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

FORM 10-Q

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

For The Quarterly Period Ended September 30, 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 October 25, 2016 was 19,257,428.

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 410	$ 911
Accounts receivable, net	23,742	18,926
Inventory, net	20,906	18,300
Deferred income tax asset, net	2,077	1,905
Other current assets	2,029	2,439
Total current assets	49,164	42,481
Property, equipment and leasehold improvements, net	122,347	116,867
Goodwill	12,917	12,917
Intangible and other assets, net	19,548	18,069
Total assets	$ 203,976	$ 190,334
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 18,253	$ 17,100
Accrued salaries, wages and payroll taxes	5,858	5,468
Refundable deposits	6,804	6,559
Other accrued expenses	1,943	2,009
Current portion of long-term debt and capital lease obligations	1,312	507
Total current liabilities	34,170	31,643
Long-term debt and capital lease obligations, net of current portion	29,020	18,991
Fair value of derivative financial instruments	875	569
Deferred income tax liability, net	19,899	19,669
Other liabilities	1,124	724
Total liabilities	85,088	71,596
Commitments and contingencies		
Common shareholders' equity:		
Common stock, $0.005 par value. Authorized 50,000,000 shares; issued and outstanding 19,257,428 and 19,179,006	96	96
Additional paid-in capital	140,270	139,534
Accumulated other comprehensive loss	(542)	(352)
Accumulated deficit	(20,936)	(20,540)
Total common shareholders' equity	118,888	118,738
Total liabilities and common shareholders' equity	$ 203,976	$ 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Sales	$ 58,660	$ 58,460	$ 166,747	$ 165,717
Less excise taxes	3,457	3,771	10,044	10,788
Net sales	55,203	54,689	156,703	154,929
Cost of sales	38,229	37,830	110,514	108,218
Gross profit	16,974	16,859	46,189	46,711
Selling, general and administrative expenses	15,876	15,497	46,348	44,713
Operating income (loss)	1,098	1,362	(159)	1,998
Interest expense	(186)	(148)	(520)	(419)
Other income, net	7	7	19	20
Income (loss) before income taxes	919	1,221	(660)	1,599
Income tax expense (benefit)	367	489	(264)	640
Net income (loss)	$ 552	$ 732	$ (396)	$ 959
Basic and diluted net income (loss) per share	$ 0.03	$ 0.04	$ (0.02)	$ 0.05
Shares used in basic per share calculations	19,244	19,171	19,213	19,144
Shares used in diluted per share calculations	19,343	19,180	19,213	19,171

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net income (loss)	$ 552	$ 732	$ (396)	$ 959
Unrealized gain (loss) on derivative hedge transactions, net of tax	84	(117)	(190)	(85)
Comprehensive income (loss)	$ 636	$ 615	$ (586)	$ 874

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

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

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cash flows from operating activities:		
Net income (loss)	$ (396)	$ 959
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,056	7,221
Loss on sale or disposal of Property, equipment and leasehold improvements	16	318
Deferred income taxes	174	217
Stock-based compensation	642	880
Excess tax benefit from employee stock plans	—	(50)
Other	13	(227)
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,816)	(6,978)
Inventories	(2,902)	1,375
Other current assets	410	581
Accounts payable and other accrued expenses	736	2,893
Accrued salaries, wages and payroll taxes	389	661
Refundable deposits	545	452
Net cash provided by operating activities	2,867	8,302
Cash flows from investing activities:		
Expenditures for Property, equipment and leasehold improvements	(12,206)	(9,772)
Proceeds from sale of Property, equipment and leasehold improvements	8	410
Expenditures for long-term deposits	(925)	—
Net cash used in investing activities	(13,123)	(9,362)
Cash flows from financing activities:		
Principal payments on debt and capital lease obligations	(477)	(968)
Net borrowings under revolving line of credit	10,138	2,900
Proceeds from issuances of common stock	172	64
Tax payments related to stock-based awards	(78)	(151)
Excess tax benefit from employee stock plans	—	50
Net cash provided by financing activities	9,755	1,895
Increase (decrease) in Cash and cash equivalents	(501)	835
Cash and cash equivalents:		
Beginning of period	911	981
End of period	$ 410	$ 1,816
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 489	$ 482
Cash paid for income taxes, net	102	58
Supplemental disclosure of non-cash information:		
Purchases of Property, equipment and leasehold improvements with capital leases	$ 1,173	$ —
Purchases of Property, equipment and leasehold improvements included in Accounts payable at end of period	1,685	1,917

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

ASU 2016-13
In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)." ASU 2016-13 addressed accounting for credit losses for assets that are not measured at fair value through net income on a recurring basis. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods, with early adoption permitted for fiscal years beginning after December 15, 2018. We do not expect the adoption of ASU 2016-13 to have a material effect on our financial position, results of operations or cash flows.

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

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

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

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

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

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

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

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

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

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

ASU 2015-02

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

ASU 2014-09

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09, as amended, affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). ASU 2014-09, as amended, is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. We are still evaluating any potential impact that adoption of ASU 2014-09 may have on our financial position, results of operations or cash flows.

Note 3. Cash and Cash Equivalents

We maintain cash balances with financial institutions that may exceed federally insured limits. We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of September 30, 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 September 30, 2016 and December 31, 2015, bank overdrafts of $0.4 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 brewpub food, beverages and supplies, are stated at the lower of standard cost or market. Brewpub 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):

	September 30, 2016	December 31, 2015
Raw materials	$ 7,406	$ 5,468
Work in process	3,050	3,822
Finished goods	6,859	6,109
Packaging materials	1,243	727
Promotional merchandise	1,660	1,477
Brewpub food, beverages and supplies	688	697
	$ 20,906	$ 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"), Ambev and Anheuser-Busch Worldwide Investments, LLC ("ABWI")
In December 2015, we partnered with Ambev, the Brazilian subsidiary of Anheuser-Busch InBev SA, to distribute Kona beers into Brazil. In August 2016, we also entered into an International Distribution Agreement with ABWI, an affiliate of A-B, pursuant to which ABWI will distribute our malt beverage products in jurisdictions outside the United States, subject to the terms and conditions of our agreement with our existing international distributor, CraftCan Travel LLC, and certain other limitations summarized in "International Distribution Agreement" below. Transactions with A-B, Ambev and ABWI consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Gross sales to A-B and Ambev	$ 45,312	$ 47,943	$ 131,206	$ 135,890
International distribution fee earned from ABWI	900	—	900	—
Margin fee paid to A-B, classified as a reduction of Sales	330	693	1,144	1,978
Inventory management and other fees paid to A-B, classified in Cost of sales	98	102	290	294

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

	September 30, 2016	**December 31, 2015**
Amounts due from A-B related to beer sales pursuant to the A-B distributor agreement	$ 17,529	$ 12,576
Refundable deposits due to A-B	(2,635)	(2,291)
Amounts due to A-B for services rendered	(1,580)	(1,645)
Net amount due from A-B	$ 13,314	$ 8,640

Agreements with Anheuser-Busch, LLC

Contract Brewing Agreement
On August 23, 2016, we entered into a Contract Brewing Agreement (the "Brewing Agreement") with A-B Commercial Strategies, LLC ("ABCS"), an affiliate of A-B, pursuant to which ABCS will brew, bottle and package up to 300,000 barrels of our mutually agreed products annually, in facilities owned by ABCS within the United States, for an initial term through December 31, 2026. Under the terms of the Brewing Agreement, we will equally share in any cost savings arising from the Brewing Agreement, provided that our cost savings shall be equal to at least $10.00 per barrel on an aggregate basis, following certain adjustments, as set forth in the Brewing Agreement.

The Brewing Agreement contains specified termination rights, including, among other things, the right of either party to terminate the Brewing Agreement if (i) the other party fails to perform any material obligation under the Brewing Agreement, subject to certain cure rights, (ii) the International Distribution Agreement (as defined below) is terminated pursuant to certain specified provisions thereof or (iii) subject to certain conditions, if the Master Distributor Agreement (as defined below) is terminated pursuant to certain specified provisions thereof.

In addition, ABCS has the right to terminate the Brewing Agreement upon 90 days' prior written notice to us following (i) a "change of control event" (as defined in the Brewing Agreement) that occurs prior to the third anniversary of the Brewing Agreement or for which a definitive agreement is entered into prior to the third anniversary of the Brewing Agreement and is subsequently consummated or (ii) the earliest of (a) our rejection of a "qualifying offer" (as defined below), (b) the consummation of a transaction underlying a "qualifying offer" and (c) 120 days following the receipt of a "qualifying offer" by us, if ABCS (or an affiliate thereof) and we are unable to enter into a definitive agreement with respect thereto, notwithstanding ABCS's (or its affiliate's) and our good faith and reasonable efforts to negotiate such a definitive agreement, subject to certain additional conditions.

Under the terms of each of the Brewing Agreement, the International Distribution Agreement, the Master Distributor Agreement and the Recapitalization Agreement (as defined below) (collectively, the "Commercial Arrangements"), a "qualifying offer" is defined to include any offer made by ABCS or an affiliate thereof, for the acquisition of all of the issued and outstanding shares of our common stock not owned by ABCS or its affiliates, on customary terms and conditions for a transaction of the type proposed by ABCS or its affiliate, in each case, for an aggregate value of (x) not less than $22.00 per share of our common stock if the offer is made on or prior to August 23, 2017, (y) not less than $23.25 per share of our common stock if the offer is made during the period beginning August 24, 2017 through August 23, 2018 and (z) not less than $24.50 per share of our common stock if the offer is made on or after August 24, 2018.

The foregoing description of the Brewing Agreement does not purport to be complete, and is qualified in its entirety by reference to the full text of the Brewing Agreement, a copy of which is incorporated by reference to Exhibit 10.1 to our Form 8-K filed on August 24, 2016.

International Distribution Agreement

On August 23, 2016, we also entered into an International Distribution Agreement (the "International Distribution Agreement") with ABWI pursuant to which ABWI will become our sole and exclusive distributor of our malt beverage products in jurisdictions outside the United States, subject to the terms and conditions of our agreement with our existing international distributor, CraftCan Travel LLC, and certain other limitations, in each case as set forth in the International Distribution Agreement. Under the International Distribution Agreement, following delivery of notice to us, ABWI will also have the option to elect to commence brewing outside of the United States some or all of the products to be distributed in the non-U.S. jurisdictions covered by the International Distribution Agreement.

Under the terms of the International Distribution Agreement, with respect to our exported products produced by us, ABWI will pay us our costs of production plus reasonable out-of-pocket expenses relating to export shipment costs. Additionally, ABWI will pay us an international royalty fee based on volume of our products sold by ABWI, equal to either $40 per barrel or $30 per barrel, depending on certain factors described in the International Distribution Agreement, which royalty fee will be subject to escalation annually, beginning in calendar year 2018, on the terms described in the International Distribution Agreement. For calendar year 2016, 2017 and 2018, ABWI will also pay us one-time fees of $3.0 million, $5.0 million and $6.0 million, respectively, which amounts shall be subject to proration if the International Distribution Agreement is terminated early in any given year. This fee is recognized in Beer Related Net sales based on the proration, and the total fee will be collected in the first quarter of the following year.

The International Distribution Agreement contains specified termination rights, including, among other things, the right of either party to terminate the International Distribution Agreement if (i) the other party fails to perform any material obligation under the International Distribution Agreement, subject to certain cure rights or (ii) the Brewing Agreement is terminated pursuant to certain specified provisions thereof. In addition, ABWI has the right to terminate the International Distribution Agreement upon 90 days' prior written notice to us following (a) a "change of control event" (as defined in the International Distribution Agreement) that occurs prior to the third anniversary of the International Distribution Agreement or for which a definitive agreement is entered into prior to the third anniversary of the International Distribution Agreement and is subsequently consummated or (b) the earliest of (x) our rejection of a qualifying offer, (y) the consummation of a transaction underlying a qualifying offer and (z) 120 days following the receipt of a qualifying offer by us, if ABWI (or an affiliate thereof) and we are unable to enter into a definitive agreement with respect thereto, notwithstanding ABWI's (or its affiliate's) and our good faith and reasonable efforts to negotiate such a definitive agreement, subject to certain additional conditions (each of the foregoing subclauses (x) through (z), a "qualifying offer lapse"). Following termination of the International Distribution Agreement due to a qualifying offer lapse, or any change of control event, ABWI shall have the right to purchase the international distribution rights for each of our brands then being distributed under the International Distribution Agreement at the fair market value of such rights, and on otherwise customary terms and conditions, as set forth in the International Distribution Agreement.

Under the International Distribution Agreement, ABWI will also be required to make a one-time $20.0 million payment to us on the third anniversary thereof. However, ABWI will not (subject to compliance with certain notice requirements) be obligated to make such one-time payment if, prior to the third anniversary of the International Distribution Agreement, (i) a "change of control event" occurs or for which a definitive agreement is entered into, (ii) ABWI (or an affiliate thereof) makes a qualifying offer and there is a qualifying offer lapse or (iii) ABWI and we enter into a definitive agreement with respect to a qualifying offer but such agreement is subsequently terminated, other than for certain regulatory reasons (in which case the $20.0 million shall remain payable).

The foregoing description of the International Distribution Agreement does not purport to be complete, and is qualified in its entirety by reference to the full text of the International Distribution Agreement, a copy of which is incorporated by reference to Exhibit 10.2 to our Form 8-K filed on August 24, 2016.

Amendment to Master Distributor Agreement and Amendment to Exchange and Recapitalization Agreement
On August 23, 2016, we entered into Amendment No. 3 ("Amendment No. 3") to the Amended and Restated Master Distributor Agreement with A-B, dated as of May 1, 2011, as amended, between us and A-B (the "Master Distributor Agreement"). Pursuant to Amendment No. 3, A-B and we agreed to extend the Master Distributor Agreement through December 31, 2028 (the "Term"), and to maintain the existing margin fee structure of $0.25 per case-equivalent in the Master Distributor Agreement through the Term. Without Amendment No. 3, beginning on January 1, 2019, a margin fee of $0.75 per case equivalent would have been payable by us under the Master Distributor Agreement. Amendment No. 3 also provides that, beginning on January 1, 2019, we will reinvest an aggregate amount equal to $0.25 per case equivalent in sales and marketing efforts for our products, subject to specified terms and conditions set forth in Amendment No. 3.

Pursuant to Amendment No. 3, A-B will have the ability to deliver a revocation notice and reinstitute the terms of the Master Distributor Agreement as they existed prior to Amendment No. 3 following (i) a "change of control event" (as defined in Amendment No. 3) that occurs prior to the third anniversary of Amendment No. 3 or for which a definitive agreement is entered into prior to the third anniversary of Amendment No. 3 and is subsequently consummated or (ii) the earliest of (a) our rejection of a qualifying offer, (b) the consummation of a transaction underlying a qualifying offer, and (c) 120 days following the receipt of a qualifying offer by us, if A-B (or an affiliate thereof) and we are unable to enter into a definitive agreement with respect thereto, notwithstanding A-B's (or its affiliate's) and our good faith and reasonable efforts to negotiate such a definitive agreement, subject to certain additional conditions.

On August 23, 2016, A-B and we also entered into Amendment No. 1 ("Amendment No. 1") to the Amended and Restated Exchange and Recapitalization Agreement, dated as of May 1, 2011, between A-B and us (the "Recapitalization Agreement") to provide for certain actions following a "change of control event" (as defined in Amendment No. 1) or a qualifying offer.

The foregoing descriptions of Amendment No. 3 and Amendment No. 1 do not purport to be complete, and are qualified in their entirety by reference to the full text of Amendment No. 3 and Amendment No. 1, copies of which are incorporated by reference to Exhibits 10.3 and 10.4 to our Form 8-K filed on August 24, 2016.

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

Three Months Ended September 30,		Nine Months Ended September 30,	
2016	**2015**	**2016**	**2015**
$ 30	$ 30	$ 90	$ 90

We lease or sublease certain office space and the land underlying the brewery and brewpub location in Kona, Hawaii, from a company whose owners include a shareholder who owns more than 5% of our common stock. The sublease contracts expire on various dates through 2020, with an extension at our option for two five-year periods. Lease payments to this lessor were as follows (in thousands):

Three Months Ended September 30,		Nine Months Ended September 30,	
2016	**2015**	**2016**	**2015**
$ 157	$ 131	$ 414	$ 392

Note 6. Derivative Financial Instruments

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

We have assessed our vulnerability to certain business and financial risks, including interest rate risk associated with our variable-rate long-term debt. To mitigate this risk, effective January 23, 2014, we entered into an interest rate swap contract with Bank of America, N.A. ("BofA") for 75% of the Term Loan balance, to hedge the variability of interest payments associated with our variable-rate borrowings under our Term Loan with BofA. The current swap contract terminates on September 29, 2023, and had a total notional value of $7.3 million as of September 30, 2016. Through this swap agreement, we pay interest at a fixed rate of 2.86% and receive interest at a floating-rate of the one-month LIBOR, which was 0.53% at September 30, 2016.

Effective January 4, 2016, we entered into an interest rate swap contract with BofA to hedge the variability of interest payments associated with our variable-rate borrowings on our Line of Credit. The notional amount fluctuates based on a predefined schedule based on our anticipated borrowings. The current swap contract terminates on January 1, 2019, and had a total notional value of $10.9 million as of September 30, 2016. Through this swap agreement, we pay interest at a fixed rate of 1.28% and receive interest at a floating-rate of the one-month LIBOR, which was 0.53% at September 30, 2016.

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

As of September 30, 2016, unrealized net losses of $0.9 million were recorded in Accumulated other comprehensive loss as a result of these hedges. The effective portion of the gain or loss on the derivatives is reclassified into Interest expense in the same period during which we record Interest expense associated with the Term Loan and Line of Credit. There was no hedge ineffectiveness during the first nine months of 2016 or 2015.

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

Fair Value of Derivative Instruments

	September 30, 2016	December 31, 2015
Fair value of interest rate swaps	$ (875)	$ (569)

The effect of our interest rate swap contracts that were accounted for as a derivative instrument on our Consolidated Statements of Operations was as follows (in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in Accumulated OCI (Effective Portion)	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)
Three Months Ended September 30,			
2016	$ 136	**Interest expense**	$ 67
2015	$ (188)	**Interest expense**	$ 52
Nine Months Ended September 30,			
2016	$ (306)	**Interest expense**	$ 201
2015	$ (137)	**Interest expense**	$ 156

See also Note 7.

Note 7. Fair Value Measurements

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

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

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

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

Fair Value at September 30, 2016	Level 1	Level 2	Level 3	Total
Interest rate swaps	$ —	$ (875)	$ —	$ (875)
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 September 30, 2016 or December 31, 2015.

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

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

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

	September 30, 2016	December 31, 2015
Fixed-rate debt on balance sheet	$ 964	$ 676
Estimated fair value of fixed-rate debt	$ 993	$ 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 Brewpubs 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. Brewpubs operations primarily include our brewpubs, some of which are located adjacent to our Beer Related operations. We do not track operating results beyond the gross margin level or our assets on a segment level.

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

	Three Months Ended September 30,		
2016	**Beer Related**	**Brewpubs**	**Total**
Net sales	$ 47,165	$ 8,038	$ 55,203
Gross profit	$ 15,823	$ 1,151	$ 16,974
Gross margin	33.5%	14.3%	30.7%
2015			
Net sales	$ 46,940	$ 7,749	$ 54,689
Gross profit	$ 15,633	$ 1,226	$ 16,859
Gross margin	33.3%	15.8%	30.8%

	Nine Months Ended September 30,		
2016	**Beer Related**	**Brewpubs**	**Total**
Net sales	$ 134,476	$ 22,227	$ 156,703
Gross profit	$ 43,046	$ 3,143	$ 46,189
Gross margin	32.0%	14.1%	29.5%
2015			
Net sales	$ 133,727	$ 21,202	$ 154,929
Gross profit	$ 43,914	$ 2,797	$ 46,711
Gross margin	32.8%	13.2%	30.1%

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

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

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

Three Months Ended September 30,		Nine Months Ended September 30,	
2016	**2015**	**2016**	**2015**
76.7%	80.8%	78.0%	80.8%

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

September 30, 2016	December 31, 2015
73.8%	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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of sales	$ 13	$ 21	$ 47	$ 70
Selling, general and administrative expense	320	254	595	810
Total stock-based compensation expense	$ 333	$ 275	$ 642	$ 880

At September 30, 2016, we had total unrecognized stock-based compensation expense of $2.2 million, which will be recognized over the weighted average remaining vesting period of 2.6 years.

Note 10. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted average common shares used for basic EPS	19,244	19,171	19,213	19,144
Dilutive effect of stock-based awards	99	9	—	27
Shares used for diluted EPS	19,343	19,180	19,213	19,171
Stock-based awards not included in diluted per share calculations as they would be antidilutive	116	275	290	223

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

Note 11. Brewing Arrangement with Pabst Northwest Brewing Company

On January 8, 2016, we entered into brewing agreements ("the brewing agreements") with Pabst Northwest Brewing Company ("Pabst"), a subsidiary of Pabst Brewing Company, under which Pabst began brewing selected Rainier Brewing Company and other brands at our brewery in Woodinville, Washington in the second quarter of 2016 under a license agreement. We are continuing to operate the Woodinville brewery and the adjacent Redhook Forecaster's brewpub 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 brewpub, as well as related assets (together, the "Property"), at any time prior to termination of the brewing agreements. The purchase price of the Property will be $25.0 million if Pabst exercises the option during the first year of the agreement, $26.0 million if exercise 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 sixth 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 leading Pacific Northwest craft breweries Redhook Brewery and Widmer Brothers Brewing, and welcomed Kona Brewing Co. to the Alliance in 2010. As part of CBA, these pioneering breweries continue to deepen their roots in their home states while expanding distribution in strategic markets. Today, Kona is the largest craft brewery in Hawaii and has expanded across all 50 U.S. states and into approximately 30 countries worldwide.

In addition to growing and nurturing distinctive brands steeped in local heritage, Craft Brew Alliance has continued to focus on innovation, developing new brands and partnering with strong emerging craft breweries in strategic markets. Omission Beer, launched in 2012, grew to be the leader in the gluten free beer category in less than three years, and Square Mile Cider Company launched in 2013, is the #1 local cider company in the Pacific Northwest. In 2015, CBA embarked on a partnership with Resignation Brewery to launch KCCO craft beers in association with online media site, theCHIVE.com.

As the craft beer market continues to grow and consumers increasingly demand local offerings, CBA has expanded its portfolio of local brands through partnerships with emerging craft breweries in strategic markets. In 2015, we announced strategic partnerships with Appalachian Mountain Brewery, based in Boone, North Carolina; and Cisco Brewers, based in Nantucket, Massachusetts. Through these strategic partnerships, we gain local relevance in select beer geographies, while the partner breweries gain access to our world-class leadership, and brewing and sales 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 brewpub 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. In 2016, we entered into a contract brewing agreement with A-B Commercial Strategies, LLC ("ABCS") and are beginning the process of transitioning our current production volume out of Memphis into ABCS's facilities. 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 and ciders 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. As the leading brand in our portfolio, Kona Brewing Co. is distributed across all 50 U.S. states, and Omission Beer, our second national brand, continues to expand into new markets in the U.S. As strong local craft beer brands, Redhook, Widmer Brothers, Square Mile Cider, KCCO, Appalachian Mountain Brewery and Cisco Brewers are distributed in their respective core markets. Internationally, we partner with Craft Can Travel, LLC and Anheuser-Busch Worldwide Investments, LLC, an affiliate of A-B, to distribute our brands in approximately 30 countries worldwide.

We operate in two segments: Beer Related operations and Brewpubs operations. Beer Related operations include the brewing, and domestic and international sales, of craft beers and ciders from our breweries. Brewpubs operations primarily include our five brewpubs, 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:

Nine Months Ended September 30,	Net sales	Net income (loss)	Number of barrels sold
2016	$156.7 million	$(0.4) million	604,000
2015	$154.9 million	$1.0 million	626,600

Brewing Arrangement with Pabst Northwest Brewing Company

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

Agreements with Anheuser-Busch, LLC

On August 23, 2016, we entered into a Contract Brewing Agreement (the “Brewing Agreement”) with A-B Commercial Strategies, LLC (“ABCS”), an affiliate of A-B, pursuant to which ABCS will brew, bottle and package up to 300,000 barrels of our mutually agreed products annually, in facilities owned by ABCS within the United States, for an initial term through December 31, 2026.

On August 23, 2016, we also entered into an International Distribution Agreement (the “International Distribution Agreement”) with Anheuser-Busch Worldwide Investments, LLC (“ABWI”), an affiliate of A-B, pursuant to which ABWI will become our sole and exclusive distributor of our malt beverage products in jurisdictions outside the United States, subject to the terms and conditions of our agreement with our existing international distributor, CraftCan Travel LLC, and certain other limitations, in each case as set forth in the International Distribution Agreement.

On August 23, 2016, we entered into Amendment No. 3 (“Amendment No. 3”) to the Amended and Restated Master Distributor Agreement with A-B, dated as of May 1, 2011, as amended, between us and A-B (the “Master Distributor Agreement”). Pursuant to Amendment No. 3, A-B and we agreed to extend the Master Distributor Agreement through December 31, 2028 (the “Term”), and to maintain the existing margin fee structure of $0.25 per case-equivalent in the Master Distributor Agreement through the Term. Without Amendment No. 3, beginning on January 1, 2019, a margin fee of $0.75 per case equivalent would have been payable by us under the Master Distributor Agreement. Amendment No. 3 also provides that, beginning on January 1, 2019, we will reinvest an aggregate amount equal to $0.25 per case equivalent in sales and marketing efforts for our products, subject to specified terms and conditions set forth in Amendment No. 3.

For additional information, see Note 5 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Sales	106.3 %	106.9 %	106.4 %	107.0 %
Less excise taxes	(6.3)	(6.9)	(6.4)	(7.0)
Net sales	100.0	100.0	100.0	100.0
Cost of sales	69.3	69.2	70.5	69.9
Gross profit	30.7	30.8	29.5	30.1
Selling, general and administrative expenses	28.8	28.3	29.6	28.9
Operating income (loss)	2.0	2.5	(0.1)	1.3
Interest expense	(0.3)	(0.3)	(0.3)	(0.3)
Other income, net	—	—	—	—
Income (loss) before income taxes	1.7	2.2	(0.4)	1.0
Income tax expense (benefit)	0.7	0.9	(0.2)	0.4
Net income (loss)	1.0 %	1.3 %	(0.3)%	0.6 %

(1) Percentages may not add due to rounding.

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

	Three Months Ended September 30,		
2016	**Beer Related**	**Brewpubs**	**Total**
Net sales	$ 47,165	$ 8,038	$ 55,203
Gross profit	$ 15,823	$ 1,151	$ 16,974
Gross margin	33.5%	14.3%	30.7%
2015			
Net sales	$ 46,940	$ 7,749	$ 54,689
Gross profit	$ 15,633	$ 1,226	$ 16,859
Gross margin	33.3%	15.8%	30.8%

	Nine Months Ended September 30,		
2016	**Beer Related**	**Brewpubs**	**Total**
Net sales	$ 134,476	$ 22,227	$ 156,703
Gross profit	$ 43,046	$ 3,143	$ 46,189
Gross margin	32.0%	14.1%	29.5%
2015			
Net sales	$ 133,727	$ 21,202	$ 154,929
Gross profit	$ 43,914	$ 2,797	$ 46,711
Gross margin	32.8%	13.2%	30.1%

Sales by Category

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

Sales by Category	Three Months Ended September 30, 2016	2015	Dollar Change	% Change
A-B and A-B related(1)	$ 44,982	$ 47,250	$ (2,268)	(4.8)%
Contract brewing and beer related(2)	5,640	3,461	2,179	63.0 %
Excise taxes	(3,457)	(3,771)	314	(8.3)%
Net beer related sales	47,165	46,940	225	0.5 %
Brewpubs(3)	8,038	7,749	289	3.7 %
Net sales	$ 55,203	$ 54,689	$ 514	0.9 %

Sales by Category	Nine Months Ended September 30, 2016	2015	Dollar Change	% Change
A-B and A-B related(1)	$ 130,062	$ 133,912	$ (3,850)	(2.9)%
Contract brewing and beer related(2)	14,458	10,603	3,855	36.4 %
Excise taxes	(10,044)	(10,788)	744	(6.9)%
Net beer related sales	134,476	133,727	749	0.6 %
Brewpubs(3)	22,227	21,202	1,025	4.8 %
Net sales	$ 156,703	$ 154,929	$ 1,774	1.1 %

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

Shipments by Category

Shipments by category were as follows (in barrels):

Three Months Ended September 30,	2016 Shipments	2015 Shipments	Increase (Decrease)	% Change	Change in Depletions(1)
A-B and A-B related(2)	184,900	200,800	(15,900)	(7.9)%	0%
Contract brewing and beer related(3)	21,000	16,100	4,900	30.4 %	
Brewpubs	2,500	3,100	(600)	(19.4)%	
Total	208,400	220,000	(11,600)	(5.3)%	

Nine Months Ended September 30,	2016 Shipments	2015 Shipments	Increase (Decrease)	% Change	Change in Depletions(1)
A-B and A-B related(2)	540,000	571,000	(31,000)	(5.4)%	0%
Contract brewing and beer related(3)	56,500	47,600	8,900	18.7 %	
Brewpubs	7,500	8,000	(500)	(6.3)%	
Total	604,000	626,600	(22,600)	(3.6)%	

(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 decreases in sales to A-B and A-B related in the three and nine-month periods ended September 30, 2016 compared to the same periods of 2015 were primarily due to decreases in domestic shipments, partially offset by increases in unit pricing. A primary cause of the decrease in the three and nine-month periods ended September 30, 2016 was a decrease in domestic shipments of the Redhook and Widmer Brothers brands as we concentrate on their home markets of Washington and Oregon, respectively, as well as decreases in shipments of 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 nine-month period of 2016 compared to the same period of 2015.

The increases in Contract brewing and beer related sales in the three and nine-month periods ended September 30, 2016 compared to the same periods of 2015 were primarily due to contract brewing volume for Cisco Brewers beers, as well as alternating proprietorship fees earned from Appalachian Mountain Brewing Company for leasing the Portsmouth Brewery, which began during the first quarter of 2016, 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, and $0.9 million of fees earned related to the international distribution agreement with ABWI. These increases were partially offset by decreases in our other contract brewing volume.

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

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

Shipments by Brand

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

Three Months Ended September 30,	2016 Shipments	2015 Shipments	Increase (Decrease)	% Change	Change in Depletions
Kona	110,200	97,800	12,400	12.7 %	18 %
Widmer Brothers	36,500	47,500	(11,000)	(23.2)%	(20)%
Redhook	33,100	46,100	(13,000)	(28.2)%	(26)%
Omission	11,300	14,600	(3,300)	(22.6)%	(14)%
All other[1]	11,000	5,700	5,300	93.0 %	130 %
Total[2]	202,100	211,700	(9,600)	(4.5)%	0 %

Nine Months Ended September 30,	2016 Shipments	2015 Shipments	Increase (Decrease)	% Change	Change in Depletions
Kona	310,900	266,000	44,900	16.9 %	18 %
Widmer Brothers	114,800	141,100	(26,300)	(18.6)%	(17)%
Redhook	97,500	134,500	(37,000)	(27.5)%	(22)%
Omission	33,700	40,300	(6,600)	(16.4)%	(10)%
All other[1]	26,600	16,600	10,000	60.2 %	73 %
Total[2]	583,500	598,500	(15,000)	(2.5)%	0 %

(1) All other includes the shipments and depletions from our Square Mile and Resignation brand families, as well as the non-owned Cisco Brewers and Appalachian Mountain Brewing brand families, shipped by us pursuant to distribution agreements.
(2) Total shipments by brand include international shipments and exclude shipments produced under our contract brewing arrangements.

The increases in our Kona brand shipments in the three and nine-month periods ended September 30, 2016 compared to the same periods of 2015 were primarily due to increases in domestic and international shipments, primarily led by demand for Big Wave Golden Ale.

The decreases in our Widmer Brothers brand shipments in the three and nine-month periods ended September 30, 2016 compared to the same periods of 2015 were primarily due to a a strategic decision to focus on the home market of Oregon, led by decreases in Hefeweizen brand shipments.

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

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

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

Shipments by Package

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

	2016		2015	
Three Months Ended September 30,	**Shipments**	**% of Total**	**Shipments**	**% of Total**
Draft	46,000	22.8%	49,800	23.5%
Packaged	156,100	77.2%	161,900	76.5%
Total	202,100	100.0%	211,700	100.0%

	2016		2015	
Nine Months Ended September 30,	**Shipments**	**% of Total**	**Shipments**	**% of Total**
Draft	136,700	23.4%	139,700	23.3%
Packaged	446,800	76.6%	458,800	76.7%
Total	583,500	100.0%	598,500	100.0%

The package mix was relatively consistent in the three and nine-month periods ended September 30, 2016 compared to the same periods of 2015.

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 September 30,		Dollar	
	2016	**2015**	**Change**	**% Change**
Beer Related	$ 31,342	$ 31,307	$ 35	0.1%
Brewpubs	6,887	6,523	364	5.6%
Total	$ 38,229	$ 37,830	$ 399	1.1%

	Nine Months Ended September 30,		Dollar	
	2016	**2015**	**Change**	**% Change**
Beer Related	$ 91,430	$ 89,813	$ 1,617	1.8%
Brewpubs	19,084	18,405	679	3.7%
Total	$ 110,514	$ 108,218	$ 2,296	2.1%

The increases in Beer Related Cost of sales in the three and nine-month periods ended September 30, 2016 compared to the same periods of 2015 were primarily due to increases in brewery costs and distribution rates per barrel, partially offset by decreases in shipment volume and component material costs on a per barrel basis. The brewery costs per barrel for the three-month period ended September 30, 2016 increased as we continued to absorb several key strategic operational enhancements completed during the first quarter of 2016. Beer Related Cost of sales for the nine-month period was also negatively impacted by the operational enhancements, which required the temporary closure of our largest-volume brewery in Portland and led to a decrease in brewing volume in the first quarter of 2016. The three and nine-month periods ended September 30, 2016 were both negatively impacted by lower capacity utilization at the Woodinville brewery as production volume for owned brands was moved from Woodinville to Portland in anticipation of increased contract brewing volume in Woodinville. Contract brewing volume was lower than anticipated causing under absorption of fixed overhead costs in Woodinville.

Early in the fourth quarter of 2016, we laid off approximately half of our production employees at our Woodinville brewery. The fourth quarter costs of the layoff are expected to be offset by the anticipated cost savings in the fourth quarter.

The increases in Brewpubs Cost of sales in the three and nine-month periods ended September 30, 2016 compared to the same periods of 2015 were primarily due to increases in Sales at our Kona brewpub on the island of Oahu. The increases were also partially due to expenses associated with the start up of our Seattle brewpub with anticipated opening in the first half of 2017.

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Capacity utilization	71%	75%	69%	72%

Capacity utilization in the three and nine-month periods ended September 30, 2016 was impacted by a decrease in shipment volume, including contract brewing shipment volume. Capacity utilization in the nine-month period ended September 30, 2016 was also impacted by the closure of our largest and most efficient brewery, located in Portland, for approximately two weeks during the first quarter of 2016 as we installed new equipment to further increase capacity and efficiency. In addition to our owned brewing capacity, we also have a brewing partner in Memphis, Tennessee. This partnership provided us scalable capacity and we had the ability to produce up to 100,000 barrels at this location annually. In 2016, we entered into a contract brewing agreement with ABCS and are beginning the process of transitioning our current production volume out of Memphis into ABCS's facilities.

Gross Profit

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

	Three Months Ended September 30,		Dollar	
	2016	2015	Change	% Change
Beer Related	$ 15,823	$ 15,633	$ 190	1.2 %
Brewpubs	1,151	1,226	(75)	(6.1)%
Total	$ 16,974	$ 16,859	$ 115	0.7 %

	Nine Months Ended September 30,		Dollar	
	2016	2015	Change	% Change
Beer Related	$ 43,046	$ 43,914	$ (868)	(2.0)%
Brewpubs	3,143	2,797	346	12.4 %
Total	$ 46,189	$ 46,711	$ (522)	(1.1)%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Beer Related	33.5%	33.3%	32.0%	32.8%
Brewpubs	14.3%	15.8%	14.1%	13.2%
Overall	30.7%	30.8%	29.5%	30.1%

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

The increase in the Beer Related gross margin in the three-month period ended September 30, 2016 compared to the same period of 2015 was primarily due to improved unit pricing and a decrease in component material costs per barrel, partially offset by higher distribution and brewery costs per barrel. The decrease in the Beer Related gross margin in the nine-month period ended September 30, 2016 compared to the same period of 2015 was primarily due to higher brewery and distribution costs per barrel, partially offset by improved unit pricing and lower component material costs per barrel. The three and nine-month periods ended September 30, 2016 were both negatively impacted by lower capacity utilization at the Woodinville brewery as production volume for owned brands was moved from Woodinville to Portland in anticipation of increased contract brewing volume in Woodinville. Contract brewing volume was lower than anticipated causing under absorption of fixed overhead costs in Woodinville.

The decrease in the Brewpubs gross profit and margin in the three-month period ended September 30, 2016 compared to the same period of 2015 was primarily due to decreased revenue in the Redhook brewpub in Woodinville and the Widmer Brothers brewpub, as well as expenses associated with the start up of our Seattle brewpub, which is anticipated to open in the first half of 2017, partially offset by increased revenues at the Kona brewpubs. The increase in the Brewpubs gross profit and margin in the nine-month period ended September 30, 2016 compared to the same period of 2015 was primarily due to higher guest counts at our Kona brewpub on the island of Oahu in Hawaii which has a higher revenue per guest than the Redhook and Widmer Brothers brewpubs, and cost management achievements at both Kona brewpub locations, partially offset by expenses associated with the start up of our Seattle brewpub.

Selling, General and Administrative Expenses

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

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

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Dollar Change	% Change
	$ 15,876	$ 15,497	$ 379	2.4%
As a % of Net sales	28.8%	28.3%		

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Dollar Change	% Change
	$ 46,348	$ 44,713	$ 1,635	3.7%
As a % of Net sales	29.6%	28.9%		

The increases in SG&A for the three and nine-month periods ended September 30, 2016 compared to the same periods of 2015 were primarily due to increases in expense related to brand marketing, international support and emerging business, partially offset by decreases in employment costs. SG&A increased as a percentage of Net sales in the three and nine-month periods ended September 30, 2016 compared to the same periods of 2015, primarily due to the increase in SG&A expense outpacing the increases in Net sales due to emerging business expenses and costs related to negotiating the new agreements with A-B.

Interest Expense

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

Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Dollar Change	% Change
$ 186	$ 148	$ 38	25.7%

Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Dollar Change	% Change
$ 520	$ 419	$ 101	24.1%

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Average debt outstanding	$29,796	$17,957	$27,274	$18,953
Average interest rate	1.59%	2.13%	1.56%	1.85%

The increases in Interest expense in the three and nine-month periods ended September 30, 2016 compared to the same periods of 2015 were primarily due to the increases in our average debt outstanding. Our average debt outstanding increased as we have borrowed on our line of credit facility to support our expansion and growth plans, and to fund our working capital needs. The increases in average debt outstanding were partially offset by the decreases in the average interest rate.

Income Tax Provision

Our effective income tax rate was 40.0% for the first nine months of 2016 and 40.0% in the first nine 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. We generally finance our capital requirements through cash flows from operations and bank borrowings, and also have the ability to raise capital through the sale of common and preferred stock. We anticipate meeting our obligations for the twelve months beginning October 1, 2016 primarily from cash flows generated from operations and borrowing under our line of credit facility. Capital resources available to us at September 30, 2016 included $0.4 million of Cash and cash equivalents and $21.1 million available under our line of credit facility.

At September 30, 2016 and December 31, 2015, we had $15.0 million and $10.8 million of working capital, respectively, and our debt as a percentage of total capitalization (total debt and common shareholders' equity) was 20.3% and 14.1%, respectively.

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

	Nine Months Ended September 30,	
	2016	2015
Net cash provided by operating activities	$ 2,867	$ 8,302
Net cash used in investing activities	(13,123)	(9,362)
Net cash provided by financing activities	9,755	1,895
Increase (decrease) in Cash and cash equivalents	$ (501)	$ 835

Cash provided by operating activities of $2.9 million in the first nine months of 2016 resulted from our Net loss of $0.4 million, offset by net non-cash expenses of $8.9 million and changes in our operating assets and liabilities as discussed in more detail below.

Accounts receivable, net, increased $4.8 million to $23.7 million at September 30, 2016 compared to $18.9 million at December 31, 2015. This increase was primarily due to the timing of shipments and a $5.0 million increase in our receivable from A-B, which totaled $17.5 million at September 30, 2016. Historically, we have not had collection problems related to our accounts receivable.

Inventories increased $2.6 million to $20.9 million at September 30, 2016 compared to $18.3 million at December 31, 2015. The increase from December 31, 2015 was due to the timing of shipments in the fourth quarter of 2015 and third quarter of 2016, seasonality and the forecasted demand for our beers.

Accounts payable increased $1.2 million to $18.3 million at September 30, 2016 compared to $17.1 million at December 31, 2015, primarily due to the timing of payments related to capital expenditures, raw and component materials and marketing.

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

- federal NOLs of $224,000, or $76,000 tax effected;
- state NOLs of $41,000, tax-effected;
- federal alternative minimum tax (“AMT”) credit carry forwards of $348,000; and
- federal insurance contributions act ("FICA") credit carry forwards of $228,000, 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 $12.2 million in the first nine months of 2016 were primarily directed to beer production capacity and efficiency improvements. As of September 30, 2016, we had an additional $1.7 million of expenditures recorded in Accounts payable on our Consolidated Balance Sheets, compared to $1.3 million at December 31, 2015. We anticipate total capital expenditures of approximately $17 million to $19 million in 2016 primarily for capacity and efficiency improvements, quality initiatives and restaurant and retail. In 2015, we began investing approximately $10 million in our Oregon Brewery to expand capacity to 750,000 barrels per year, with expected completion in the first half of 2017. Also beginning in 2015 through expected completion in early 2018, we are investing approximately $20 million in a new Hawaiian Brewery to expand capacity to 100,000 barrels per year.

We have a loan agreement (as amended, the “Loan Agreement”) with Bank of America, N.A., which consists of a $40.0 million revolving line of credit (“Line of Credit”), including provisions for cash borrowings and up to $2.5 million notional amount of letters of credit, and a $10.1 million term loan (“Term Loan”). We may draw upon the Line of Credit for working capital and general corporate purposes until expiration on November 30, 2020. The maturity date of the Term Loan is September 30, 2023. At September 30, 2016, we had $18.9 million of borrowings outstanding under the Line of Credit and $9.8 million outstanding under the Term Loan.

Under the Loan Agreement, interest accrues at an annual rate based on the London Inter-Bank Offered Rate (“LIBOR”) Daily Floating Rate plus a marginal rate. The marginal rate varies from 0.75% to 1.75% for the Line of Credit and Term Loan based on our funded debt ratio. At September 30, 2016, our marginal rate was 1.00%, resulting in an annual interest rate of 1.53%.

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 third quarter of 2016, no changes in our internal control over financial reporting were identified in connection with the evaluation required by Exchange Act Rule 13a-15 or 15d-15 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

Other than as described below, there have been no changes in our reported risk factors since the filing of our 2015 Annual Report on Form 10-K, which was filed with the SEC on March 2, 2016. The following new risk factor has been identified.

We are subject to tax liabilities imposed by the jurisdictions where we operate.
Tax liabilities may vary significantly and are subject to change. Among others, these taxes include income taxes, property taxes, indirect taxes (excise, sales, use and gross receipts taxes), payroll taxes, and withholding taxes.

We may not be able to pass these tax costs on to consumers and remain competitive. For example, in Oregon, there is a ballot measure proposed for the upcoming November election that would impose a 2.5% minimum tax on gross receipts of C corporations with Oregon sales in excess of $25 million. This tax cannot be offset by tax credits. We estimate the passage of this tax would increase our annual Oregon tax liability. New tax laws and regulations and changes to existing tax laws and regulations could materially and adversely affect our financial results.

Index

Item 6. Exhibits

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

10.1†	Contract Brewing Agreement, dated August 23, 2016, by and between CBA and A-B Commercial Strategies, LLC (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 24, 2016)
10.2†	International Distribution Agreement, dated August 23, 2016, by and between Craft Brew Alliance, Inc. and Anheuser-Busch Worldwide Investments, LLC (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 24, 2016)
10.3	Amendment No. 3 to Amended and Restated Master Distributor Agreement, dated August 23, 2016, by and between CBA and Anheuser-Busch, LLC, as successor in interest to Anheuser-Busch, Incorporated (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 24, 2016)
10.4	Amendment No. 1 to Amended and Restated Exchange and Recapitalization Agreement, dated August 23, 2016, by and between CBA and Anheuser-Busch, LLC, as successor in interest to Anheuser-Busch, Incorporated (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 24, 2016)
31.1	Certification of Chief Executive Officer of Craft Brew Alliance, Inc. pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of Chief Financial Officer of Craft Brew Alliance, Inc. pursuant to Exchange Act Rule 13a-14(a)
32.1	Certification pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350
99.1	Press Release dated November 2, 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 portions of this exhibit. A complete copy of the agreement, including the redacted terms, has been separately filed with the Securities and Exchange Commission.

Index

SIGNATURE

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

CRAFT BREW ALLIANCE, INC.

November 2, 2016

By: /s/ Joseph K. Vanderstelt

Joseph K. Vanderstelt
Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION

I, Andrew J. Thomas, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 2, 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: November 2, 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 September 30, 2016, as filed with the Securities and Exchange Commission on November 2, 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: November 2, 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)

FOR IMMEDIATE RELEASE

18% DEPLETION GROWTH FOR KONA DRIVES OVERALL GROWTH FOR CRAFT BREW ALLIANCE IN THE THIRD QUARTER

Third Quarter Results Underscore Potency of "Kona Plus" Strategy in Action, Further Amplified by Enhanced Commercial Agreements with Anheuser Busch and Growth from Strategic Partnerships

Portland, OR (Nov. 2, 2016) - Craft Brew Alliance, Inc. ("CBA") (Nasdaq: BREW), a leading craft brewing company, today announced results for the third quarter ended September 30, 2016.

The Power of Kona Plus

Against a backdrop of unprecedented competition and slowing sales in the craft beer market, CBA's brand portfolio delivered its second consecutive quarter of positive growth. Third quarter depletion growth of just under 1% was fueled by robust 18% depletions growth for Kona Brewing Co. and underscores the success of our "Kona Plus" strategy, which combines the strength of Kona as a leading national brand family supported by a stable of distinctive local craft brands, including strategic partners Appalachian Mountain Brewery and Cisco Brewers, and craft pioneers Widmer Brothers and Redhook Brewery.

An Enhanced Relationship with A-B

In the third quarter, we announced a series of substantive agreements with Anheuser Busch ("A-B") that build on the success of our existing master distribution agreement and lay the foundation for transformative growth and cost savings, as outlined in a press release dated August 23, 2016.

1. **Master Distributor Agreement:** CBA and A-B extended the current fee structure of their existing Master Distributor Agreement for 10 additional years, through 2028, securing CBA's brands in the industry's strongest wholesaler network and enabling continued investment in our brands and strategic partnerships, such as Appalachian Mountain Brewery and Cisco Brewers.
2. **Contract Brewing Agreement:** Under the new agreement, CBA and A-B will work together to transition up to 300,000 barrels of volume into A-B's state-of-the-art breweries, providing direct support for CBA's ongoing brewery footprint optimization and significant operational cost savings.
3. **International Distribution Agreement:** A-B will support the expansion of CBA's portfolio of brands globally through a new international distribution agreement, which creates opportunities to accelerate the growth of CBA's craft portfolio in additional international markets.

Optimizing our Cost Base

In exploring these new opportunities and assessing the challenges of our market, we have reexamined our business strategies and are already taking steps to ensure the right level of investment against high-priority initiatives. These actions include the reallocation of existing resources and development of a new companywide plan to reduce our cost base by $5 million to $7 million while still supporting sustainable investment against our brands and improved overall business performance. More details of our cost management efforts will be provided as part of our preliminary 2016 full-year results and 2017 annual guidance.

Select third quarter financial highlights

- Third quarter depletions for Kona increased by 18%, compared to the third quarter in 2015, driving positive overall depletion growth of just under 1% across the entire portfolio.
    - CBA's strategic partnerships with Appalachian Mountain Brewery and Cisco Brewers, as well as our international business, also contributed to depletion growth in the third quarter, which was offset primarily by decreases in our Widmer Brothers and Redhook Brewery brand families as we continued to focus those brands in their respective home markets.

- Shipment volume for Kona increased 12.7% in the third quarter, while overall shipment volume decreased by 11,600 barrels, or 5.3%, to 208,400 barrels, compared to the third quarter of 2015. Distributor inventory pressures and lower-than-anticipated contract brewing volume in the third quarter directly impacted our overall shipment volume.
- Net sales grew 0.9% in the third quarter to $55.2 million, while gross profit increased 0.7% to $17.0 million compared to the same period last year. The growth was driven primarily by an increase in net revenue per barrel, fees earned associated with our international distribution agreement with A-B, and partnership agreements with Appalachian Mountain Brewery and Cisco Brewers, as well as pub sales. The net sales increase was partially offset by a decrease in shipment volume, compared to the third quarter in 2015.
- Third quarter gross margin rate was 30.7%, a decrease of 10 basis points, compared to the same period last year.
    - Our Beer gross margin rate increased 20 basis points to 33.5% in the third quarter, compared to 33.3% in the third quarter last year, primarily due to mix (brand, package, geography), accrued international incentives from our new international agreement with A-B, lower A-B fees, and lower component costs, partially offset by lower net pricing, increased distribution rate, and lower brewery productivity.
    - Our Brewpub gross margin rate decreased by 150 basis points to 14.3%, compared to 15.8% in the third quarter of 2015, and reflects a decrease in guest counts and sales, primarily at our Woodinville and Portland brewpubs, as well as expenses associated with the construction of our Seattle brewpub.
- Selling, general and administrative expense ("SG&A") for the quarter was $15.9 million, which represents a 2.4% increase over the third quarter of 2015 and is primarily due to employee related and severance costs, legal and professional fees associated with emerging business and the new A-B agreements, and brand marketing; partially offset by lower employee benefits costs. As a percent of net sales, SG&A increased to 28.8% compared to 28.3% in the third quarter of 2015.
- Net income for the third quarter was $552,000, a decrease of $180,000 or 25% compared to the third quarter of 2015.
    - Diluted earnings per share for the third quarter were $0.03, a decrease of $0.01 compared to the third quarter of 2015.

"CBA's third quarter performance demonstrates further validation of our Kona Plus strategy and underscores our unique value proposition in a progressively competitive and unprecedented market," said Andy Thomas, chief executive officer, CBA. "Looking ahead, we believe that Kona Plus, combined with the benefits of our expanded A-B relationship and upcoming cost optimization efforts, will position CBA for long-term shareholder value."

Select year-to-date financial highlights

- Depletions for Kona increased by 18% while overall portfolio depletions grew just under 1%.
- Shipments of our owned and partner brands decreased by 15,000 barrels, or 2.5%, from the comparable period in 2015, primarily due to lower shipments of Redhook and Widmer Brothers outside of their home markets and the planned shutdown of our Portland Brewery in the first quarter of 2016. The decrease in shipments was partially offset by Kona, which increased shipments by 16.9%, as well as incremental growth of Appalachian Mountain Brewery and Cisco Brewers.
- Net sales increased by 1.1%, primarily attributed to improved net pricing, lower A-B fees, alternating proprietorship fees, increased guest counts at our brewpubs, and the fees earned related to the international distribution agreement with A-B; partially offset by a decrease in overall shipment volumes.
- Year-to-date gross margin rate was 29.5%, a decrease of 60 basis points compared to 30.1% for the same period last year, which primarily reflects higher direct and distribution costs per barrel, partially offset by an increase in net pricing, alternating proprietorship fees, lower A-B fees, mix, and a decrease in component costs.
    - Our Beer gross margin rate decreased 80 basis points to 32.0%, compared to 32.8% in the same period last year.
    - Our Brewpub gross margin rate increased by 90 basis points to 14.1%, compared to 13.2% in the same period of 2015. The increase reflects higher guest counts, primarily in our Hawaiian brewpubs.

- SG&A year to date increased by $1.6 million, or 3.7%, compared to the same period in 2015, primarily due to emerging business and international support, brand marketing, employee related and severance costs, and legal and professional fees associated with the new and enhanced A-B agreements.
- Diluted loss per share was $0.02, compared to diluted earnings per share of $0.05 for the same period last year.

Trailing twelve-month financial highlights

- To address the wide variances in quarterly results and provide a more representative view into our financial performance, we are sharing trailing 12-month comparisons for the periods ended September 30, 2016 and September 30, 2015.
    - For those periods, our Beer shipments decreased 2.7%, depletions were flat, and net sales increased 1.8%.
    - Our Beer gross margin was flat at 32.6% and Brewpubs gross margin expanded by 110 basis points to 13.6%, for a combined gross margin expansion of 10 basis points to 29.9%.

"As many of our craft beer peers begin to acknowledge and address the changes facing our industry, CBA's foresight and investments in our infrastructure and business development, as well as enhanced cost management efforts, will enable us to capitalize on the power of our distinctive portfolio strategy while preparing for our future," said Joe Vanderstelt, chief financial officer, CBA.

Anticipated refined financial results for the full year 2016

Strengthened by the benefits of our enhanced A-B agreements and planned cost savings initiatives, while continuing to acknowledge the ongoing challenges in our market, CBA is refining its full-year guidance, as follows:

- Depletions ranging between an increase of 1% and decrease of 1%, reflecting the growth potential of our Kona Plus strategy, as well as the significant competition and headwinds in the craft beer segment.
- Full-year shipment decline between 3% and 5%, as a result of significantly lower-than-anticipated contract brewing volumes in the fourth quarter of this year.
- Our forecast of average price increases of 1% to 2% remains unchanged, while beer-related revenue per barrel is expected to increase 4% to 6%, as a result of net pricing, new A-B international incentive payments, receipt of contract brewing penalty fees, lower A-B fees, and alternating proprietorship revenues.
- Gross margin of 31.0% to 32.5% remains unchanged, and we expect to be at the low end of the range. Looking at the balance of the year, we expect to see incremental gross margin improvement as a result of strategic cost reduction initiatives, including the recent right-sizing of our Woodinville brewery operations to align with anticipated contract brewing volumes. Additionally, we expect to realize additional benefits through the Portland brewery bottling line modernization and beer loss centrifuge, as well as the Portsmouth canning line.
- SG&A ranging from $59 million to $61 million, an increase from previously issued guidance, as a result of legal and professional fees related to emerging business and the A-B agreements, employee related and severance costs, and a Kona media test.
- Capital expenditures between $17 million and $19 million, a decrease from previously issued range, primarily due to a change in timing of certain planned strategic investments.

Forward-Looking Statements

Statements made in this press release that state the Company's or management's intentions, hopes, beliefs, expectations or predictions of the future, including depletions, shipments and sales volume, 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 our sales and marketing initiatives, relationship with A-B, cost controls, operational enhancements, strategic partners, and capital projects, are forward-looking statements. It is important to note that the Company's actual results could differ materially from those projected in such forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained from time to time in the Company’s SEC filings, including, but not limited to, the Company’s report on Form 10-K for the year ended December 31, 2015. Copies of these documents may be found on the Company’s website, www.craftbrew.com, or obtained by contacting the Company or the SEC.

About Craft Brew Alliance

CBA is a leading craft brewing company that brews, brands and markets some of the world’s most respected and best-loved American craft beers. We are home to three of the earliest pioneers in craft beer: Redhook Ale Brewery, Washington’s largest craft brewery founded in 1981; Widmer Brothers Brewing, Oregon’s largest craft brewery founded in 1984; and Kona Brewing Company, Hawaii’s oldest and largest craft brewery founded in 1994. As part of Craft Brew Alliance, these craft brewing legends have expanded their reach across the U.S. and 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Sales	$ 58,660	$ 58,460	$ 166,747	$ 165,717
Less excise taxes	3,457	3,771	10,044	10,788
Net sales	55,203	54,689	156,703	154,929
Cost of sales	38,229	37,830	110,514	108,218
Gross profit	16,974	16,859	46,189	46,711
As percentage of net sales	30.7%	30.8%	29.5%	30.1%
Selling, general and administrative expenses	15,876	15,497	46,348	44,713
Operating income (loss)	1,098	1,362	(159)	1,998
Interest expense	(186)	(148)	(520)	(419)
Other income, net	7	7	19	20
Income (loss) before income taxes	919	1,221	(660)	1,599
Income tax expense (benefit)	367	489	(264)	640
Net income (loss)	$ 552	$ 732	$ (396)	$ 959
Basic and diluted net income (loss) per share	$ 0.03	$ 0.04	$ (0.02)	$ 0.05
Weighted average shares outstanding:				
Basic	19,244	19,171	19,213	19,144
Diluted	19,343	19,180	19,213	19,171
Total shipments (in barrels):				
Core Brands	202,100	211,700	583,500	598,500
Contract Brewing	6,300	8,300	20,500	28,100
Total shipments	208,400	220,000	604,000	626,600
Change in depletions [(1)]	0%	0%	0%	0%

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

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

	September 30, 2016	September 30, 2015
Current assets:		
Cash and cash equivalents	$ 410	$ 1,816
Accounts receivable, net	23,742	18,719
Inventory, net	20,906	18,276
Deferred income tax asset, net	2,077	1,802
Other current assets	2,029	3,831
Total current assets	49,164	44,444
Property, equipment and leasehold improvements, net	122,347	112,964
Goodwill	12,917	12,917
Intangible and other assets, net	19,548	16,914
Total assets	$ 203,976	$ 187,239
Current liabilities:		
Accounts payable	$ 18,253	$ 17,420
Accrued salaries, wages and payroll taxes	5,858	5,775
Refundable deposits	6,804	7,934
Other accrued expenses	1,943	2,008
Current portion of long-term debt and capital lease obligations	1,312	503
Total current liabilities	34,170	33,640
Long-term debt and capital lease obligations, net of current portion	29,020	16,242
Other long-term liabilities	21,898	20,223
Total common shareholders' equity	118,888	117,134
Total liabilities and common shareholders' equity	$ 203,976	$ 187,239

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

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cash flows from operating activities:		
Net income (loss)	$ (396)	$ 959
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,056	7,221
Loss on sale or disposal of Property, equipment and leasehold improvements	16	318
Deferred income taxes	174	217
Other, including stock-based compensation and excess tax benefit from employee stock plans	655	603
Changes in operating assets and liabilities:		
Accounts receivable, net	(4,816)	(6,978)
Inventories	(2,902)	1,375
Other current assets	410	581
Accounts payable and other accrued expenses	736	2,893
Accrued salaries, wages and payroll taxes	389	661
Refundable deposits	545	452
Net cash provided by operating activities	2,867	8,302
Cash flows from investing activities:		
Expenditures for Property, equipment and leasehold improvements	(12,206)	(9,772)
Proceeds from sale of Property, equipment and leasehold improvements	8	410
Expenditures for long-term deposits	(925)	—
Net cash used in investing activities	(13,123)	(9,362)
Cash flows from financing activities:		
Principal payments on debt and capital lease obligations	(477)	(968)
Net borrowings under revolving line of credit	10,138	2,900
Proceeds from issuances of common stock	172	64
Tax payments related to stock-based awards	(78)	(151)
Excess tax benefit from employee stock plans	—	50
Net cash provided by financing activities	9,755	1,895
Increase (decrease) in Cash and cash equivalents	(501)	835
Cash and cash equivalents, beginning of period	911	981
Cash and cash equivalents, end of period	$ 410	$ 1,816

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

	Twelve Months Ended September 30, 2016	Twelve Months Ended September 30, 2015	Change	% Change
Net sales	$ 205,942	$ 202,366	$ 3,576	1.8 %
Gross profit	$ 61,674	$ 60,362	$ 1,312	2.2 %
As percentage of net sales	29.9%	29.8%	10 bps	
Selling, general and administrative expenses	59,567	56,889	2,678	4.7 %
Operating income	$ 2,107	$ 3,473	$ (1,366)	(39.3)%
Net income	$ 863	$ 1,677	$ (814)	(48.5)%
Basic and diluted net income per share	$ 0.04	$ 0.09	$ (0.05)	(55.6)%
Total shipments (in barrels):				
Core Brands	772,600	786,600	(14,000)	(1.8)%
Contract Brewing	29,200	37,800	(8,600)	(22.8)%
Total shipments	801,800	824,400	(22,600)	(2.7)%
Change in depletions (1)	0%	1%		

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

Supplemental Disclosures Regarding Non-GAAP Financial Information

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net income (loss)	$ 552	$ 732	$ (396)	$ 959
Interest expense	186	148	520	419
Income tax expense (benefit)	367	489	(264)	640
Depreciation expense	2,651	2,433	7,926	7,040
Amortization expense	43	61	130	181
Stock-based compensation	333	275	642	898
Loss on disposal of assets	7	12	16	318
Adjusted EBITDA	$ 4,139	$ 4,150	$ 8,574	$ 10,455

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

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