Property at any reasonable times prior to the Closing Date or earlier termination of this Agreement upon reasonable advance notice to Owner for the purpose of conducting investigations, studies, or tests that PBC may reasonably deem necessary or appropriate in connection with its acquisition of the Brewery and as are permitted by the terms of this Agreement. Owner will reasonably cooperate with PBC in its performance of such investigations, studies, or tests, provided that all costs and expenses of all such investigations, studies, or tests will be paid by PBC. PBC will protect, defend, and hold Owner harmless from any actions, causes of action, claims, costs, damages, demands, expenses (including, without limitation, reasonable attorneys' fees and court costs), fines, liabilities, liens, losses, penalties, obligations and suits (collectively, "**Claims**") arising out of or related to PBC's activities on the Property, except as may arise out of the mere discovery of any adverse conditions (including without limitation, environmental conditions) at the Property. If PBC fails to exercise the Option, PBC will fully compensate Owner for any physical damage to the Property or any lien, encumbrance, or charge on it attributable to PBC's activities under this paragraph, in addition to paying other amounts due under this Agreement. If PBC fails to exercise the Option, PBC will deliver to Owner copies of any and all non-proprietary reports, studies, and drawings owned by PBC that relate to the Brewery.

6.3 **<u>Maintenance</u>**. Prior to the Closing Date or earlier termination of this Agreement, Owner will maintain the Brewery in such state of repair as is reasonably necessary for the normal operation of the Brewery, performance under the Brewing Agreements, and to maintain the Brewery substantially in its current operating condition as of the Effective Date, taken as whole, including, as needed, replacement or repair in accordance with reasonably prudent business practices of any inoperable, worn out or obsolete assets included as part of the Brewery Equipment and Parts.

6.4 **<u>Ownership</u>**.

6.4.1 **<u>Property</u>**. Prior to the Closing Date or earlier termination of this Agreement, Owner will not (a) sell, contract to sell, assign, or otherwise transfer the Property or any material part thereof or interest therein, (b) grant an option to any third party to acquire all or any portion of the Property or interest therein, or (c) encumber the Property or grant any encumbrances that would result in additional title exceptions against the Property.

6.4.2 **<u>Associated Assets</u>**. Prior to the Closing Date or earlier termination of this Agreement, unless PBC otherwise consents in writing (including by e-mail), Owner will not sell, assign, or otherwise transfer all or any material portion of the Associated Assets or any interest therein other than dispositions in the Ordinary Course.

6.5 **<u>Identification of Assets and Contracts; Assignment</u>**. Not later than ten (10) days and not more than 30 days prior to the Closing Date, Owner shall prepare and deliver to PBC, a schedule setting forth in reasonable detail the Associated Assets to be acquired and the Transferred Brewery Contracts to be assigned to and assumed by PBC under this Agreement. Such lists will be updated as of the Closing Date and included as exhibits to the Bill of Sale and the Assignment and Assumption of Contracts, respectively, to be delivered at the Closing. Owner shall exclude from contracts included in the lists of Transferred Brewery Contracts any contract that PBC elects, by delivery of written notice to Owner at least fifteen (15) days prior to the Closing Date, to exclude; provided that, notwithstanding the foregoing right of exclusion, PBC shall assume all contracts listed in Section 6.1 of the Disclosure Schedule continuing in effect as of the Closing Date and all contracts it has approved under Section 4.2. To the extent that Owner's rights under any Transferred Brewery Contract being assigned by Owner may not be assigned to PBC without the consent of another person that has not been obtained, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof, and Owner shall use commercially reasonable efforts to obtain any such required consent(s) as promptly as possible. If any such consent is not obtained or if any attempted assignment would be ineffective or would impair any rights under a contract in question, Owner shall use reasonably efforts following the Closing to obtain for PBC the benefits thereunder. Owner agrees to reasonably cooperate with PBC during PBC's due diligence review of the Brewery to determine whether any such consents will be needed and can be obtained.

6.6 **Approvals**. PBC may apply for and obtain any approvals or licenses of any Governmental Entity to use the Brewery consistent with its current use following the Closing, provided all such applications and related materials are first given to Owner for its approval, not to be unreasonably withheld, conditioned or delayed. Owner will reasonably cooperate with PBC in obtaining any such approvals. Such cooperation includes signing all applications and other documents requested by PBC that may be reasonably related to such matters, as long as Owner approves the form and substance (such approval not to be unreasonably withheld, conditioned or delayed). All costs and expenses incurred with respect to such approvals (other than fines or penalties that may exist or relate to the period prior to the Effective Date) will be paid for by PBC.

7. **Additional Matters**

7.1 **Title**.

7.1.1 **Preliminary Review.** Owner has delivered to PBC a preliminary title report covering the Property (the "**Preliminary Title Report**"), accompanied by a list and supporting documentation for all exceptions to title referenced in the Title Report (the "**Initial Exceptions**"). PBC will identify in a written notice to Owner (the "**Initial Notice**") within 45 days of the Effective Date, those of the Initial Exceptions that PBC will request that Owner remove of record at or before Closing (the "**Unacceptable Exceptions**"). Each of the Initial Exceptions not identified by PBC in the list of Unacceptable Exceptions will be deemed to have been accepted by PBC. If PBC fails timely to provide Owner the Initial Notice, then PBC will be deemed to have approved the Preliminary Title Report in full. Owner has ten (10) days following receipt of the Initial Notice to give written notice ("**Reply Notice**") to PBC of any Unacceptable Exceptions that Owner concludes, in good faith, that Owner cannot or will not remove at or before the Closing. Owner agrees to remove at Closing all Unacceptable Exceptions not referenced in a duly given Reply Notice. If one or more of the Unacceptable Exceptions cannot or will not be removed at or before Closing and Owner so states in a duly given Reply Notice (or if Owner fails to timely respond with a Reply Notice) (such exceptions, the "**Identified Exceptions**"), then PBC may by giving written notice to Owner within ten (10) days of receipt of a Reply Notice terminate this Agreement (in which case the Brewing Agreements will also terminate), and PBC will not be required to pay the Option Termination Fee in connection with any such termination. If PBC does not exercise its right to terminate, all Identified Exceptions will be permanently removed from the list of Unacceptable Exceptions for purposes of the Closing and PBC will be deemed to have actual knowledge of all of the Initial

Exceptions for purposes of the representations and warranties in Section 4 of this Agreement.

7.1.2 **Updated Title Report**. Within 30 days following the receipt of an Exercise Notice, Owner will in preparation for Closing deliver to PBC, at Owner's expense, a preliminary title report covering the Property (the "**Closing Title Report**"), accompanied by legible copies of all exceptions to title referenced in the Closing Title Report that were not included in the Initial Exceptions (the "**Closing Exceptions**"). Within 15 days of receiving the Closing Title Report, PBC will give written notice (the "**Closing Notice**") to Owner of any Closing Exceptions that PBC desires to add to the Unacceptable Exceptions and have removed prior to Closing that are not Permitted Exceptions under Section 7.1.4(b). If PBC fails timely to give Owner the Closing Notice and to the extent that a Closing Exception is not identified by PBC in the Closing Notice, PBC will be deemed to have approved the Closing Title Report, subject only to any Unacceptable Exceptions, if any, that remain. If PBC gives a timely Closing Notice, Owner will have 15 days following receipt of the Closing Notice to provide written notice of objection (a "**Closing Reply Notice**"); otherwise exceptions therein will be deemed to have been added to the Unacceptable Exceptions. If one or more of the Unacceptable Exceptions cannot or will not be removed at or before Closing and Owner so states in a duly given Closing Reply Notice, then Section 9.1.2 below will apply.

7.1.3 **Removal of Certain Title Exceptions**. Notwithstanding anything to the contrary contained in this Agreement, Owner shall be obligated to remove, at or before Closing, (i) any exceptions to title that are security for the payment of a sum of money to repay amounts borrowed or expenses incurred by Owner (including mortgages, deeds of trust, tax liens, or contractor's liens, if any), (ii) taxes and assessments due and payable for any period prior to the Closing Date, and (iii) any exceptions to title that arise after the date of the Preliminary Title Report that Owner agrees to remove in accordance with Section 7.1.2.

7.1.4 **Permitted Exceptions**. "**Permitted Exceptions**" include (a) all exceptions to which PBC agrees or is deemed to have agreed in accordance with this Section 7.1, (b) all exceptions not included in the Initial Exceptions that arise after the date of the Preliminary Title Report and are not material to the ownership or use of the Brewery following the Closing or are otherwise not identified in the Closing Notice as Unacceptable Exceptions by PBC, and (c) all exceptions that PBC otherwise agrees in writing to waive.

7.2 Environmental Diligence.

7.2.1 Initial Review. For a period of 60 days after the Effective Date (subject to extension for an additional 30 days if PBC's environmental consultant recommends the conduct of a Phase II investigation), PBC shall have the right to conduct and have completed an environmental review (the "**Environmental Review**") of the Property and the operations of the Brewery. The Environmental Review may include a historical review of the use of the Property, review of all regulatory agency permits and compliance and enforcement files and records, and such other studies as PBC may deem appropriate and consistent with an ASTM Phase I environmental site assessment of the Property and evaluation for ACM, lead-based paint and mold (including sampling related thereto). PBC shall not conduct soil tests or take core samples or water table samples by drilling conducted on the Property, unless recommended in writing by the environmental consultant engaged by PBC based on findings of an ASTM Phase I environmental site assessment, and then all tests and studies will be conducted by agents selected by PBC and performed as PBC directs, subject to the approval of Owner, which shall not be unreasonably withheld. PBC will pay the cost of all reviews, tests, and studies undertaken. If PBC is not satisfied with such environmental Review, PBC may by giving written notice to Owner within ten (10) days of the end of the period for the Environmental Review (including any extension thereof) terminate this Agreement (in which case the Brewing Agreements will also terminate), and PBC will not be required to pay the Option Termination Fee in connection with any such termination. If PBC does not exercise its right to terminate, all conditions described in reports provided to PBC in connection with its Environmental Review (a copy of which will be provided to Owner) will be deemed to have been accepted by PBC, and PBC will be deemed to have actual knowledge of all such matters for purposes of the representations and warranties in Section 4 of this Agreement.

7.2.2 Updated Review. For a period of 60 days after the delivery of the Exercise Notice, PBC shall have the right to conduct and have completed an additional Environmental Review (the "**Updated Environmental Review**") of the Property and the operations of the Brewery consistent with the initial Environmental Review. PBC will pay the cost of all reviews, tests, and studies undertaken. If PBC reasonably determines in good faith following its Updated Environmental Review that one or more conditions affect the Property that had not been previously identified in connection with the Environmental Review and have arisen after the date thereof (the "**Identified Environmental Conditions**") and the presence of such Identified Environmental Conditions would cause Owner to be in breach of its representations under Section 4.5, then PBC may, by giving written notice to Owner within ten (10) days of the close of the Updated

Environmental Review period, request that Owner take remedial action with respect to one or more of the Identified Environmental Conditions and Section 9.1.1 will apply. Owner shall be required to take all reasonably required actions to remediate any Identified Environmental Condition caused by Owner. If Owner fails or declines to take remedial action or otherwise avail itself of cures available to it under Section 9.1.1 and such Identified Environmental Conditions are reasonably likely to have a Material Adverse Effect on the value or operation of the Brewery following the Closing, then PBC may upon written notice to Owner within ten (10) days of such failure or decline or the completion of the remedial period without remediation, terminate this Agreement, in which case PBC will not be required to pay the Option Termination Fee.

8. Conditions Precedent to Closing

In addition to any other conditions contained in this Agreement, set forth below are certain conditions precedent to Closing for the benefit of PBC (the "**Conditions**").

8.1 Title Insurance. On the Closing Date, the Title Company (as defined in Section 3.1) will be ready, willing, and able to issue, and will issue to PBC on or promptly following recordation of the Deed, the Owner's Policy required by Section 3.5.

8.2 Representations and Warranties; Performance. All of Owner's representations and warranties contained in this Agreement shall be true and correct in all material respects and all material covenants of Owner under this Agreement shall have been duly performed in all material respects as of the Closing. A failure of a representation and warranty by Owner to be true and correct and a failure to perform a covenant will be deemed to be material if such failure is reasonably likely, individually or in the aggregate, to have a Material Adverse Effect on the value or operation of the Brewery following the Closing.

9. Remedies

9.1 PBC.

9.1.1 Breach. If Owner is in breach of any of the representations, warranties or covenants in this Agreement in any material respect, and regardless of whether the breach occurs before or after PBC notifies Owner of the exercise of the Option, and such breach is (i) not cured within 30 days of notice thereof (unless a longer period is reasonably needed for such cure in which event Owner shall have such longer period (but not in excess of 90 days (or 120 days, in the event of an environmental remediation (and Owner shall be required to take all reasonably required actions to remediate any Identified Environmental Condition caused by Owner)) so long as Owner is diligently pursuing such cure to completion) or (ii) is not susceptible to cure, then PBC, may, subject to its rights under

Section 9.1.3 in the event of a failure of a condition giving rise to a Material Adverse Effect, but as its exclusive remedy and in lieu of any other relief, either (a) upon written notice to Owner specifying in reasonable detail the grounds for termination, terminate this Agreement without payment of the Option Termination Fee and, in the event such breach is intentional or arises out of facts or circumstances within Owner's reasonable control, receive reimbursement of PBC's actual, out of pocket costs and expenses incurred in connection with this Agreement not to exceed $50,000 (the "**PBC Expense Reimbursement**"), or (b) specifically enforce all obligations of Owner under this Agreement; provided that, Owner may in lieu of any cure elect by written notice to PBC within 30 days after receipt of PBC's default notice elect to remedy such breach by granting PBC a reduction in the Purchase Price equal to the lesser of the costs to remedy such breach or the diminution in value of the Brewery resulting from such breach. The parties shall negotiate in good faith for a period of 15 days after Owner's notice of such election to agree upon the amount of such reduction. If the parties are unable to agree, they shall submit the matter to binding arbitration to be held before a single arbitrator in Seattle, Washington in accordance with the rules of the American Arbitration Association. Except for any specific remedies reserved elsewhere in this Agreement, PBC expressly waives the right to pursue any other remedy in law or equity against Owner in connection with a breach of this Agreement by Owner.

9.1.2 **Title**. If one or more of the Unacceptable Exceptions will not be removed at or before Closing such that the condition to Closing set forth in Section 8.1 will not be satisfied, then PBC may exercise any of the following rights: (a) PBC may accept title to the Property subject to the Unacceptable Exceptions and receive a credit against the Purchase Price in the amount of any Unacceptable Exceptions which may be cured, discharged or removed with the payment of money; or (b) PBC may attempt to cure the Unacceptable Exceptions or any of them at no cost to Owner (with Owner being obligated to cooperate with the cure efforts and to join in the execution of any curative instruments that will operate to remove the Unacceptable Exceptions); or (c) PBC may, if (i) one or more of the Unacceptable Exceptions has arisen after the date of the Preliminary Title Report and PBC determines in good faith such exception or exceptions are reasonably likely to have a Material Adverse Effect on the value or operation of the Brewery following the Closing or (ii) such Unacceptable Exceptions are among the exceptions that Owner has agreed or been deemed to have agreed to remove prior to Closing, upon written notice to Owner specifying in reasonable detail the grounds for termination, terminate this Agreement (including any exercise of the Option), in which case the Option Termination Fee will not be payable, PBC shall be entitled to the PBC Expense Reimbursement, and neither party will have any further liability to the other under this Agreement.

9.1.3 Failure of a Condition Precedent. If the condition to PBC's obligations under this Agreement in Section 8.2 is not satisfied as of a proposed Closing Date and PBC does not waive such condition or conditions and PBC determines in good faith that such non-satisfaction is reasonably likely to have a Material Adverse Effect on the value or operation of the Brewery following the Closing, then PBC shall give written notice to Owner and Owner shall have 30 days to remedy such unsatisfied condition to PBC's reasonable satisfaction (unless a longer period is reasonably needed for such satisfaction in which event Owner shall have such longer period (but not in excess of 90 days) so long as Owner is diligently pursuing completion), provided that if such failure of a condition to be satisfied arises out of a Title or Environmental condition, the provisions of Sections 7.1 and 9.1.2 or Section 7.2, respectively, shall apply. In the event of owner's failure to so remedy such condition, PBC, as its exclusive remedy and in lieu of any other relief, may upon written notice to Owner, terminate this Agreement (including any exercise of the Option) without payment of the Option Termination Fee and, in the event such breach is intentional or arises out of facts or circumstances within Owner's reasonable control, receive the PBC Expense Reimbursement. Except for any specific remedies reserved elsewhere in this Agreement, PBC expressly waives the right to pursue any other remedy in law or equity against Owner in connection with a failure of a condition set forth in this Agreement.

9.2 Owner.

9.2.1 Breach. If PBC breaches any term or provision of this Agreement in any material respect, and regardless of whether the breach occurs before or after PBC notifies Owner of the exercise of the Option, and such breach is not cured within 15 days of notice thereof (unless a longer period is reasonably needed for such cure in which event PBC shall have such longer period (but not in excess of 45 days) so long as PBC commences such cure within such 15 days and such cure is diligently prosecuted to completion thereafter), then Owner, as its exclusive remedy and in lieu of any other relief, will be entitled to terminate this Agreement by giving PBC written notice of termination, and in such event Owner will be entitled to receive the Option Termination Fee, and neither party will have any further liability to the other under this Agreement. Notwithstanding anything to the contrary contained in this Agreement, Owner's sole remedy for any breach of this Agreement by PBC shall be payment of the Option Termination Fee as and to the extent expressly provided for in this Agreement, provided, that in any case where Owner is entitled to the Option Termination Fee, the payment of such Option Termination Fee and retention thereof by Owner shall be Owner's exclusive remedy and shall apply in lieu of any other relief or remedy. Accordingly, the parties agree in all such events the Option Termination Fee shall constitute liquidated damages, it being acknowledged and agreed by the parties that (a) Owner's actual damages in such event would be extremely difficult or impracticable to ascertain and that the Option Termination Fee represents a reasonable estimate thereof amount of the deposit plus any interest accrued thereon represents the parties' reasonable estimate of such damages, and (b) the payment of such amount as liquidated damages is not intended as a forfeiture or penalty but as enforceable liquidated damages under applicable law.

9.2.2 **Termination of the APA and the Services Agreement**. In the event the Brewing Agreements terminate as a result of a breach by PBC that continues beyond any applicable notice and cure period, Owner may upon 60 days prior written notice to PBC terminate this Agreement by delivering to PBC and the Title Company written notice of termination, and in the event that PBC does not exercise the Option during the 60-day notice period, Owner shall be entitled to be paid the Option Termination Fee. In all other events, the termination of the Brewing Agreements shall not terminate this Agreement and the right of PBC to exercise the Option in accordance herewith shall remain in full force and effect.

9.3 **Other Remedies; Limitations**. The limitations on remedies set forth in this section do not apply to any Claim accruing after Closing or preclude either party from seeking injunctive relief or from seeking recovery against the other for causing physical damage or injury to persons or property or failing to satisfy a payment or indemnity obligation of such party under the terms of this Agreement. Neither party shall have any liability for the breach of a representation or warranty hereunder of which the other party hereto had actual knowledge as of the date such representation or warranty is given, and no party will have liability to the other for a Claim accruing after Closing arising out of a breach of a representation or warranty in, or covenant contained in Section 6 of, this Agreement absent a willful breach of this Agreement by such party.

9.4 **Adequacy**. The parties each acknowledge (a) the adequacy of the remedies set forth in this Agreement and (b) that the foregoing limitation of remedies is an essential part of this Agreement.

9.5 **Control of Claims**. In connection with any third-party claim for which a party (such party, an "**Indemnified Party**") is entitled to indemnification under this Agreement, the Indemnified Party shall provide prompt written notice of such claim promptly following receipt thereof and tender defense to the party to provide such indemnification (such party, the "**Indemnifying Party**"), and the Indemnifying Party may elect to assume the defense of the Indemnified Party with counsel reasonably satisfactory to the Indemnified Party, provided that the Indemnifying Party shall not compromise or settle the claim without the prior written consent of the Indemnified Party, which consent shall not be unreasonably withheld, conditioned or delayed. If the Indemnifying Party fails to assume and commit to undertake such defense of the Indemnified Party within 15 days after notice of a third party claim, the Indemnified Party may elect to assume control of such defense and retain counsel therefor and be entitled to recover fees and expense to the extent provided in this Agreement. Notwithstanding the foregoing, if the Indemnifying Party disputes that any such matter is properly subject to an obligation of the Indemnifying Party to indemnify and defend hereunder, the parties shall submit the issue of entitlement to indemnification to binding arbitration to be held before a single arbitrator in Seattle, Washington in accordance with the rules of the American Arbitration Association.

10. Risk of Loss; Possession

10.1 **Risk of Loss**. Owner bears the risk of all loss or damage to the Brewery from all causes, through the Closing Date. If, before the Closing Date, and regardless of whether the Exercise Notice has yet been given or is subsequently given, all or any material part of the Brewery is rendered inoperable by fire or by any other cause of any nature or if all or any material portion of the Brewery is taken by condemnation, or if any such condemnation proceeding is filed, Owner must give PBC written notice of such event. If such casualty or condemnation (a) affects 20% or more of the area, or (b) reduces the value of the Brewery by $3,500,000 or more, PBC may terminate this Agreement by giving written notice to Owner within 45 days after receipt by PBC of written notice from Owner of such qualifying casualty or condemnation. If PBC does not elect to terminate this Agreement, then this Agreement will continue in force and, if PBC exercises the Option and the Brewery is conveyed to PBC, then all interest of Owner in and to any insurance proceeds or condemnation awards that may remain payable to Owner on account of the casualty or condemnation will be assigned to PBC at Closing and PBC shall be entitled to a reduction in the Purchase Price in the amount of any deductible or uninsured loss.

10.2 **Owner's Right to Restore**. Notwithstanding anything to the contrary contained in this Agreement, if PBC timely and properly exercises an option to terminate this Agreement under this Section 10, Owner has the option to restore the Brewery to substantially its condition immediately prior to the casualty, which option may be exercised by giving written notice to Buyer within ten (10) days after PBC's exercise of its option to terminate. If Owner exercises its option to restore, then PBC's exercise of the termination option shall be nullified. If such damage has not been substantially restored prior to a scheduled Closing Date but Owner is diligently proceeding to restore, then Owner will diligently complete the repair after the Closing, *provided, however,* that PBC has the right to delay the Closing until restoration is substantially completed (but in no event in excess of 120 days after the damage).

10.3 **Possession**. PBC will be entitled to exclusive possession of the Property on and after the Closing Date, provided that Owner shall be given a reasonable opportunity to remove all assets included on the Property that are not included within the Associated Assets.

11. Recording

On the Effective Date, Owner will execute, acknowledge, and deliver to PBC a memorandum of option in the form attached as Exhibit D (the "**Memorandum**"), which Memorandum may be recorded by or on behalf of PBC at its expense. If PBC fails to exercise the Option before the Expiration Date, PBC will execute, acknowledge, and deliver to Owner a PBC quitclaim deed releasing any interest in the Property.

12. Brewery Employees; Allocation of Responsibilities

Owner will be solely responsible for the employment of all employees of the Brewery through the Closing Date. As such, Owner shall be solely responsible, and PBC shall have no obligations whatsoever, for any compensation or other amounts payable to any employee (or former employee) of Owner, including, without limitation, salary, pension or profit sharing benefits, or severance pay payable to any employee (or former employee) of Owner for any period relating to service with Owner prior to the Closing Date and Owner shall pay all such amounts to all entitled employees as required by law. Owner shall remain solely responsible for the satisfaction of all Claims for medical, dental, life insurance, health accident, or disability benefits brought by or in respect of employees (or former employees) of Owner relating to events occurring prior to the Closing Date, and for all worker's compensation Claims that relate to events occurring prior to the Closing Date. PBC may offer employment to any or all employees terminated by Owner in connection with the Closing at its discretion, and will be solely responsible for all aspects of the employment of employees of the Brewery so employed by PBC after the Closing Date. Owner shall indemnify, defend and hold PBC harmless from and against any and all Claims which are the responsibility of Owner under this Section 12, and PBC shall indemnify, defend, and hold harmless Owner from and against any and all Claims that are the responsibility of PBC under this Section 12.

13. Survival

The warranties, representations and covenants of Owner and of PBC contained in this Agreement shall survive for a period of one year after the Closing Date and shall terminate on such date except to the extent that any Claims in respect of a breach of any such representation or warranty is made on or before such date, in which case such representation or warranty shall survive until the resolution of such Claim, provided that any covenant that expressly provides for a longer term of effectiveness shall continue in effect for such express longer term.

14. Waiver

Failure by Owner or PBC to enforce any right under this Agreement will not be deemed to be a waiver of that right or of any other right.

15. Successors and Assigns

Subject to the limitations on Owner's right to convey the Brewery set forth elsewhere herein, the terms, covenants, and conditions of this Agreement are binding on and inure to the benefit of the heirs, successors, and assigns of Owner and PBC. Neither party may assign its rights or obligations hereunder without the prior written consent of the other party, which consent shall not be unreasonably withheld, conditioned or delayed, provided that (a) PBC may assign its rights and obligations under this Agreement to an Affiliate, (b) an initial public offering of stock or equity interests in PBC shall not be deemed a transfer or assignment for the purposes hereof, and (c) PBC may not assign its rights and obligations under this Agreement to a non-Affiliate without the prior written consent of Owner, which consent may be granted or withheld in the sole discretion of Owner. A transaction or series of related transactions in which 50% or more of the voting control in PBC is sold, disposed of or otherwise transferred to a non-Affiliate will be deemed to be an assignment by PBC. No assignment shall relieve the assigning party of any of its obligations hereunder. For purposes of this Agreement, "**Affiliate**" means with respect to any particular person, any person controlling, controlled by or under common control with such person, whether by ownership or control of voting securities, by contract or otherwise.

16. Allocation of Purchase Price; Tax Treatment

The parties agree to allocate the purchase price and all other capitalizable costs among the assets purchased hereunder for all purposes (including accounting and tax) in accordance with an allocation schedule to be agreed after exercise of the Option. A draft of the allocation schedule shall be prepared by PBC and delivered to Owner not less than ten (10) days prior to the Closing Date. If Owner notifies PBC in writing that Owner reasonably objects to one or more items reflected in the allocation schedule, the parties shall attempt to resolve such dispute through good faith negotiations; provided, however, that any unresolved dispute shall be resolved by independent accountants practicing in the Seattle, Washington area with industry experience to be engaged for that purpose and agreed to by the parties. The fees and expenses of such accounting firm shall be shared equally. Owner and PBC will each report, act and file state and federal tax returns in all respects and for all purposes consistent with such allocation.

17. Notices

All notices required or permitted to be given will be in writing and will be deemed given and received on personal service or three (3) Business Days after deposit in the United States Mail, certified or registered mail, postage prepaid, return receipt requested, addressed as follows:

To Owner:	Craft Brew Alliance, Inc. 929 N. Russell Street Portland, Oregon 97227 Attn: General Counsel
With a copy to:	Miller Nash Graham & Dunn LLP 111 S.W. Fifth Avenue Suite 3400 Portland, Oregon 97204 Attention: David Post

To PBC:	Pabst Northwest Brewing Company, LLC 10635 Santa Monica Boulevard, Suite 305 Los Angeles, California 90025 Attention: Robert Urband
With a copy to:	Liner LLP 1100 Glendon Avenue, Fourteenth Floor Los Angeles, California 90024 Attn: Mitchell C. Regenstreif

The foregoing addresses may be changed by written notice, given in the same manner. Notice given in any manner other than the manner set forth above will be effective when received by the party for whom it is intended.

18. <u>Attorney Fees</u>

If litigation is instituted with respect to this Agreement (including any litigation undertaken in the context of bankruptcy proceedings), the prevailing party will be entitled to recover from the losing party, in addition to all other sums and allowable costs, its reasonable attorneys' fees, both in preparation for and at trial and any appeal or review.

19. <u>Integration, Modification, or Amendments</u>

This Agreement (including the Exhibits and Schedules attached hereto) and the Brewing Agreements contain the entire agreement of the parties with respect to the Option contained herein and supersedes all prior written and oral negotiations and agreements with respect to the Option. Any modifications, changes, additions, or deletions to this Agreement must be approved by Owner and PBC, in writing.

20. <u>Governing Law; Interpretation</u>

This Agreement is governed by and shall be interpreted in accordance with the laws of the State of Washington without regard to its or any other jurisdiction's conflicts of law principles. If a court of competent jurisdiction holds any portion of this Agreement to be void or unenforceable as written, Owner and PBC intend that (a) that portion of this Agreement be enforced to the extent permitted by law and (b) the balance of this Agreement to remain in full force and effect.

21. <u>Statutory Disclosures</u>

Whether or not the Property is zoned for residential use, PBC acknowledges and agrees it does not intend to use the Property for residential purposes. PBC and Owner acknowledge that the Real Property constitutes "Commercial Real Estate" as defined in RCW 64.06.005. PBC waives receipt of the seller disclosure statement required under RCW 64.06 for transactions involving the sale of commercial real estate, except for the section entitled "Environmental". The Environmental section of the seller disclosure statement will be completed by Owner prior to the Closing. PBC further acknowledges and agrees that once delivered the Disclosure Statement (a) is for the purposes of disclosure only, (b) will not be considered part of this Agreement, and (c) will not be construed as a representation or warranty of any kind by the Owner.

22. Waiver of Jury Trial

AS A SPECIFICALLY BARGAINED INDUCEMENT FOR EACH OF THE PARTIES TO ENTER INTO THIS AGREEMENT (EACH PARTY HAVING HAD OPPORTUNITY TO CONSULT COUNSEL), TO THE FULLEST EXTENT PERMITTED UNDER APPLICABLE LAW, EACH PARTY EXPRESSLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY LAWSUIT OR PROCEEDING RELATING TO OR ARISING IN ANY WAY FROM THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREIN.

23. Submission to Jurisdiction

Each party to this Agreement hereby irrevocably and unconditionally submits, for itself and its property, to the non-exclusive jurisdiction of the federal court of the United States of America sitting in Seattle, Washington, and any appellate court thereof, in any action or proceeding arising out of or relating to this Agreement or for recognition or enforcement of any judgment relating to this Agreement, and each of the parties hereby irrevocably and unconditionally agrees that all Claims in respect of any such action or proceeding may be heard and determined in such court. Each party hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the transactions contemplated by this Agreement in any Federal court sitting in Seattle, Washington, and hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

24. Confidentiality

Owner and PBC will treat this Agreement and all information obtained or exchanged in connection with this Agreement as confidential and will not disclose any information relating to the transactions contemplated by this Agreement to any person other than the consultants and other entities engaged to assist in the consummation of this Agreement, such as the Title Company, and except as may otherwise be required by law or legal process, including the disclosure requirements of federal securities laws, which the parties acknowledge may require filing of this Agreement as an exhibit to Owner's periodic reports filed with the Securities and Exchange Commission. In the event this Agreement is to be publicly filed Owner will in good faith seek confidential treatment of the volume and fee amounts under Section 1.4. If the Option is not exercised, then PBC shall return to Owner all documents and information delivered to PBC by Owner. Nothing contained herein operates to prevent or limit the right of Owner or PBC to disclose the terms of this Agreement or any other information relating to it in conjunction with any litigation, land use proceeding, or other proceeding instituted with respect to this Agreement or the Brewery, or as may otherwise be required by law. Any press release or other similar public disclosure of the consummation of this Agreement or any matter relating to this Agreement shall be subject to the prior written consent of PBC, which consent shall not be unreasonably withheld, conditioned, or delayed.

25. Counterparts

This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, e-mail, or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

[*Signature page follows*]

This Agreement is executed effective as of the day and year first above written.

OWNER:

CRAFT BREW ALLIANCE, INC.,
a Washington corporation

By: /s/ Andrew J. Thomas

Name: Andrew J. Thomas

Title: CEO

PBC:

PABST NORTHWEST BREWING COMPANY, LLC,
a Delaware limited liability company

By: /s/ Eugene Kashper

Name: Eugene Kashper

Title: CEP

Attachments:

Exhibit A—Property
Exhibit B—Description of Associated Assets
Exhibit C—Material Adverse Effect
Exhibit D—Form of Memorandum

EXHIBIT A

Property

Owner's Woodinville brewing facility located at 14300 NE 145th Street Woodinville, WA 98072, with a legal description for the property as follows:

Lots 1, 2 and 3, King County Boundary Line Adjustment Number L93L0042, recorded under recording number 9310149011, in King County, Washington;
EXCEPT that portion of Lot 1, conveyed to the State of Washington by deed recorded under recording number 9406280504.

EXHIBIT B

Description of Associated Assets

1. **Associated Assets; Identification.** The "**Associated Assets**" include Owner's rights, title and interest in, to and under certain specifically identified assets and rights of Owner, in each case to the extent existing as of the Closing Date, as follows:

1.1 **Inventory**. All finished inventories and supplies that are held at, or are in transit to, the Property, which are used or held for use by Owner in the operations of the Brewery, other than raw materials identified under paragraph 2.8 of this Exhibit below ("**Inventory**");

1.2 **Tangible Personal Property**. All equipment, furniture, fixtures, machines, spare parts and change parts, and other tangible personal property owned by Owner and located at the Brewery and used or held for use by Owner in the operations of the Brewery, including without limitation all such assets relating to the brewpub operated at the Brewery (such as furniture, fixtures, supplies utilized for banquets and catering, kitchen equipment and other personal property (the "**Brewery Equipment and Parts**"));

1.3 **Contracts**. All leases and other contracts specifically relating to the operations of the Brewery or use and ownership of the Brewery Equipment and Parts to which Owner is a party or otherwise bound, to the extent such contracts are assignable and not identified as being excluded by PBC in accordance with this Agreement, including without limitation all rights of Owner under or pursuant to all warranties, representations and guarantees made by tenants, suppliers, manufacturers and contractors in connection with the operations of the Brewery or relating to the Brewery Equipment and Parts and any deposits related thereto (the "**Transferred Brewery Contracts**");

1.4 **Files and Records**. All files and other records of Owner which relate to the Brewery Equipment and Parts and are located on the Property (the "**Brewery Equipment Files**");

1.5 **Licenses and Permits**. To the extent transferable, all licenses, permits, franchises, certificates, and other authorizations issued by any government, agency, department, commission, court, arbitration panel or instrumentality of the United States or any state or other political subdivision thereof (a "**Governmental Entity**") issued to or held by Owner relating and limited to the operations of the Brewery or ownership of the Brewery Equipment and Parts, including all applications and all renewals, extensions, or modifications (collectively, the "**Brewery Licenses**"); and

1.6 **Plans**. All existing site plans, surveys, studies, architectural drawings, floor or landscape plans, appraisals, feasibility studies, environmental studies and other plans and studies of any kind if existing and relating to the Property and in the possession or subject to the control of Owner (the "**Brewery Plans and Studies**").

2. **Limitation; Excluded Assets.** The Associated Assets include only those assets specifically identified above and no other assets, and expressly do not include any Excluded Assets. "**Excluded Assets**" include all tangible and intangible properties of Owner not expressly included in the Associated Assets, including, without limitation, all of Owner's rights in, to and under the following:

2.1 **Proprietary Rights**. All intellectual property rights of Owner. Owner's intellectual property rights include all rights of any kind, in and to (a) all patents, patent applications, patent disclosures and inventions (whether or not patentable and whether or not reduced to practice); (b) all trademarks, service marks, trade dress, logos, trade names, slogans, Internet domain names and corporate names, and all associated goodwill; (c) all copyrights and works of authorship (whether or not copyrightable, including look and feel), mask works and moral rights; (d) all trade secrets and confidential information (including ideas, formulae, compositions, know-how, processes, techniques, methods, research and development information, specifications, plans, proposals, technical data, financial, business and marketing plans, and customer and supplier lists and related information); (e) computer software and software systems (including data, databases and related documentation), other than such software or systems as are directly related to the operation of the Brewery or the ownership and operation of the Brewery Equipment and Parts; and (f) all other intellectual property of any kind;

2.2 **Accounts Receivable**. All trade receivables, accounts receivable, accrued receivable and notes receivable and other monies receivable (whether yet accounted for as such or not);

2.3 **Prepaid Items**. Deposits, prepaid items and other similar assets other than such deposits, prepays or similar assets as are related to and included with the Transferred Brewery Contracts;

2.4 **Corporate Books and Records**. All corporate books and records of Owner, including, without limitation, all accounting and similar records of Owner, all minutes of meetings of the board of directors or stockholders of Owner, stock books, stock transfer ledgers, and related records, all personnel and human resources records of any nature, and other corporate records relating to the operation of the business of the Owner generally;

2.5 **Transaction Documents**. All rights of Owner under this Agreement or any other agreement entered into in connection herewith;

2.6 **Personal Property**. All office equipment, office materials and supplies, and other tangible personal property of every kind and description not specifically included in the Brewery Equipment and Parts;

2.7 **Branded Properties.** All branded personal property or inventory of any kind, including without limitation all equipment or supplies branded with one or more trademarks of Owner such as pub glassware, signs, or other similar items and all Items listed on Schedule 2.7 to this Exhibit as well as similar items acquired in replacement or supplementation of the listed items.

2.8 **Raw Materials**. All raw materials and all packaging materials of any kind.

2.9 **Contracts**. Any and all contracts and agreements to which the Owner is a party not specifically included in the Transferred Brewery Contracts above;

2.10 **Files and Records**. All files and other records of Owner located on the Property and not specifically included in the Brewery Equipment Files above;

2.11 **Licenses**. To the extent not transferable without any unreasonable effort or expense, all licenses, permits, franchises, certificates, and other authorizations issued by any Governmental Entity;

2.12 **Claims**. All Claims, deposits, warranties, guaranties, refunds, causes of action, rights of recovery, rights of set-off and rights of recoupment of every kind and nature, other than warranty or similar Claims related to the Brewery Equipment and Parts and specifically included as part of the Transferred Brewery Contracts; and

2.13 **Goodwill**. All of Owner's goodwill in, and going concern value of, its business.

EXHIBIT C

Material Adverse Effect Definition

"**Material Adverse Effect**" on the Brewery means an effect that is substantial and materially adverse to (a) the operations of the Brewery, (b) the value of the Property, or (c) the ability of Owner to complete the transactions contemplated by this Agreement; *provided, however,* that a "Material Adverse Effect" shall not include any effect directly or indirectly arising out of or attributable to: (i) changes in the law, regulations, or rules applicable to operations of the Brewery, or interpretations thereof, (ii) changes in economic or business conditions in the United States economy or financial markets generally or markets local to the Property in particular, and (iii) changes affecting the industry of Owner and PBC generally, or (iv) any action required or permitted by this Agreement, or any public announcement of the transactions contemplated hereby. An effect on the value of the Property will deemed to be materially adverse if it results in a loss of value of $3,500,000 or more.

EXHIBIT D

Form of Memorandum

After recording return to:
[929 N. Russell Avenue
Portland, Oregon 97227
Attn: General Counsel]

AUDITOR/RECORDER'S INDEXING FORM

Document Title(s):	Memorandum of Option and Agreement of Purchase and Sale
Reference Number(s) of Documents released:	N/A
Grantor(s):	Craft Brew Alliance, Inc.
Grantee(s):	Pabst Northwest Brewing Company, LLC
Abbreviated Legal Description):	[Insert] Full: See Exhibit A
Assessor's Tax Parcel Numbers:	[Insert]

MEMORANDUM OF OPTION
AND AGREEMENT OF PURCHASE AND SALE

This **MEMORANDUM OF OPTION AND AGREEMENT OF PURCHASE AND SALE** (this "**Memorandum**"), is entered into as of January 8, 2016, by and between **CRAFT BREW ALLIANCE, INC.**, a Washington corporation ("**Owner**"), and **PABST NORTHWEST BREWING COMPANY, LLC**, a Delaware limited liability company ("**PBC**"),

Owner and PBC have entered into an Option and Agreement of Purchase and Sale dated January 8, 2016 (the "**Option Agreemen**t"), wherein Owner has granted to PBC the sole and exclusive option to purchase the property described in Exhibit A (the "**Property**"). Owner hereby grants to PBC an option to purchase the Property and all associated assets upon the terms set forth in the Option Agreement.

The Term of the Option commenced on January 8, 2016, and will expire on December 31, 2018, if not exercised on or before such date.

This Memorandum is being executed and recorded in the Official Records of King County, Washington, to give notice of the provisions of the Option Agreement and will not be deemed or construed to define, limit, or modify the Option Agreement in any manner.

Executed as of January 8, 2016.

OWNER:

CRAFT BREW ALLIANCE, INC.,
a Washington corporation

By: ______________________________

Name: ______________________________

Title: ______________________________

PBC:

PABST NORTHWEST BREWING COMPANY, LLC,
a Delaware limited liability company

By: ______________________________

Name: ______________________________

Title: ______________________________

STATE OF OREGON)
) ss.
County of __________)

This instrument was acknowledged before me on ___________, 20___, by ______________, as ______________ of ______________, a _________, on behalf of said _________________.

____
Notary Public for Oregon

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California }
County of __________ }

On January __, 2016, before me, ________________, a Notary Public for the State of California, personally appeared _____________________ who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under **PENALTY OF PERJURY** under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature: ________________________ (Seal)

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: May 4, 2016

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: May 4, 2016

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 March 31, 2016, as filed with the Securities and Exchange Commission on May 4, 2016 (the “Report”), Andrew J. Thomas, the Chief Executive Officer of the Registrant, and Joseph K. Vanderstelt, the Chief Financial Officer of the Registrant, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: May 4, 2016

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

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

Exhibit 99.1

FOR IMMEDIATE RELEASE

CRAFT BREW ALLIANCE REPORTS FIRST QUARTER 2016 RESULTS HIGHLIGHTING 19% GROWTH FOR KONA BREWING AND COMPLETION OF MAJOR STRATEGIC BREWERY ENHANCEMENTS

First Quarter Results In Line with Internal Plan; Company Reconfirms Full-Year Guidance and Outlines Expectations for Remainder of the Year

Portland, OR (May 4, 2016) - Craft Brew Alliance, Inc. ("CBA") (Nasdaq: BREW), a leading craft brewing company, today announced results for the first quarter ended March 31, 2016. The results, which were consistent with the guidance provided during CBA's 2015 earnings call on March 3, 2016, underline the continued double-digit growth of Kona Brewing Co. and reinforce our confidence in achieving our full-year guidance.

CBA's first quarter results were largely impacted by the temporary closure of our largest-volume brewery in Portland, which enabled the completion of multiple strategic operational projects to increase brewing capacity and gross margin. In addition to the Portland brewery expansion, we also kicked off the site preparation for the new Kona brewery and the launch of a new can line in Portsmouth to support our strategic partnerships with Appalachian Mountain Brewery and Cisco Brewers.

As previously disclosed, CBA expected the Portland brewery closure to result in a first quarter shipment decline of 15,000 to 20,000 barrels, along with commensurate impacts to first quarter revenue, gross margin, and capacity utilization. With key operations enhancement projects on track and first quarter results in line with management's expectations, we are reconfirming full-year guidance and providing insight to CBA's anticipated performance for the balance of the year.

Select first quarter financial highlights

- Depletions for Kona Brewing increased by 19% reflecting steady domestic and international growth despite continued market competition. CBA's overall depletion volume declined 3% from the first quarter of 2015.
- In line with our expectations due to the temporary Portland brewery closure, shipments decreased by 18,100 barrels, or 10.8%, to 149,600 barrels, compared to the same period of 2015. The first quarter shipments decline, which conforms to our previously projected decline of 15,000 to 20,000 barrels, reflects a provisional increase to wholesaler inventories in the fourth quarter of 2015 as we prepared for the Portland brewery closure in early 2016.
- The anticipated decline in shipment volume resulted in a net sales decline of 6.0% in the first quarter, which was partially offset by strong revenue per barrel and improved Pubs sales. The estimated negative impact of the brewery shutdown on our net sales was an approximate decline of 890 basis points.
- Also in line with the projected impact of the Portland brewery closure, first quarter gross margin rate decreased 460 basis points to 22.2%, compared to 26.8% for the first quarter last year.
    - Our Beer gross margin rate decreased 550 basis points to 24.2% in the first quarter, compared to 29.7% in the first quarter last year, due to the planned lower capacity utilization in our owned breweries as we completed the capital projects.
    - Our Brewpub gross margin rate increased by 310 basis points to 12.8%, compared to 9.7% in the first quarter of 2015. The increase reflects the normalization of our Pub margins, which were impacted by a multi-week closure of our Koko pub in the first quarter of 2015 for a full remodel.

    - The estimated impact of the brewery shutdown and related volume decline on our gross margin in the first quarter of 2016 was approximately 490 basis points.
- Selling, general and administrative (SG&A) expense for the first quarter was $13.9 million, a 7.5% increase over the first quarter of 2015, primarily due to emerging business and international support, brand marketing, and employee-related costs.
- Corresponding to the decrease in gross margin due to the Portland brewery closure, along with the increase in SG&A, our diluted loss per share for the first quarter of 2016 was $0.17, compared to $0.06 for the same period last year. Brewery shutdown-related volumes and the corresponding negative impact on gross margins represents $0.09 per share.

Trailing twelve-month financial highlights

- To address the wide variances in quarterly results and provide a more representative view into our financial performance, we are sharing trailing 12-month comparisons for the periods ended March 31, 2016 and March 31, 2015.
    - For those periods, our Beer shipments decreased 1.1%, depletions decreased 1%, and net sales increased 1.9%.
    - Our Beer gross margin expanded by 40 basis points to 32.3% and Brewpubs gross margin expanded by 90 basis points to 13.5% for the same 12-month periods, for a combined gross margin expansion of 30 basis points to 29.6%, compared to 29.3%.

"While on the surface our first quarter results reflect the disproportionate impact of the temporary Portland brewery closure, the significant accomplishments we made to fortify our foundation set us up for a strong 2016 and beyond," said Andy Thomas, chief executive officer, CBA. "From Kona's steady acceleration as a top 10 national craft brand, to continued strong pricing, to our ability to complete multiple strategic expansion projects while delivering the quarter we said we would, I am confident that we will achieve our full-year guidance."

Select anticipated financial results for the remaining three quarters of 2016 to support full-year guidance

- April through December 2016 shipment growth of 4% to 5%, reflecting increased volume growth during the peak selling season and continued acceleration of Appalachian Mountain Brewery, Cisco Brewers, and contract partnerships.
- Gross margin of 33.0% to 34.5% by leveraging the increased efficiencies related to the successful completion of operational enhancements in the first quarter, as well as improved overall volume and cost leverage, and other ongoing strategic margin improvement projects.

Anticipated financial results for the full year 2016

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

- Full-year shipment growth between 1% and 2%, which reflects the planned first-quarter decrease due to the Portland brewery closure, offset by volume growth during peak selling seasons and ramp up of partner volumes, including Appalachian Mountain Brewery, Cisco Brewers and Pabst Brewing.
- Average price increases of 1% to 2%.
- Gross margin of 31.0% to 32.5%.
- SG&A ranging from $58 million to $59 million as a result of tighter cost controls and our commitment to improved leverage. Increases compared to 2015 are primarily focused against our sales team, our growing international business, and strategic marketing investments.
- Capital expenditures between $19 million and $23 million as we continue to make investments in strategic gross margin initiatives, quality, safety, sustainability, and our Brewpubs. The increase in 2016 expenditures compared to last year's guidance reflects the carry over impact of lower spend on active projects in 2015.

"The anticipated benefits from the increased capacity and efficiency in Portland, combined with continued acceleration of our Appalachian Mountain Brewery and Cisco Brewers partnerships, reinforce our confidence in delivering on the plan for the balance of the 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 of the future, including shipments and sales growth, price increases, and gross margin rate improvement, the level and effect of SG&A expense and business development, anticipated capital spending, and the benefits or improvements to be realized from 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, 2015. 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 a leading craft brewing company, which brews, brands and markets some of the world's most respected and best-loved American craft beers. We are home to three of the earliest pioneers in craft beer: Redhook Ale Brewery, Washington's largest craft brewery founded in 1981; Widmer Brothers Brewing, Oregon's largest craft brewery founded in 1984; and Kona Brewing Company, Hawaii's oldest and largest craft brewery founded in 1994. As part of Craft Brew Alliance, these craft brewing legends have expanded their reach across the U.S. and approximately 30 international markets.

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

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

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

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

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

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Sales	$ 41,793	$ 44,619
Less excise taxes	2,571	2,910
Net sales	39,222	41,709
Cost of sales	30,505	30,547
Gross profit	8,717	11,162
As percentage of net sales	22.2 %	26.8%
Selling, general and administrative expenses	13,924	12,953
Operating loss	(5,207)	(1,791)
Interest expense	(147)	(121)
Other income, net	6	6
Loss before income taxes	(5,348)	(1,906)
Income tax benefit	(2,139)	(743)
Net loss	$ (3,209)	$ (1,163)
Loss per share:		
Basic and diluted net loss per share	$ (0.17)	$ (0.06)
Weighted average shares outstanding:		
Basic and diluted	19,179	19,115
Total shipments (in barrels):		
Core Brands	142,400	158,500
Contract Brewing	7,200	9,200
Total shipments	149,600	167,700
Change in depletions [1]	(3)%	1%

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

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

	March 31, 2016	March 31, 2015
Current assets:		
Cash and cash equivalents	$ 1,110	$ 1,056
Accounts receivable, net	17,263	14,190
Inventory, net	20,033	23,833
Deferred income tax asset, net	3,872	2,443
Other current assets	2,618	4,404
Total current assets	44,896	45,926
Property, equipment and leasehold improvements, net	120,689	110,690
Goodwill	12,917	12,917
Intangible and other assets, net	18,008	17,270
Total assets	$ 196,510	$ 186,803
Current liabilities:		
Accounts payable	$ 19,452	$ 18,026
Accrued salaries, wages and payroll taxes	5,247	5,202
Refundable deposits	6,340	7,759
Other accrued expenses	1,550	1,870
Current portion of long-term debt and capital lease obligations	602	1,130
Total current liabilities	33,191	33,987
Long-term debt and capital lease obligations, net of current portion	26,913	18,493
Other long-term liabilities	21,063	19,868
Total common shareholders' equity	115,343	114,455
Total liabilities and common shareholders' equity	$ 196,510	$ 186,803

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

	Three Months Ended March 31,	
	2016	**2015**
Cash flows from operating activities:		
Net loss	$ (3,209)	$ (1,163)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,615	2,288
Loss on sale or disposal of Property, equipment and leasehold improvements	2	215
Deferred income taxes	(2,155)	(757)
Other, including stock-based compensation and excess tax benefit from employee stock plans	572	140
Changes in operating assets and liabilities:		
Accounts receivable, net	1,663	(2,449)
Inventories	(2,188)	(4,491)
Other current assets	(178)	9
Accounts payable and other accrued expenses	1,732	4,409
Accrued salaries, wages and payroll taxes	(221)	88
Refundable deposits	(328)	(149)
Net cash used in operating activities	(1,695)	(1,860)
Cash flows from investing activities:		
Expenditures for Property, equipment and leasehold improvements	(5,651)	(3,228)
Proceeds from sale of Property, equipment and leasehold improvements	—	385
Net cash used in investing activities	(5,651)	(2,843)
Cash Flows from Financing Activities:		
Principal payments on debt and capital lease obligations	(225)	(122)
Net borrowings under revolving line of credit	7,770	4,900
Net cash provided by financing activities	7,545	4,778
Increase in Cash and cash equivalents	199	75
Cash and cash equivalents, beginning of period	911	981
Cash and cash equivalents, end of period	$ 1,110	$ 1,056

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

	Twelve Months Ended March 31, 2016	Twelve Months Ended March 31, 2015	Change	% Change
Net sales	$ 201,681	$ 197,905	$ 3,776	1.9 %
Gross profit	$ 59,751	$ 58,032	$ 1,719	3.0 %
As percentage of net sales	29.6 %	29.3%	30 bps	
Selling, general and administrative expenses	58,903	53,891	5,012	9.3 %
Operating income	$ 848	$ 4,141	$ (3,293)	(79.5)%
Net income	$ 172	$ 2,155	$ (1,983)	(92.0)%
Basic and diluted net income per share	$ 0.01	$ 0.11	$ (0.10)	(90.9)%
Total shipments (in barrels):				
Core Brands	771,500	776,800	(5,300)	(0.7)%
Contract Brewing	34,800	38,300	(3,500)	(9.1)%
Total shipments	806,300	815,100	(8,800)	(1.1)%
Change in depletions [1]	(1)%	5%		

(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 loss
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2016	**2015**
Net loss	$ (3,209)	$ (1,163)
Interest expense	147	121
Income tax benefit	(2,139)	(743)
Depreciation expense	2,571	2,227
Amortization expense	44	61
Stock-based compensation	20	321
Loss on disposal of assets	2	215
Adjusted EBITDA	$ (2,564)	$ 1,039

The Company has presented Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") in these tables to provide investors with additional information to evaluate our operating performance on an ongoing basis using criteria that are used by the Company's management. The Company defines Adjusted EBITDA as net income (loss) before interest, income taxes, depreciation and amortization, stock compensation and other non-cash charges, including net gain or loss on disposal of property, 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).