CRAFT BREW ALLIANCE, INC.
Form 10-K
March 02, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended: December 31, 2015
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
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	97227-1733
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (503) 331-7270

Securities Registered pursuant to Section 12(b) of the Act:	
Title of each class	Name of each exchange on which registered
Common Stock, $0.005 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

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 definition of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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 Act). Yes No

The aggregate market value of the common equity held by non-affiliates of the registrant as of the last day of the registrant’s most recently completed second quarter on June 30, 2015 (based upon the closing price of the registrant’s common stock, as reported by the NASDAQ Stock Market, of $11.06 per share) was $123,580,547.

The number of shares outstanding of the registrant’s common stock as of February 16, 2016 was 19,179,006 shares.

Documents Incorporated by Reference
Portions of the registrant’s definitive Proxy Statement for the 2016 Annual Shareholders’ Meeting are incorporated by reference into Part III.

CRAFT BREW ALLIANCE, INC.
2015 FORM 10-K ANNUAL REPORT
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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K 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 “Item 1A. - Risk Factors” and those described from time to time in our future reports filed with the Securities and Exchange Commission. Caution should be taken not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report.

THIRD-PARTY INFORMATION

In this report, we rely on and refer to information regarding industry data obtained from market research, publicly available information, industry publications, U.S. government sources or other third parties. Although we believe that the third-party sources of information we use are materially complete, accurate and reliable, there is no assurance of the accuracy, completeness or reliability of third-party information.

PART I

Item 1. Business

Overview

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

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

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

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

Publicly traded on NASDAQ under the ticker symbol BREW, Craft Brew Alliance is headquartered in Portland, Oregon and operates five breweries and five pub restaurants across the U.S. For more information about CBA and its brands, see “Available Information” on page 11.

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

We distribute our beers to retailers through wholesalers that are aligned with the Anheuser-Busch, LLC (“A-B”) network. These sales are made pursuant to a Master Distributor Agreement (the “A-B Distributor Agreement”) with A-B. As a result of this distribution arrangement, we believe that, under alcohol beverage laws in a majority of states, these wholesalers would own the

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exclusive right to distribute our beers in their respective markets if the A-B Distributor Agreement expires or is terminated. Kona, Redhook and Widmer Brothers beers are distributed in all 50 states. Omission Beer continues to expand into new markets in the U.S. and internationally, while Square Mile Cider is currently available in 12 states in the West. Separate from our A-B wholesalers, we maintain an internal independent sales and marketing organization with resources across the key functions of brand management, field marketing, field sales, and national retail sales.

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

Industry Background

We are one of the top five brewers in the craft brewing segment of the U.S. brewing industry. The domestic beer market includes ales and lagers produced by large domestic brewers, international brewers and craft brewers. Shipments of craft beer in the U.S. are estimated by industry sources to have increased by approximately 13% in 2015 over 2014 and by 17% in 2014 over 2013. While the overall domestic market experienced a modest decrease in shipments of 0.3% in 2015, the craft beer segment continued its strong growth and captured market share from the rest of the domestic market. Craft beer shipments in 2015 and 2014 were approximately 12.8% and 11.3%, respectively, of total beer shipped in the U.S. Approximately 26.4 million barrels and 23.3 million barrels, respectively, were shipped in the U.S. by the craft beer segment during 2015 and 2014, while total beer sold in the U.S., including imported beer, was 206.0 million barrels and 206.7 million barrels, respectively. Compared with the other segments of the U.S. brewing industry, craft brewing is a relative newcomer. Twenty years ago, Redhook and Widmer Brothers Brewery were two of the approximately 200 craft breweries in operation. By the end of 2015, the number of craft breweries in operation had grown to more than 4,100. Industry sources estimate that craft beer produced by regional and national craft brewers, similar to us, accounts for approximately two-thirds of total craft beer sales, with one-third of the production brewed by smaller craft breweries.

Our comprehensive portfolio and national scale provide a competitive advantage in today’s market environment, which includes craft brewers, domestic specialty beers, and imports. The company’s distinctive brand portfolio is positioned to address significant changes in consumer trends, including increased demand for innovative flavors and styles, a growing interest in sustainability, and the increasing importance of local relevance. As an example, Kona Brewing is one of the most distinctive craft brewers, with a broad portfolio of beers that reflect a uniquely Hawaiian flavor profile, a recognized track record in sustainable business practices, and deep ties to its local community as Hawaii’s oldest and largest craft brewery.

Business Strategy

At Craft Brew Alliance, we believe that we have an advantaged strategy that differentiates us in the rapidly evolving craft beer segment.

The central elements of our business strategy include:

- An innovative complementary portfolio of beers and ciders that reflects changing consumer trends in craft beer and is designed to satisfy a wide range of variety-seeking consumers’ experiences and preferences. The breadth of our product offerings also provides consumers with the opportunity to match specific consumer occasions with a product in our brand families.
- Distinct, authentic craft beer brands with rich stories that are rooted in their local communities such as Widmer Brothers, Redhook Brewery, and Kona Brewing Company, as well as bold new trailblazers such as Omission Beer

and Square Mile Cider Company, and emerging craft players such as Appalachian Mountain Brewery and Cisco Brewers.

- A national brewing footprint that allows us to get our beers to market faster, fresher and more efficiently. We have significant flexibility to fully leverage the specific strengths of our distinct breweries and operations. Additionally, we guarantee the quality and consistency of all of our products through fine-tuned processes that ensure everything, from brewing to quality-assurance to warehousing and distribution, meets our high standards. We believe that maximizing production under our direct supervision and through accomplished and expert partners is critical to our success. Further, we believe that our ability to engage in ongoing product innovation and to control product quality provides critical competitive advantages. Each of our breweries is modern, has flexible production capabilities, and is designed to produce beer in smaller batches relative to the national domestic brewers, thereby allowing us to brew a wide variety of brand offerings. We believe that our investment in brewing and logistics technologies enables us to minimize brewery operating costs and consistently produce innovative beer styles.

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- Nationwide sales activation through robust partnerships with leading retailers such as Buffalo Wild Wings, Safeway, and Costco. We leverage our national sales and marketing capabilities and complementary brand families to create a unique identity in the distribution channel and with the consumer. Our sales force calls on all retail channels nationally, including grocery, drug and convenience stores, something most other craft brewers are not able to do.
- National seamless distribution through the Anheuser-Busch wholesaler network alliance. This distribution footprint provides efficiencies in logistics and product delivery, state reporting and licensing, billing and collections. We have realized these efficiencies while maintaining full autonomy over the production, sale and marketing of our products as an independent craft beer company.
- A diverse leadership team with extensive experience in the beer and beverage industries. The team has a proven ability to manage brand lifecycles, from development to turnaround, in both large and growth-company settings.

Brand Overview

Our portfolio includes our owned brands, the Kona Brewing Company, Widmer Brothers Brewing, Redhook Brewery, Omission Beer and Square Mile Cider Company brand families, along with partner brands Appalachian Mountain Brewery, Cisco Brewers and Resignation Brewery.

We produce a variety of specialty craft beers and ciders using traditional brewing methods complemented by American innovation and invention. We brew our beers using high-quality hops, malted barley, wheat, rye and other natural traditional and nontraditional ingredients. To craft our ciders, we use three apple varieties from the Pacific Northwest and then use a lager beer yeast to make a unique and easy-to-drink hard cider.

Below is an overview of our five owned brands:

Kona Brewing Company
Kona Brewing Company was started in the spring of 1994 in Kailua-Kona, Hawaii by father and son team Cameron Healy and Spoon Khalsa, who had a dream to create fresh, local island brews made with spirit, passion and quality. It is a Hawaii-born and Hawaii-based craft brewery that prides itself on brewing the freshest beer of exceptional quality, closest to market. This helps to minimize its carbon footprint by reducing shipping of raw materials, finished beer and wasteful packaging materials. The brewery is headquartered where it began, in Kailua-Kona on Hawaii’s Big Island.

Widmer Brothers Brewing
Widmer Brothers Brewing founders Kurt and Rob Widmer helped create the Pacific Northwest craft beer movement in 1984 when, in their 20s, they began brewing unique interpretations of traditional German beer styles. In 1986, Widmer Brothers Brewing introduced the original American-style Hefeweizen, which elevated the brewery to national acclaim and has long been Oregon’s favorite craft beer. The brewery’s iconic Hefe will celebrate its 30th anniversary in 2016. For more than three decades, Widmer Brothers has continued to push the boundaries of craft beer, developing a variety of beers with an unapologetic, uncompromising commitment to innovation. Based in Portland, Oregon, the brewery currently brews a variety of beers including Hefeweizen, Upheaval IPA, Steel Bridge Porter, Drop Top Amber Ale, and a full seasonal lineup. Additionally, the brewery continues to make a series of limited edition, small-batch beers available in Oregon and at the Widmer Brothers pub in North Portland.

Redhook Brewery
Redhook was born out of the energy and spirit of the early 1980s in the heart of Seattle. While the term didn’t exist at the time, Redhook became one of America’s first craft breweries with its focus on creating “better beers.” From a modest start in a former transmission shop in the Seattle neighborhood of Ballard to a Fremont trolley barn that housed The Trolleyman brewpub, to its current breweries in Woodinville, Washington, and Portsmouth, New Hampshire, Redhook has become one of America’s most recognized craft breweries. Redhook will open a 10-barrel brewpub in the Capitol Hill neighborhood of Seattle in the fall of 2016.

While Redhook has “grown up” over the past 30 years, one thing has never changed - Redhook is still brewing great beers like ESB, Long Hammer IPA, Audible Pale Ale and a variety of seasonal beers. Most importantly, Redhook has fun doing it. Redhook beers are available on draft and in bottles and cans around the country.

Omission Beer

Omission Brewery is the first craft beer brand in the United States focused exclusively on brewing great-tasting craft beers with traditional ingredients-including malted barley-that are crafted to remove gluten. Brewed in Portland, Oregon, gluten levels in every batch of Omission beer are tested at independent labs using the R5Competitive Eliza test to ensure that gluten levels are less than 20 parts per million. Test results for every batch of Omission beer are available to consumers at: www.omissiontests.com Omission produces three craft beers specially crafted to remove gluten: Omission Lager, Omission Pale Ale and Omission IPA.

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Square Mile Cider Company
Launched in 2013, Square Mile Cider is the hard cider for the modern day pioneers celebrating the spirit of the Pacific Northwest. We set out to reinvigorate an enduringly classic American beverage with a blend of hand-selected apples combined with unique Northwest ingredients. Square Mile Cider produces two varieties of hard cider, The Original and Spur & Vine, our hopped version.

New Brands and Packaging

Our recent brand and packaging announcements include:

Kona Brewing
Founded in 1994, Kona celebrated its 21st anniversary in 2015, with a Hawaii-inspired beer series dedicated to giving back to its home. Kona's Makana Series, available exclusively in Hawaii, featured four beers, each inspired by the four elements, with proceeds from each beer benefiting a local Hawaiian non-profit. 2015 represented the sixth consecutive year of double-digit growth for the Hawaiian brewery on the mainland, as Kona continued to expand Longboard Lager and Big Wave Golden Ale into new markets, increasing our U.S. distribution to all 50 states. We also added new countries to our ever-growing line-up, bringing us to nearly 30 countries.

Widmer Brothers Brewing
In May 2015, Widmer Brothers launched the first seasonal variation of its flagship beer Hefeweizen nationwide. Hefe Shandy, which is brewed with a new hop varietal, Lemon Drop, pays homage to the ritual of adding lemon to the rim of the glass, which dates back to Hefe's creation in 1986. The result is a bright and refreshing wheat beer with heightened citrus aroma and flavor. At 4.2% ABV, Hefe Shandy was crafted with summertime in mind. As part of the brewery's commitment to support its flagship at home, Widmer Brothers also announced the largest co-branded launch between a craft brewery and a Major League Soccer team with the launch of Widmer Brothers Hefeweizen as "The Official Craft Beer of the Portland Timbers" during the 2015 MLS season. The brand launch received notable attention as the Timbers went on to earn the MLS Cup Title, the first major sports championship for Portland in more than four decades. Additionally, Widmer Brothers launched a year-round offering, Replay, a session IPA, in Oregon and SW Washington, and brought back its popular 100 Days of Hefe summer event series in Portland. Also in 2015, the brewery partnered with Audi to give one lucky Hefe fan a new car.

Redhook Brewery
In 2015, Redhook paid homage to its roots as the first craft brewery in Seattle with an integrated marketing campaign proclaiming Redhook as "the granddaddy of craft." Radio ads, billboards and digital content reminded beer lovers of Redhook's important role in Seattle's brewing history. In April, Redhook released its iconic ESB, first launched in 1984, with a throwback design on its bottles, as well as new 16 oz cans in the Northwest. Redhook also continued to build on its partnerships, kicking off a distinctive collaboration with Hardee's and Carl's Jr. to create the Redhook Beer-Battered Cod Fish Sandwich, available nationwide. The brewery also continued its partnership with the University of Washington and its beloved football and basketball teams.

Omission Beer
In 2015, Omission Beer maintained its position as the market leader in the gluten-free beer category. Omission IPA continued to expand into new markets across the country, following in the footsteps of Omission Lager and Pale Ale. With a continued focus on the healthy and active lifestyle consumer, Omission Beer became the official beer sponsor of Wanderlust, a health driven event series, and partnered with lifestyle influencers to create branded informational content to support those looking to reduce or remove gluten from their diets.

Square Mile Cider Company

In 2015, Square Mile Cider Company continued to expand distribution in select Western states, becoming the number one locally produced cider in the Northwest. The brand, which finds its inspiration from the pioneering spirit of the original Oregon pioneers, continues to offer two varieties: The Original, a classic American hard cider; and Spur & Vine, a hopped version of the classic American hard cider, with the addition of Galaxy hops.

Resignation Brewery

In 2015, Resignation Brewery expanded distribution of its KCCO Gold Lager, leveraging nationwide meetups of theCHIVE.com to introduce the beer in an offline setting. A clean and crisp lager with notes of honey and biscuit, KCCO Gold Lager proves pilsner-style lagers can be full-flavored. Resignation Brewery has continued to focus on, and support, Texas, where the Chive.com headquarters reside, with the launch of a Texas-only beer, KCCO White Wheat. Brewed with both lemon and orange zest yielding a unique citrus flavor, KCCO White Wheat creates a perfectly balanced mix of white wheat with sweet honey malt.

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Brewing Operations

Brewing Facilities
We use highly automated brewing equipment at our four owned production breweries and also operate two smaller, manual brewpub-style brewing systems. As of December 31, 2015, our total owned production capacity was 1,075,000 barrels. Our breweries consist of the following:

- Oregon Brewery. Our Oregon Brewery is our largest capacity production brewery, consisting of a 230-barrel brewing system with an annual capacity of 630,000 barrels. Construction is currently underway to increase the annual capacity to 750,000 barrels.
- Washington Brewery. Our Washington Brewery utilizes a 100-barrel brewing system and has an annual capacity of 220,000 barrels.
- New Hampshire Brewery. Our New Hampshire Brewery utilizes a 100-barrel brewing system and has an annual capacity of 215,000 barrels. It uses an anaerobic waste-water treatment facility that completes the process cycle.
- Hawaiian Brewery. Our Hawaiian Brewery utilizes a 25-barrel brewing system and has an annual capacity of 10,000 barrels. The Hawaiian Brewery utilizes a 229-kilowatt photovoltaic solar energy generating system to supply approximately 50 percent of its energy requirements through renewable energy. In 2016, we will break ground on a new 100,000 barrel brewery near our existing brewery and pub in Kona, which is expected to be fully operational by early 2018.
- Innovation Breweries. Our Portland, Oregon innovation brewery maintains a 10-barrel pilot brewing system and is located in the Rose Quarter sports and entertainment district. In 2016, our Portland innovation brewery will move from the Rose Quarter to our Oregon Brewery location. Our New Hampshire innovation brewery maintains a 3-barrel pilot brewing system and is located on the same site as our New Hampshire production brewery.

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

Packaging
We package our craft beers in cans, bottles and kegs. All of our production breweries, with the exception of the Hawaiian Brewery, have fully automated bottling and keg lines. The bottle fillers at all of the breweries utilize a carbon dioxide environment during bottling, ensuring that minimal oxygen is dissolved in the beer and extending the beer’s shelf life. We offer an assortment of packages to highlight the unique characteristics of each of our beers and to provide greater opportunities for customers to drink our beers in more locations and at more events and occasions, matching the active lifestyles and preferences of our consumers.

Quality Control
We monitor production and quality control at all of our breweries, with central coordination at the Oregon Brewery. All of the breweries have an on-site laboratory where microbiologists and lab technicians supervise on-site yeast propagation, monitor product quality, test products, measure color and bitterness, and test for oxidation and unwanted bacteria. We also regularly utilize outside laboratories for independent product analysis. In addition, every batch of beer that we produce goes through an internal taste panel to ensure that it meets our taste and profile standards.

Ingredients and Raw Materials
We currently purchase a significant portion of our malted barley from two suppliers and our premium-quality select hops, mostly grown in the Pacific Northwest, from competitive sources. We also periodically purchase small lots of hops from international sources, such as New Zealand and Western Europe, which we use to achieve a special hop character in certain beers. In order to ensure the supply of the hop varieties used in our products, we enter into supply contracts for our hop requirements. We believe that comparable quality malted barley and hops are available from alternate sources at competitive prices, although there can be no assurance that pricing would be consistent with our

current arrangements. We currently cultivate our own yeast supply for certain strains and maintain a separate, secure supply in house. We have access to multiple competitive sources for packaging materials, such as labels, six pack carriers, crowns, cans and shipping cases.

Contract Brewing
In order to profitably use excess capacity, we enter into contract brewing arrangements under which we produce beer in volumes and per specifications as designated by the arrangements.

During 2015, we shipped 36,800 barrels under contract brewing arrangements compared to 39,700 barrels in 2014 and 30,300 in 2013.

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Pubs Operations

We own and operate five brew-pub restaurants and retail stores that support consumer awareness and research and development. Our five brew-pub restaurants allow us to interact directly with over 1.5 million consumers annually in our home markets, which creates a sense of brand loyalty. Our brewers are continually experimenting with new and different varieties of hops and malts in all styles of beer, and our brew pubs allow us to bring those beers to market in test-size batches in order to evaluate their strengths prior to releasing them on a wider basis.

Distribution

With limited exceptions, all brewers in the United States are required to sell their beers to independent wholesalers, who then sell the beers to retailers. We are the only independent craft brewer in the U.S. to have established a wholly-aligned distribution network through our partnership with A-B. This partnership provides us national distribution, which results in both an effective distribution presence in each market and administrative efficiencies. Our beers are available for sale directly to consumers in draft, cans and bottles at restaurants, bars and liquor stores, as well as in cans and bottles at supermarkets, warehouse clubs, convenience stores and drug stores. We sell beer directly to consumers at our brew pubs and breweries.

Our products are distributed in all 50 states, pursuant to a master distributor agreement with A-B that allows us access to A-B’s national distribution network. For additional information regarding our relationship with A-B, see “Relationship with Anheuser-Busch, LLC” below. Management believes that our competitors in the craft beer segment generally negotiate distribution relationships separately with wholesalers in each locality and, as a result, typically distribute through a variety of wholesalers representing differing national beer brands with uncoordinated territorial boundaries.

In 2015 and 2014, we sold approximately 753,400 barrels and 766,600 barrels, respectively, to the wholesalers in A-B’s distribution network through the A-B Distributor Agreement, accounting for 91.4% and 92.3%, respectively, of our shipment volume for the corresponding periods.

Sales and Marketing

In addition to leveraging our owned brew pubs and retail locations, we promote our products through a national sales and marketing network that includes, but is not limited to, i) creating and executing a range of advertising programs; ii) training and educating wholesalers and retailers about our products; and iii) promoting our name, product offerings, brands, and experimental beers at local festivals, venues and pubs.

We advertise and promote our products through an assortment of media, including television, radio, billboard, print and social media, including Facebook, Twitter and Instagram, in key markets and by participating in cooperative programs with our wholesalers whereby our spending is matched by the distributor. We believe that the financial commitment by the distributor helps align the distributor’s interests with ours, and the distributor’s knowledge of the local market results in an advertising and promotion program that is targeted in a manner that will best promote our products.

Our breweries also play a significant role in increasing consumer awareness of our products and enhancing our image as a craft brewer. Thousands of visitors per year take tours at our breweries and all of our production breweries have a retail restaurant or pub where our products are served. In addition, several of the breweries have meeting rooms that the public can rent for business meetings, parties and holiday events, and that we use to entertain and educate wholesalers, retailers and the media about our products. At our pubs, we sell various items of apparel and other merchandise bearing our trademarks, which creates further awareness of our beers and reinforces our brand image. To further promote retail canned and bottled product sales, and in response to local competitive conditions, we regularly recommend that wholesalers offer discounts to retailers in most of our markets.

Relationship with Anheuser-Busch, LLC

Exchange Agreement

Under the Amended and Restated Exchange and Recapitalization Agreement (the “Exchange Agreement”) with A-B, we granted A-B certain contractual rights. The Exchange Agreement was entered into as part of a recapitalization in which we redeemed preferred shares held by A-B in exchange for cash and our common stock currently held by A-B. A-B owns 31.6% of our outstanding shares of common stock at December 31, 2015.

The Exchange Agreement entitles A-B to designate two members of our board of directors. A-B also generally has the right to have a designee on each committee of the board of directors, except where prohibited by law or stock exchange requirements, or with respect to a committee formed to evaluate transactions or proposed transactions between A-B and us. The Exchange Agreement

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contains limitations on our ability to take certain actions without A-B’s prior consent, including, but not limited to, our ability to issue equity securities or acquire or sell assets or stock, amend our Articles of Incorporation or Bylaws, grant board representation rights, enter into certain transactions with affiliates, distribute our products in the United States other than through A-B or as provided in the A-B Distributor Agreement, or voluntarily terminate our listing on the Nasdaq Stock Market.

Distributor Agreement

The A-B Distributor Agreement provides for the distribution of Kona, Widmer Brothers, Redhook, Omission and Square Mile in all states, territories and possessions of the United States, including the District of Columbia and, except with respect to Kona beers, all U.S. military, diplomatic, and governmental installations in a U.S. territory or possession. Under the A-B Distributor Agreement, we granted A-B the right of first refusal to distribute our products, including any internally developed new products but excluding new products that we acquire. We are responsible for marketing our products to A-B’s wholesalers, as well as to retailers and consumers.

The A-B Distributor Agreement has a term that expires on December 31, 2018, subject to automatic renewal for an additional ten-year period unless A-B provides written notice of non-renewal to us on or prior to June 30, 2018. The A-B Distributor Agreement is also subject to immediate termination, by either party, upon the occurrence of standard events of default as defined in the agreement.

Additionally, the A-B Distributor Agreement may be terminated by A-B, with six months’ prior written notice to us, upon the occurrence of any of the following events:

- we engage in incompatible conduct that damages the reputation or image of A B or the brewing industry;
- any A-B competitor or affiliate thereof acquires 10% or more of our outstanding equity securities, and that entity designates one or more persons to our board of directors;
- our current chief executive officer ceases to function in that role or is terminated, and a satisfactory successor, in A B’s opinion, is not appointed within six months;
- we are merged or consolidated into or with any other entity or any other entity merges or consolidates into or with us without A-B’s prior approval; or
- A-B, its subsidiaries, affiliates, or parent, incur any obligation or expense as a result of a claim asserted against them by or in our name, or by our affiliates or shareholders, and we do not reimburse and indemnify A-B and its corporate affiliates on demand for the entire amount of the obligation or expense.

Fees

We pay fees to A-B in connection with the sale of our products, including margin fees, invoicing, staging and cooperage handling fees, and inventory manager fees.

See Note 17 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional information.

Relationship with Rainier Brewing Company

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

In conjunction with the brewing agreements, we granted Rainier an option to purchase the Woodinville brewery and adjacent pub, as well as related assets (together, the "Property"), at any time prior to termination of the brewing agreement. The purchase price of the Property will be $25.0 million if Rainier 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 Rainier 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, Rainier has the right to conduct an additional diligence review of environmental and title issues relating to the Property, and to terminate both the brewery agreements and the option agreement if it is not satisfied with its diligence investigation of those matters at the end of the review period, which is expected to expire by April 17, 2016. If Rainier does not exercise its option to purchase the Property, it may be required to pay us a termination fee.

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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.

Competition

We compete in the craft brewing market as well as in the much larger alcoholic beverage market, which encompasses domestic and imported beers, flavored alcohol beverages, spirits, wine and ciders.

In 2015, the craft brewing industry witnessed unprecedented change and competition, characterized by three trends: 1) the growing number and popularity of small, local craft breweries that captured market share from established craft breweries, 2) increased acquisition and investment activity between craft brewers, large domestic and foreign brewers, and private equity firms, and 3) continued competitive pressure from international brewers, including Crown, which targets both domestic and craft beer drinkers. In 2015, according to industry sources, A B and MillerCoors accounted for more than 70% of total beer shipped in the U.S., excluding imports. In addition, A-B and MillerCoors have invested in existing smaller craft breweries and created separate craft-focused divisions in an effort to capitalize on the growing craft beer segment.

Competition varies by regional market. Depending on the local market preferences and distribution, we have encountered strong competition from microbreweries, regional specialty brewers and several national craft brewers that include MillerCoors' Tenth and Blake Beer Company division ("Tenth and Blake"), and A-B's High End division. A-B's High End division includes Goose Island, Blue Point Brewing, 10 Barrel Brewing Company, Elysian, Golden Road, Shock Top and others. Because of the large number of participants and offerings in this segment, along with the accelerating consumer preference for local offerings, the competition for packaged product placements and especially draft beer placements has intensified. Although certain of these competitors distribute their products nationally and may have greater financial and other resources than we have, we believe that we possess certain competitive advantages, including our broad array of brand offerings within our five owned brand families and two partner brand families, the scale of our production breweries, and a strategically distributed network of sales and marketing resources.

We also compete against imported brands, such as Heineken, Stella Artois, Corona Extra and Guinness, which typically have significantly greater financial resources than we have. Although imported beers currently account for a greater share of the U.S. beer market than craft beers, we believe that craft brewers possess certain competitive advantages over some importers, including lower transportation costs, no importation costs, proximity to and familiarity with local consumers, a higher degree of product freshness, eligibility for lower federal excise taxes and absence of exposure to currency fluctuations.

In response to the growth of the craft beer segment, the major domestic national brewers have introduced fuller-flavored beers, including well-funded significant product launches in the wheat category, to compete with craft brewers. More recently, these major domestic brewers have invested in purchasing small craft breweries. The major national brewers, including Tenth and Blake through MillerCoors, and A-B High End brands through A-B, have significantly greater financial resources than we do and have access to a greater array of advertising and marketing tools to create product awareness of these offerings. Although increased participation by the major national brewers increases competition for market share and can heighten price sensitivity within the craft beer segment, we believe that their participation tends to increase advertising, distribution and consumer education and awareness of craft beers, and thus may ultimately contribute to further growth of this industry segment.

In the past several years, several major distilled spirits producers and national brewers have introduced flavored alcohol beverages. Products such as the Bud Light Rita family, Smirnoff Ice, the hard soda category, and Mike's Hard Lemonade have captured sizable market share in the higher-priced end of the malt beverage industry. We believe sales of these products, along with strong growth in the imported and craft beer segments of the malt beverage industry, contributed to an increase in the overall U.S. alcohol market. These products are particularly popular in certain regions and markets in which we sell our products.

Competition for consumers of craft beers has also come from wine and spirits. Growth in this segment appears to be attributable to competitive pricing, television advertising, increased merchandising and increased consumer interest in wine and spirits. Recently, the wine industry has been aided, on a limited basis, by its ability to sell outside of the three-tier system, allowing sales to be made directly to the consumer. While the craft beer segment competes with wine and spirits, it also benefits from many of the same advantages enjoyed by wine and spirit producers. These include consumers who allow themselves affordable luxuries in the form of high quality alcoholic beverages.

A significant portion of our sales continues to be in the Pacific Northwest and in California, which we believe are among the most competitive craft beer markets in the United States, both in terms of number of participants and consumer awareness. We believe that these areas offer significant competition for our products, not only from other craft brewers but also from the growing wine market and from flavored alcohol beverages. Our recent marketing efforts have been focused on promoting the authenticity of our pioneering brands, the appeal of our newer brands and better segmenting our marketing strategies to communicate the attributes of our portfolio to our target consumers. We believe that our broad array of beers and brands enables us to offer an assortment of flavors and experiences that appeal to more people.

Segment and Enterprise-Wide Information

See Note 11 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for the required segment and enterprise-wide information.

Regulation

Our business is highly regulated at federal, state and local levels. Various permits, licenses and approvals necessary for our brewery and pub operations and the sale of alcoholic beverages are required from a number of agencies, including the U.S. Treasury Department, the Alcohol and Tobacco Tax and Trade Bureau ("TTB"), the U.S. Department of Agriculture, the U.S. Food and Drug Administration, state alcohol regulatory agencies, and state and local health, sanitation, safety, fire and environmental agencies. In addition, the beer industry is subject to substantial federal and state excise taxes.

The Food and Drug Administration ("FDA") issued a proposed rule in November 2015 on the use of "gluten-free" labeling for fermented and hydrolyzed foods and beverages that may affect our ability to market our Omission Beer. See Item 1A. Risk Factors for additional information.

We operate our breweries under federal licensing requirements imposed by the TTB. The TTB requires the filing of a "Brewer's Notice" upon the establishment of a commercial brewery and the filing of an amended Brewer's Notice any time there is a material change in the brewing or warehousing locations, brewing or packaging equipment, brewery ownership, or officers or directors. Our operations are subject to audit and inspection by the TTB at any time.

Management believes that we currently have all of the licenses, permits and approvals required for our current operations. Existing permits or licenses could be revoked if we fail to comply with the terms of such permits or licenses and additional permits or licenses may be required in the future for our current operations or as a result of expanding our operations.

The U.S. federal government currently levies an excise tax of $18 per barrel on beer sold for consumption in the United States; however, brewers, such as us, that produce less than two million barrels annually are taxed at $7 per barrel on the first 60,000 barrels shipped, with shipments above this amount taxed at the normal rate. Certain states also levy excise taxes on alcoholic beverages. Excise taxes may be increased in the future by the federal government or any state government or both. In the past, increases in excise taxes on alcoholic beverages have been considered in connection with various governmental budget-balancing or funding proposals.

Federal and State Environmental Regulation
Our brewing operations are subject to environmental regulations and local permitting requirements and agreements regarding, among other things, air emissions, water discharges and the handling and disposal of hazardous wastes. While we have no reason to believe the operation of our breweries violate any such regulation or requirement, if such a violation were to occur, or if environmental regulations were to become more stringent in the future, we could be

adversely affected.

Dram Shop Laws

The serving of alcoholic beverages to a person known to be intoxicated may, under certain circumstances, result in the server being held liable to third parties for injuries caused by the intoxicated customer. Our restaurants and pubs have addressed this issue by maintaining reasonable hours of operation and routinely performing training for personnel.

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Trademarks

We have obtained U.S. trademark registrations for our numerous products, including our proprietary bottle designs. Trademark registrations generally include specific product names, marks and label designs. The Kona Brewing, Widmer Brothers, Redhook, and Omission marks and certain other marks are also registered in various foreign countries. We regard our Kona Brewing, Widmer Brothers, Redhook, Omission, Square Mile and other trademarks as having substantial value and as being an important factor in the marketing of our products. We are not aware of any infringing uses that could materially affect our current business or any prior claim to the trademarks that would prevent us from using such trademarks in our business. Our policy is to pursue registration of our trademarks in our markets whenever possible and to oppose vigorously any infringement of our trademarks.

Employees

At December 31, 2015, we employed approximately 820 people, including 395 employees in the pubs and retail stores, 210 employees in production, 150 employees in sales and marketing and 65 employees in corporate and administration. Included in the totals above are 224 part-time employees and 6 seasonal or temporary employees. None of our employees are represented by a union or employed under a collective bargaining agreement. We believe our relations with our employees to be good.

Available Information

Our Internet address is www.craftbrew.com. There we make available, free of charge, our annual report on Form 10 K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission (“SEC”). Our SEC reports can be accessed through the investor relations section of our website. The information found on our website is not part of this or any other report we file with or furnish to the SEC.

Item 1A. Risk Factors

If we are unable to gauge trends and react to changing consumer preferences in a timely and cost-effective manner, our sales and market share may decrease and our gross margin may be adversely affected.
The costs and management attention involved in maintaining an innovative brand portfolio have been, and are expected to continue to be, significant. If we have not gauged consumer preferences correctly, or are unable to maintain consistently high quality beers as we develop new brands, our overall brand image may be damaged. If this were to occur, our future sales, results of operations and cash flows would be adversely affected. Also, increased costs associated with developing new products may have a negative effect on our gross margin.

Increased competition could adversely affect sales and results of operations.
We compete in the highly competitive craft beer market, as well as in the much larger specialty beer category, which includes the imported beer segment and fuller-flavored beers offered by major national brewers. We also face increasing competition from producers of wine, spirits and flavored alcohol beverages offered by the larger spirit producers and national brewers. Increased competition could adversely affect our future sales and results of operations. See "Competition" in Part I, Item 1 of this Annual Report on Form 10-K.

Our information systems may experience an interruption or breach in security.
We rely on computer information systems to conduct our business. We have policies and procedures in place to protect against and reduce the occurrence of failures, interruptions, or breaches of security of these systems. However, there can be no assurances that these policies and procedures will eliminate the occurrence of failures, interruptions or breaches of security or that they will adequately restore our systems or minimize any such events. The occurrence of a

failure, interruption or breach of security of our computer information systems could result in loss of intellectual property, delays in our production, loss of critical information, or other events, any of which could harm our future sales or operating results.

We manage and store various proprietary information and sensitive or confidential data relating to our business, including sensitive and personally identifiable information. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us, our employees, or our customers, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose us, our customers or the individuals affected to a risk of loss or misuse of this information. Any such breach, loss, or disclosure could result in litigation and potential liability for us, damage our brand image and reputation, or otherwise harm our business. In addition, our current data protection measures might not protect us against increasingly sophisticated and aggressive threats and the cost and operational consequences of implementing further data protection measures could be significant.

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Our business is sensitive to reductions in discretionary consumer spending.
Consumer demand for luxury or perceived luxury goods, including craft beer, can be sensitive to downturns in the economy and the corresponding impact on discretionary spending. Changes in discretionary consumer spending or consumer preferences brought about by factors such as perceived or actual general economic conditions, job losses and unemployment or underemployment, perceived or actual declines in disposable consumer income and wealth, and changes in consumer confidence in the economy, could significantly reduce customer demand for craft beer in general, and the products we offer specifically. Furthermore, our consumers may choose to replace our products with the fuller-flavored national brands or other more affordable, although lower quality, alternatives available in the market. Any such decline in consumption of our products would likely have a significant negative impact on our operating results.

Changes in consumer preferences or public attitudes about alcohol could decrease demand for our products.
If consumers were unwilling to accept our products or if general consumer trends caused a decrease in the demand for beer, including craft beer, it would adversely impact our sales and results of operations. There is no assurance that the craft brewing segment will continue to experience growth in future periods. If the markets for wine, spirits or flavored alcohol beverages continue to grow, this could draw consumers away from the beer industry in general and our products specifically and have an adverse effect on our sales and results of operations. Further, the alcoholic beverage industry has become the subject of considerable societal and political attention in recent years due to increasing public concern over alcohol-related social problems, including drunk driving, underage drinking and health consequences from the misuse of alcohol. As an outgrowth of these concerns, the possibility exists that advertising by beer producers could be restricted, that additional cautionary labeling or packaging requirements may be imposed or that there may be renewed efforts to impose, at either the federal or state level, increased excise or other taxes on beer sold in the United States. If beer in general were to fall out of favor among domestic consumers, or if the domestic beer industry were subjected to significant additional governmental regulation, it would likely have a significant adverse impact on our financial condition, operating results and cash flows.

The Food and Drug Administration (“FDA”) issued a proposed rule in November 2015 on the use of “gluten-free” labeling for fermented and hydrolyzed foods and beverages that may affect our ability to market our Omission Beer.
CBA launched Omission beer in May 2012 as the first brand of craft beer to be brewed in the United States using conventional beer ingredients (including malted barley, a gluten-containing grain) and “crafted to remove gluten.” Omission beers are brewed similarly to other craft beers except that, at the point of fermentation, a brewing enzyme called Brewers Clarex™ is added which breaks apart the gluten protein chains. Samples from each batch are tested internally using the R5 Competitive ELISA method for gluten content before packaging. The beers are then packaged into bottles in a closed packaging environment to eliminate any chance of cross contamination. Packaged samples are also sent to an independent third party lab for testing before the lot is released from the brewery. We post all test results on our website for consumers to view before they decide to purchase the beer.

Omission beers are subject to regulation by the Department of Treasury’s Alcohol and Tobacco Tax and Trade Bureau (“TTB”), but as a result of overlapping jurisdictions of the FDA and TTB, the role each agency plays in the regulation of fermented alcohol beverages, and the commitments the two agencies have made to work together to establish consistent gluten labeling policies for comparable alcohol beverage products, the above referenced FDA notice of proposed rulemaking has far-reaching implications for fermented alcohol beverages, like Omission Beer, that are subject to regulation by both the FDA and TTB. In accordance with the TTB’s premarket approval requirements, the TTB previously approved Omission labeling, including its gluten-related claims, as per their policy concerning gluten content statements in the labeling and advertising of malt beverages.

If the FDA's proposed rule becomes final as written, the TTB’s policy may be superseded, which would have a significant impact on our ability to market and sell our Omission beers as “crafted to remove gluten” and negatively impact our operating results. CBA remains fully engaged in the FDA rulemaking process and is planning to submit regulatory, legal and scientific comments to the docket in April 2016.

Product safety and quality concerns may have a material adverse effect on our business.
Our success depends in large part on our ability to maintain consumer confidence in the safety and quality of our products. We have rigorous product safety and quality standards which we expect our breweries and our brewing partner to meet. However, we cannot assure you that, despite our strong commitment to product safety and quality, we will always meet these standards. If we, or our brewing partner, fail to comply with applicable product safety and quality standards and our products on the market are, or become, contaminated or adulterated, we may be required to conduct costly product recalls and may become subject to product liability claims and negative publicity, which could cause our reputation and business to suffer.

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We have a continuing relationship with Anheuser-Busch, LLC and the current distribution network that would be difficult to replace.
Substantially all of our products are sold and distributed through A-B's distribution network. If the A-B Distributor Agreement were terminated, we would be faced with a number of operational tasks, including establishing and maintaining direct contracts with the existing wholesaler network or negotiating agreements with replacement wholesalers on an individual basis, and enhancing our credit evaluation, billing and accounts receivable processes. Such an undertaking would require significant effort and substantial time to complete, during which the distribution of our products could be impaired.

We are dependent on our wholesalers for the sale of our products.
Although substantially all of our products are sold and distributed through A-B, we continue to rely heavily on wholesalers, many of which are independent, for the sale of our products to retailers. Independent wholesalers make their own business decisions that may not align with our interests and there is no assurance that the sales efforts of distributors will be effective in generating sales of our products.

Any disruption in the ability of the wholesalers, A-B, or us to distribute products efficiently due to any significant operational problems, such as wide-spread labor union strikes or the loss of a major wholesaler as a customer, could hinder our ability to get our products to retailers and could have a material adverse impact on our sales, results of operations and cash flows. A-B has been purchasing distributors in states where it is legally permissible, which could impact our distribution if the A-B relationship were to end. 35% of our shipments during 2015 were through A-B owned distributors.

Our agreements with A-B may limit our ability to engage in certain activities and investments.
The Exchange Agreement requires us to obtain A-B's consent prior to undertaking certain activities and investments. For example, we must obtain A-B's consent before acquiring another brewer if the purchase price exceeds $30 million or to purchase a non-brewing entity if the purchase price exceeds $2 million. If A-B opposes strategic or financial investments proposed by our management, A-B may decline to give its consent to activities or investments that our management believes are in the best interest of our shareholders.

A-B has an influential voice in decisions of the board of directors and shareholders.
A-B owns 31.6% of our outstanding common stock, making A-B our largest shareholder. In addition, under the Exchange Agreement, A-B may designate two nominees to the Board. These directors also participate on our audit, compensation, and nominating and governance committees as non-voting observers, and one of these directors participates on our strategic planning committee as a voting member. As a result, A-B has an influential voice in deliberations of the Board and shareholders.

Expansion projects at our Portland and Kona breweries may be subject to various risks, including cost overruns, construction delays, and inability to fully utilize additional production capacity, which may adversely affect our financial condition and results of operations.
During 2015, we announced plans to expand our annual brewing capacity at our Portland brewery to 750,000 barrels at a total estimated cost of $10 million. We have also begun construction on a new, state-of-the-art brewing facility in Kailua-Kona, Hawaii, with an annual production capacity of 100,000 barrels at a total estimated cost of approximately $20 million. As with all projects of this magnitude, there is the potential risk of significant cost overruns, which could require us to increase our borrowing under our revolving credit facility or to find additional financing. We may also experience unforeseen construction delays, which could result in our inability to bring one or both of these facilities into production as scheduled, adversely affecting our results of operations and financial condition. In addition, if we do not achieve sufficient growth in product sales to absorb the increased production capacity following completion of these projects, we will be unable to realize our goals for gross margin improvement, which would have a negative impact on our results of operations and return on investment.

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Operating breweries at production levels substantially below their current designed capacities could negatively impact our financial results.
As of December 31, 2015, the annual working capacity of our breweries was approximately 1,075,000 barrels. Due to many factors, including seasonality and production schedules of various draft products and bottled products and packages, actual production capacity will rarely, if ever, approach full working capacity. We believe that capacity utilization of the breweries will fluctuate throughout the year, and even though we expect that capacity of our breweries will be efficiently utilized during periods when our sales are strongest, there likely will be periods when the capacity utilization will be lower. If we experience contraction in our sales volumes, the resulting excess capacity and unabsorbed overhead will have an adverse effect on our gross margins, operating cash flows and overall financial performance. We periodically evaluate whether we expect to recover the costs of our production breweries over the course of their useful lives. If facts and circumstances indicate that the carrying value of these long-lived assets may be impaired, an evaluation of recoverability will be performed by comparing the carrying value of the assets to projected future undiscounted cash flows along with other quantitative and qualitative analyses. If we determine that the carrying value of such assets does not appear to be recoverable, we will recognize an impairment loss by a charge against current operations, which could have a material adverse effect on our results of operations.

Our sales are concentrated in the Pacific Northwest, California and Hawaii.
Our sales in 2015 were concentrated in Washington, Oregon, California and Hawaii and, consequently, our future sales may be adversely affected by changes in economic and business conditions within these states. We also believe the Pacific Northwest and California are among the most competitive craft beer markets in the United States, both in terms of number of market participants and consumer awareness. The Pacific Northwest and California offer significant competition to our products, not only from other craft brewers, but also from the major domestic brewers, wine producers and flavored alcohol beverages.

We are dependent upon the continued service of our senior management and other key personnel.
Our future success is dependent on the continued service of our senior management and other key employees, particularly Andrew Thomas, our Chief Executive Officer. The loss of the services of our senior management and other key employees could have a material adverse effect on our operations. Additionally, the loss of Andrew Thomas as our Chief Executive Officer, and the failure to find a replacement satisfactory to A-B, would be a termination event under the A-B Distributor Agreement.

We also may be unable to retain existing management, sales, marketing, operational and other support personnel critical to our success, which could result in harm to significant customer relationships, loss of key information, expertise or know-how, and unanticipated recruiting and training costs.

Our gross margin may fluctuate.
Future gross margin may fluctuate and even decline as a result of many factors, including: product pricing levels; sales mix between draft and packaged product sales and within the various bottled product packages; level of fixed and semi-variable operating costs; level of production at our breweries in relation to current production capacity; availability and prices of raw materials, production inputs such as energy and packaging materials; rates charged for freight; and federal and state excise taxes. The high percentage of fixed and semi-variable operating costs causes our gross margin to be particularly sensitive to relatively small changes in sales volume.

Higher health care costs may have an adverse effect on our operating results.
We are self-insured with respect to health care expenses for our employees. During 2015 and 2014, we experienced higher than average medical expense claims, which increased our Selling, general and administrative expenses. If this trend continues, our operating results may be negatively affected.

A failure in any of our supply chain processes could harm our ability to effectively operate our business.

Our results are highly dependent on our ability to accurately forecast and execute throughout the entire supply chain, including sales forecasting, raw material ordering, brewing and distribution. The combination of our recent growth and increased brand complexity has increased the operating complexity of our business. We cannot guarantee that we will effectively manage such complexity without experiencing planning failures, operating inefficiencies, or other issues that could have an adverse effect on our business.

We engage in electronic communications between third parties, including A-B and our wholesalers, as part of our supply chain processes. Any interruptions or errors in our electronic interfaces may negatively affect our operating activities.

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Unavailability of production at our brewing partner may adversely affect our capacity and disrupt our ability to satisfy demand for our products.
During 2014, we entered into a contract brewing relationship with our brewing partner in Memphis, Tennessee, and anticipate producing up to 100,000 barrels of our beer at that facility annually. If production at that facility should be disrupted due to unforeseen circumstances, our ability to produce and ship sufficient quantities of our beer to meet demand in certain key geographic markets, particularly Texas and the southeastern United States, could be significantly impaired, resulting in decreased sales revenue and a negative impact on our wholesaler relationships in those markets.

An increase in excise taxes could adversely affect our financial condition and results of operations.
The U.S. federal government currently levies an excise tax of $18 per barrel on beer sold for consumption in the United States; however, brewers, such as us, that produce less than two million barrels annually, are taxed at $7 per barrel on the first 60,000 barrels shipped, with the remainder of the shipments taxed at the normal rate. The individual states in which we operate also impose excise taxes on beer and other alcohol beverages in varying amounts. Federal and state legislators routinely consider various proposals to impose additional excise taxes on the production of alcoholic beverages, including beer. Any such increases in excise taxes, if enacted, would adversely affect our financial condition, results of operations, and cash flows.

We are subject to governmental regulations affecting our breweries and pubs.
Our business is highly regulated by federal, state, and local laws and regulations. These laws and regulations govern all aspects of the production and distribution of beer, including permitting, licensing, trade practices, labeling, advertising and marketing, distributor relationships and various other matters. A variety of federal, state and local governmental authorities also levy various taxes, license fees and other similar charges and may require bonds to ensure compliance with applicable laws and regulations. Noncompliance with such laws and regulations may cause the Alcohol and Tobacco Tax and Trade Bureau or any particular state or jurisdiction to revoke its license or permit, restricting our ability to conduct business, or result in the imposition of significant fines or penalties. One or more regulatory authorities could determine that we have not complied with applicable licensing or permitting regulations or have not maintained the approvals necessary for us to conduct business within our jurisdiction. If licenses, permits or approvals necessary for our brewery or pub operations were unavailable or unduly delayed, or if any permits or licenses that we hold were to be revoked, or additional permits or licenses were required in the future, including as a result of expanding our operations, our ability to conduct business may be disrupted, which would have a material adverse effect on our financial condition, results of operations and cash flows.

The craft beer business is seasonal in nature, and we are likely to experience fluctuations in results of operations.
Sales of craft beer products are somewhat seasonal, with the first and fourth quarters historically being lower and the rest of the year generating stronger sales. Our sales volume may also be affected by weather conditions and selling days within a particular period. Therefore, the results for any given quarter will likely not be indicative of the results that may be achieved for the full fiscal year. If an adverse event such as a regional economic downturn or poor weather conditions should occur during the second and third quarters, the adverse impact to our revenues would likely be greater as a result of the seasonality of our business.

We may be unable to access public or private debt markets to fund our operations and contractual commitments at competitive rates, on commercially reasonable terms, or in sufficient amounts, if at all.
We depend, in part, on our revolving line of credit with Bank of America, N.A. ("BofA"), to fund our operations and commitments for capital expenditures. Our capital expenditures in 2016 are expected to range from $19 million to $23 million. A number of factors could cause us to incur increased borrowing costs and to have greater difficulty accessing public and private markets for debt. These factors include general economic conditions, disruptions or declines in the global capital markets, our financial performance or outlook, and credit. An adverse change in any or all of these factors may materially adversely affect our ability to fund our operations and contractual or financing commitments.

If our business does not perform as expected, including if we generate less revenue than anticipated from our operations or encounter significant unexpected costs, we may fail to comply with the financial covenants under our credit facilities. If we do not comply with our financial covenants and we do not obtain a waiver or amendment, BofA may elect to cause all amounts owed to become immediately due and payable. Any default may require us to seek additional capital or modifications to our credit facilities, which may not be available or which may be costly. Any of these risks and uncertainties could have a material adverse effect on our business, financial position, results of operations, and cash flows.

Failure to realize expected benefits from capital investments in our breweries and information technology may impact our operating results and cash flows.
Over the past several years, we have made, and expect to continue to make, significant investments in improvements aimed at increasing the efficiency, capabilities and capacity of our breweries, improving our ordering and logistics systems, and enhancing the customer experience at our restaurant facilities. Failure to realize the anticipated benefits and generate adequate returns on such capital improvement projects may have a material adverse effect on our results of operations and cash flows.

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We have entered into strategic relationships with certain regional brewers that increase the complexity and execution risks of our operations.
We have entered into strategic relationships with certain regional brewers, including Appalachian Mountain Brewery in North Carolina and Cisco Brewers in Massachusetts. These new relationships have added to the complexity of our operations, including brewing, packaging, marketing and selling their brands, with increased demands on our management team. There can be no assurance that we will be able to take full advantage of these strategic opportunities without experiencing unexpected costs, operating challenges or control deficiencies.

Our option agreement with Pabst Northwest Brewing Company may not culminate in the sale of our Woodinville brewing facility, in which event we may need to determine an alternative long-term use for this facility.
On January 8, 2016, we entered into an Option and Agreement of Purchase and Sale with Pabst Northwest Brewing Company, dba Rainier Brewing Company ("Rainier"), a subsidiary of Pabst Brewing Company. Under the terms of the option agreement, Rainier was granted an option to acquire our Woodinville brewery and adjacent pub facility, and certain related assets, at any time during the next three years. The purchase price will be $25.0 million if Rainier exercises the option during the first year of the agreement, $26.0 million if exercise occurs during the second year, and $28.0 million if exercises occurs during the third year. If Rainier does not ultimately exercise its option to purchase the Woodinville facility, it may be required to pay us a termination fee. There can be no assurance that Rainier will exercise its option or, if it fails to exercise the option, that it will be required to pay us a termination fee. The option agreement contains certain representations and warranties and certain covenants to be performed by us which, if breached prior to expiration of the option agreement, could give Rainier a right of termination without payment of a fee. If Rainier does not exercise the option, we will retain ownership and operation of the Woodinville brewery, which could have an adverse effect on our results of operations if our planned alternative uses for the facility’s brewing capacity do not materialize. See “Relationship with Rainier Brewing Company” included in Part I, Item 1 of this Form 10-K for additional information.

Acquisitions subject us to various risks, including risks relating to selection and pricing of acquisition targets, integration of acquired companies into our business and assumption of unanticipated liabilities.
We have completed two acquisitions since 2008 and may pursue additional acquisitions or joint venture or investment opportunities. We cannot assure, however, that we will be able to identify or take advantage of such opportunities. If we do pursue such transactions, we may not realize the anticipated benefits. Acquisitions involve many risks, including risks relating to the assumption of unforeseen liabilities of an acquired business, adverse accounting charges resulting from the acquisition, and difficulties in integrating acquired companies into our business, both from a cultural perspective, as well as with respect to technological integration. Our inability to successfully integrate acquired businesses or manage joint ventures may lead to increased costs, failure to generate expected returns, or even a total loss of amounts invested, any of which could have a material adverse effect on our financial condition and results of operations.

Changes in state laws regarding distribution arrangements may adversely impact our operations.
States in which we have a significant sales presence may enact legislation that significantly alters the competitive environment for the beer distribution industry. Any change in the competitive environment in those states could have an adverse effect on our future sales and results of operations and may impact the financial stability of wholesalers on which we rely.

We may experience a shortage of kegs necessary to distribute draft beer.
We distribute our draft beer in kegs that are owned by us. During periods when we experience stronger sales, we may need to rely on kegs leased from A-B to address the additional demand. If shipments of draft beer increase, we may experience a shortage of available kegs to fill sales orders. If we cannot meet our keg requirements through either lease or purchase, we may be required to delay some draft shipments. Such delays could have an adverse impact on sales and relationships with wholesalers and A-B.

Reduced involvement by the founders of Widmer Brothers Brewing Company in promoting that brand family may adversely affect sales.

The founders of Widmer Brothers Brewing Company, Kurt R. Widmer (“Kurt”) and Robert P. Widmer (“Rob”), are integrated in our current Widmer Brothers brand family messaging and we rely on the positive public perception of their images, as founders. The role of Kurt, as founder, and Rob, as founder and vice president of corporate quality assurance and industry relations, are promoted as part of our Widmer Brothers brand communication and have appeal to some drinkers. Kurt retired as our chairman of the board and director at the end of 2015 and will have an evolving role in promoting the Widmer Brothers brand going forward. Reduced involvement of Kurt and Rob may have a negative effect on sales of Widmer Brothers beers.

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We are dependent on certain suppliers for key raw materials, packaging materials and production inputs.
Although we seek to maintain back-up and alternative suppliers for all key raw materials and production inputs, we are reliant on certain third parties for key raw materials, packaging materials and utilities. Any disruption in the willingness or ability of these third parties to supply these critical components could hinder our ability to continue production of our products, which could have a material adverse impact on our financial condition, results of operations and cash flows.

Any change in, or violation of, federal and state environmental regulations could adversely affect our operations.
Our brewing operations are subject to environmental regulations and local permitting requirements and agreements regarding, among other things, air emissions, water discharges and the handling and disposal of hazardous wastes. While we have no reason to believe the operation of our breweries violates any such regulation or requirement, if such a violation were to occur, or if environmental regulations were to become more stringent in the future, we could be adversely affected.

A small number of shareholders hold a significant ownership percentage of our common stock and uncertainty over their continuing ownership plans could cause the market price of our common stock to decline.
As noted above, A B has a significant ownership stake in us. In addition, Kurt Widmer and Rob Widmer together beneficially own approximately 2.2 million shares, or 11.6%, of our common stock. Collectively, these two groups own 43.2% of our equity. All of these shares are available for sale in the public market, subject to volume, manner of sale and other requirements under the Securities Act of 1933. Such sales in the public market, or the perception that such sales may occur, could cause the market price of our common stock to decline.

We do not intend to pay and are limited in our ability to declare or pay dividends; accordingly, shareholders must rely on stock appreciation for any return on their investment in us.
We do not anticipate paying cash dividends. Further, under our loan agreement with BofA, we are not permitted to declare or pay a dividend unless we meet certain financial covenants. As a result, only appreciation of the price of our common stock will provide a return to shareholders. Investors seeking cash dividends should not invest in our common stock.

The fair value of our intangible assets, including goodwill, may become impaired.
As a result of the acquisition of Kona Brewing Company, we have recognized a significant increase in our total intangible assets, including goodwill. As of December 31, 2015, we had $29.3 million in an assortment of intangible assets, on a net basis, which represented nearly 15.4% of our total assets. If any circumstances were to occur, such as economic recession or other factors causing a reduction in consumer demand, or for any other reason we were to experience a significant decrease in sales growth, which had a negative impact on our estimated cash flows associated with these assets, our analyses of these assets may conclude that a decrease in the fair value of these assets occurred. In that event, we would be required to recognize a potentially significant loss on impairment of these assets. Any such impairment loss would be charged against current operations in the period of change.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own and operate four highly-automated, small-batch production breweries: the Oregon Brewery, the Washington Brewery, the New Hampshire Brewery, and the Hawaiian Brewery, as well as two small, innovation brewing systems in Portland, Oregon and Portsmouth, New Hampshire. We lease the sites upon which the Hawaiian Brewery and Pubs, the New Hampshire Breweries and Pub, the Portland Innovation Brewery, and Oregon Pub are located, in addition to our office space and warehouse locations in Portland, Oregon for our corporate, administrative and sales functions. In 2014, we entered into a lease for space in Southern California for our national sales office. In 2015, we entered into a long-term land lease for the location of our new Kona brewery, which expires in 2064, and in 2016 we entered into a lease for our new Redhook pub in Seattle, which expires in 2026. Certain of these leases are with related parties. These operating leases expire at various times between 2016 and 2064. See Notes 16 and 17 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this report for further discussion regarding these arrangements.

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Certain information regarding our production breweries is as follows (capacity in thousands of barrels):

Production Breweries	Square Footage	Current Annual Capacity	Maximum Annual Capacity
Oregon Brewery	185,000	630	650
Washington Brewery	128,000	220	280
New Hampshire Brewery	125,000	215	280
Hawaiian Brewery	11,000	10	10
		1,075	1,220

The total annual capacity of all our breweries was approximately 1,075,000 barrels as of December 31, 2015 and 2014. Combined, our breweries have the potential to reach 1,220,000 barrels in annual capacity when fully optimized based on the currently available space and current product mix. Construction is currently underway to increase the annual capacity of the Oregon brewery to 750,000 barrels and, in 2016, we will break ground on a new 100,000 barrel brewery near our existing brewery and pub in Kona, which is expected to be fully operational by early 2018.

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

Substantially all of our personal property and fixtures, as well as the real properties associated with the Oregon Brewery, secure our loan agreement with BofA. See Note 8 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Item 3. Legal Proceedings

We are involved, from time to time, in claims, proceedings and litigation arising in the normal course of business. We believe that, to the extent that any pending or threatened litigation involving us or our properties exists, such litigation is not likely to have a material adverse effect on our financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on the NASDAQ Stock Market ("NASDAQ") under the trading symbol BREW. The table below sets forth, for the fiscal quarters indicated, the reported high and low closing sale prices of our common stock, as reported on NASDAQ:

2014	High	Low
Quarter 1	$17.77	$13.99
Quarter 2	15.60	10.14
Quarter 3	14.40	8.40
Quarter 4	17.47	13.00
2015	High	Low
Quarter 1	$13.65	$10.89
Quarter 2	14.17	10.15
Quarter 3	11.17	7.11
Quarter 4	9.72	6.83

We had 703 common shareholders of record as of February 16, 2016.

We have not declared or paid any dividends during our existence. Under the terms of our loan agreement with BofA, we are permitted to declare or pay dividends without BofA's consent, subject to limitations. We anticipate that, for the foreseeable future, all earnings will be retained for the operation and expansion of our business and that we will not pay cash dividends. The payment of dividends, if any, in the future, will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, capital and operating requirements, restrictions in future financing agreements, our general financial condition, and general business conditions.

Equity Compensation Plans
Information regarding securities authorized for issuance under equity compensation plans is included in Part III, Item 12 of this Form 10-K.

Recent Sales of Unregistered Securities
None.

Issuer Purchases of Equity Securities
We did not repurchase any of our common stock during the fourth quarter of 2015.

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Stock Performance Graph

The following line-graph presentation compares cumulative five-year shareholder returns on an indexed basis, assuming a $100 initial investment and reinvestment of dividends, of (a) Craft Brew Alliance, Inc., (b) a broad-based equity market index and (c) an industry-specific index. The broad-based market index used is the NASDAQ Composite Index and the industry-specific index used is the S&P 500 Beverages Index.

Total Return to Shareholders
(includes reinvestment dividends)
COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN

	Base Period	Indexed Returns Year Ended				
Company/Index	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
Craft Brew Alliance, Inc.	$100.00	$81.46	$87.69	$222.19	$180.51	$113.26
NASDAQ Composite	100.00	98.20	113.82	157.44	178.53	188.75
S&P 500 Beverages Index	100.00	104.55	109.93	131.30	147.74	160.99

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Item 6. Selected Financial Data

The selected consolidated financial data below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto included elsewhere in this Form 10-K.

In thousands, except per share amounts	Year Ended December 31,				
Statement of Operations Data	2015	2014	2013	2012	2011
Net sales	$204,168	$200,022	$179,180	$169,287	$149,197
Cost of sales	141,972	141,312	128,919	119,261	104,011
Gross profit	62,196	58,710	50,261	50,026	45,186
Selling, general and administrative expenses	57,932	53,000	46,461	44,890	39,742
Operating income	4,264	5,710	3,800	5,136	5,444
Gain on sale of equity interest in Fulton Street Brewery, LLC	—	—	—	—	10,432
Income before provision for income taxes	3,718	5,099	3,263	4,477	15,692
Provision for income taxes	1,500	2,022	1,304	1,951	6,041
Net income	2,218	3,077	1,959	2,526	9,651
Basic and diluted net income per share	$0.12	$0.16	$0.10	$0.13	$0.51
Shares used in basic per share calculations	19,152	19,038	18,923	18,862	18,834
Shares used in diluted per share calculations	19,175	19,126	19,042	18,934	18,931

	December 31,				
	2015	2014	2013	2012	2011
Balance Sheet Data					
Cash and cash equivalents	$911	$981	$2,726	$5,013	$795
Working capital	10,838	8,050	5,782	5,207	2,327
Total assets	190,334	178,601	170,286	165,664	158,908
Current portion of long-term debt and capital leases	507	1,157	710	642	596
Long-term debt and capital leases, net of current portion	18,991	13,720	11,050	12,440	13,188
Other long-term obligations	20,962	19,738	18,303	17,903	16,261
Shareholders’ equity	118,738	115,417	111,232	108,195	104,509

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

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

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

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

Publicly traded on NASDAQ under the ticker symbol BREW, Craft Brew Alliance is headquartered in Portland, Oregon and operates five breweries and five pub restaurants across the U.S. For more information about CBA and its brands, see "Available Information" on page 11.

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

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

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

Following is a summary of our financial results:

	Net sales	Net income	Number of Barrels Sold
2015	$204.2 million	$2.2 million	824,400
2014	$200.0 million	$3.1 million	830,200
2013	$179.2 million	$2.0 million	756,600

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Results of Operations

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

	Year Ended December 31,		
	2015	2014	2013
Sales	107.1 %	107.3 %	107.4 %
Less excise tax	7.1	7.3	7.4
Net sales	100.0	100.0	100.0
Cost of sales	69.5	70.6	71.9
Gross profit	30.5	29.4	28.1
Selling, general and administrative expenses	28.4	26.5	25.9
Operating income	2.1	2.9	2.1
Interest expense	(0.3)	(0.2)	(0.3)
Other income (expense), net	—	(0.1)	—
Income before income taxes	1.8	2.5	1.8
Income tax provision	0.7	1.0	0.7
Net income	1.1 %	1.5 %	1.1 %

(1) Percentages may not sum due to rounding.

Segment Information

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

	Year Ended December 31,		
2015	Beer Related	Pubs and Other	Total
Net sales	$176,343	$27,825	$204,168
Gross profit	$58,610	$3,586	$62,196
Gross margin	33.2 %	12.9 %	30.5 %
2014			
Net sales	$173,687	$26,335	$200,022
Gross profit	$55,174	$3,536	$58,710
Gross margin	31.8 %	13.4 %	29.4 %
2013			
Net sales	$154,830	$24,350	$179,180
Gross profit	$47,055	$3,206	$50,261
Gross margin	30.4 %	13.2 %	28.1 %

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Net Sales by Category

The following tables set forth a comparison of Net sales by category (dollars in thousands):

Sales by Category	Year Ended December 31, 2015	2014	Dollar Change	% Change
A-B and A-B related	$177,380	$176,161	$1,219	0.7 %
Contract brewing and beer related[1]	13,376	12,113	1,263	10.4 %
Excise taxes	(14,413)	(14,587)	174	(1.2)%
Net beer related sales	176,343	173,687	2,656	1.5 %
Pubs[2]	27,825	26,335	1,490	5.7 %
Net sales	$204,168	$200,022	$4,146	2.1 %

Sales by Category	Year Ended December 31, 2014	2013	Dollar Change	% Change
A-B and A-B related	$176,161	$159,001	$17,160	10.8 %
Contract brewing and beer related[1]	12,113	9,082	3,031	33.4 %
Excise taxes	(14,587)	(13,253)	(1,334)	10.1 %
Net beer related sales	173,687	154,830	18,857	12.2 %
Pubs[2]	26,335	24,350	1,985	8.2 %
Net sales	$200,022	$179,180	$20,842	11.6 %

(1) Beer related includes international beer sales.
(2) Pubs sales include sales of promotional merchandise and sales of beer directly to customers.

Shipments by Category

Shipments by category were as follows (in barrels):

Year Ended December 31,	2015 Shipments	2014 Shipments	Increase (Decrease)	% Change	Change in Depletions[1]
A-B and A-B related	753,400	766,600	(13,200)	(1.7)%	0 %
Contract brewing and beer related[2]	60,600	52,700	7,900	15.0 %	
Pubs	10,400	10,900	(500)	(4.6)%	
Total	824,400	830,200	(5,800)	(0.7)%	

Year Ended December 31,	2014 Shipments	2013 Shipments	Increase (Decrease)	% Change	Change in Depletions[1]
A-B and A-B related	766,600	708,100	58,500	8.3 %	7 %
Contract brewing and beer related[2]	52,700	37,100	15,600	42.0 %	
Pubs	10,900	11,400	(500)	(4.4)%	
Total	830,200	756,600	73,600	9.7 %	

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

The increase in sales to A-B and A-B related in 2015 compared to 2014 was primarily due to a shift in package mix from draft to packaged, which has a higher selling price per barrel than draft, and price increases. These increases were partially offset by a decrease in shipments primarily due to reductions in our wholesaler inventory levels in the first quarter of 2015. During the same period of 2014, wholesalers were building inventory levels in response to low levels at the end of 2013.

The increase in sales to A-B and A-B related in 2014 compared to 2013 was primarily due to the increase in shipments, a shift in package mix from draft to packaged, which has a higher selling price per barrel than draft, and price increases.

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The average revenue per barrel on shipments of beer through the A-B distribution network increased by 2.4% in 2015 compared to 2014, and 1.8% in 2014 compared to 2013, primarily due to pricing increases and shifts in brand, package and geographic mix. Price changes implemented by us have generally followed craft beer market pricing trends. During 2015, 2014 and 2013, we sold 91.4%, 92.3% and 93.6%, respectively, of our beer through A B at wholesale pricing levels.

The increase in contract brewing and beer related sales in 2015 compared to 2014 was primarily due to an increase in international shipments of our beers, which sell at a higher rate per barrel than contract brewing sales, as we expanded into additional countries, as well as increased pricing on our contract brewing sales. The increase in contract brewing and beer related sales was partially offset by a decline in our contract brewing shipment volume.

The increase in contract brewing and beer related sales in 2014 compared to 2013 was primarily due to an increase in international shipments of our beers, which sell at a higher rate per barrel than contract brewing sales, as we expanded into additional countries. Contract brewing also saw an increase in shipments as we began brewing for a new contract brewing customer in 2014.

Excise taxes vary directly with the volume of beer shipped.

Pubs sales increased in 2015 compared to 2014, primarily as a result of higher guest counts at both of our pubs in Hawaii. The Hawaii pubs also have higher revenue per guest than the Redhook and Widmer Brothers pubs, which additionally experienced lower guest counts at the Portland and Woodinville locations. The increase in pub sales was partially offset by the closure of the Redhook Pub in Portsmouth, New Hampshire for seven days due to inclement weather, closure of our Kona Pub on the island of Oahu for three weeks for a full remodel in the first quarter of 2015, and a decrease in beer shipment volume through our Pubs.

Pubs sales increased in 2014 compared to 2013, primarily as a result of our Kona Pubs in Hawaii experiencing increased sales, and our Redhook Pub in Woodinville being open the full year in 2014 compared to the twelve-week closure for a full remodel of that location during 2013, as well an increase in average pricing. The increase in Pubs sales was partially offset by a decrease in beer shipment volume through our Pubs.

The overall decrease in volume in 2015 compared to 2014 reflected the decrease in our Widmer Brothers and Redhook Brewery brands as we continue to reposition them in the marketplace, partially offset by the strong growth in our Kona Brewing and Omission Beer brands.

The overall increase in volume in 2014 compared to 2013 reflected the continued strength of the Kona Brewing, Omission Beer and Redhook Brewery brands, partially offset by a decrease in the Widmer Brothers brand as we continued repositioning it in the marketplace.

Shipments by Brand

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

Year Ended December 31,	2015 Shipments	2014 Shipments	Increase (Decrease)	% Change	Change in Depletions
Kona	352,100	300,600	51,500	17.1 %	16 %
Widmer Brothers[1]	198,100	217,000	(18,900)	(8.7)%	(8)%
Redhook	185,900	223,100	(37,200)	(16.7)%	(15)%
Omission	51,500	49,800	1,700	3.4 %	10 %
Total[2]	787,600	790,500	(2,900)	(0.4)%	0 %

Year Ended December 31,	2014 Shipments	2013 Shipments	Increase (Decrease)	% Change	Change in Depletions
Kona	300,600	256,800	43,800	17.1 %	13 %
Widmer Brothers[(1)]	217,000	225,300	(8,300)	(3.7)%	(6)%
Redhook	223,100	216,900	6,200	2.9 %	3 %
Omission	49,800	27,300	22,500	82.4 %	78 %
Total[(2)]	790,500	726,300	64,200	8.8 %	7 %

(1) Widmer Brothers includes the shipments and depletions from our Square Mile brand family.

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

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The increase in our Kona brand shipments in 2015 compared to 2014 was primarily due to increases in shipments of Big Wave Golden Ale and variety packs, and the reintroduction of Pipeline Porter during the third quarter of 2015, partially offset by a decrease in Koko Brown.

The increase in our Kona brand shipments in 2014 compared to 2013 was primarily due to the release of Castaway IPA on the mainland and continued sales growth of our Big Wave Golden Ale and Longboard Lager.

The decrease in our Widmer Brothers brand shipments in 2015 compared to 2014 was primarily due to decreases in Hefeweizen draft, Upheaval IPA and Alchemy Ale, partially offset by the summer seasonal which switched to Hefe Shandy from Citra Blonde, as Widmer Brothers focuses on its home markets. Hefeweizen packaged beer has stabilized and benefited from the introduction of the new Hefeweizen packaging in collaboration with the Portland Timbers.

The decrease in our Widmer Brothers brand shipments in 2014 compared to 2013 was primarily due to a decrease in Hefeweizen draft, partially offset by the introduction of Upheaval IPA, which replaced our Rotator IPA series.

The decrease in our Redhook brand shipments in 2015 compared to 2014 was primarily due to decreases in our KCCO series, a craft beer brand developed in partnership with theChive, a photo entertainment website, Audible Ale and Longhammer IPA, as Redhook focuses on its home market.

The increase in our Redhook brand shipments in 2014 compared to 2013 was primarily the result of increased sales of KCCO Black Lager, as well as further penetration into existing markets, particularly by our Long Hammer IPA, partially offset by declines in sales of ESB and Audible Ale.

The increase in our Omission brand shipments in 2015 compared to 2014 were primarily due to the continued success of, and demand for, the IPA and Lager styles of our beer that is crafted to remove gluten. The increase in our Omission brand shipments in 2014 compared to 2013 was primarily due to the continued success of, and demand for, the IPA, Lager and Pale Ale styles.

Shipments by Package

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

Year Ended	2015			2014			2013		
December 31,	Shipments	% of Total		Shipments	% of Total		Shipments	% of Total	
Draft	180,700	22.9	%	198,500	25.1	%	205,500	28.3	%
Packaged	606,900	77.1	%	592,000	74.9	%	520,800	71.7	%
Total	787,600	100.0	%	790,500	100.0	%	726,300	100.0	%

The shift in mix from draft to packaged in 2015 compared to 2014 was primarily the result of our Kona brand family becoming a larger share of our overall shipments by brand family, which is more heavily weighted to packaged sales, and the growth of Omission, which is only available in packaged.

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

Cost of Sales

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

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

	Year Ended December 31,		Dollar	
	2015	2014	Change	% Change
Beer Related	$117,733	$118,513	$(780)	(0.7)%
Pubs	24,239	22,799	1,440	6.3%
Total	$141,972	$141,312	$660	0.5%

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	Year Ended December 31,		Dollar	
	2014	2013	Change	% Change
Beer Related	$118,513	$107,775	$10,738	10.0 %
Pubs	22,799	21,144	1,655	7.8 %
Total	$141,312	$128,919	$12,393	9.6 %

The decrease in Beer Related Cost of sales in 2015 compared to 2014 was primarily due to more favorable distribution costs per barrel, decreases in our cost of component materials, and the decrease in shipments discussed above. The decrease in Cost of sales was partially offset by an increase in brewery costs per barrel at our owned breweries and the mix shift from draft to packaged beers, as the cost per barrel of packaged beer is higher than draft.

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

Also contributing to the increase in Beer Related Cost of sales in 2014 compared to 2013 were various one-time costs incurred as a result of initiating brewing operations in Memphis, Tennessee. We experienced incremental startup costs for initial shipments out of the Memphis brewery as a result of launching during the 2014 peak selling season. The impact of decreased production and higher shipment costs represented approximately $0.7 million, or $420,000 after tax, reflected in Beer Related Cost of sales.

Pubs Cost of sales increased in 2015 compared to 2014 primarily due to increases in Sales and employee-related costs. The increase is also due to additional labor costs relating to training and overhead following the closure of our Kona Pub on the island of Oahu for three weeks for a full remodel in the first quarter of 2015.

Pubs Cost of sales increased in 2014 compared to 2013 primarily due to increases in Sales and cost increases across various categories, including labor, merchandise and administrative costs.

Capacity Utilization

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

	Year Ended December 31,		
	2015	2014	2013
Capacity utilization	71 %	75 %	70 %

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

Gross Profit

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

	Year Ended December 31,		Dollar	
	2015	2014	Change	% Change
Beer Related	$58,610	$55,174	$3,436	6.2 %
Pubs	3,586	3,536	50	1.4 %
Total	$62,196	$58,710	$3,486	5.9 %

	Year Ended December 31,		Dollar	
	2014	2013	Change	% Change

Beer Related	$55,174	$47,055	$8,119	17.3	%
Pubs	3,536	3,206	330	10.3	%
Total	$58,710	$50,261	$8,449	16.8	%

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

	Year Ended December 31,		
	2015	2014	2013
Beer Related	33.2 %	31.8 %	30.4 %
Pubs	12.9 %	13.4 %	13.2 %
Total	30.5 %	29.4 %	28.1 %

The increase in the Beer Related Gross profit in 2015 compared to 2014 was primarily due to favorable pricing increases, lower distribution costs per barrel and decreases in our component materials costs, partially offset by the increase in brewery costs per barrel and decline in shipment volume.

The increase in the Beer Related gross margin rate in 2015 compared to 2014 was primarily due to increases in pricing, improved distribution costs per barrel and the decrease in component materials costs, partially offset by higher brewery costs per barrel, as well as the effect of changes in product mix. The decrease in the Pubs gross margin rate in 2015 over 2014 was primarily due to the closures of two of our pubs, as discussed above.

The increase in the Beer Related Gross profit in 2014 compared to 2013 was due to the increase in shipment volume, as well as increased pricing, improved operating efficiencies of our breweries and optimization of our supply chain, partially offset by the additional costs incurred related to initiating brewing in Memphis, Tennessee, as discussed above.

The increase in the Beer Related gross margin rate in 2014 compared to 2013 was primarily due to the improved operating efficiencies of our breweries, as discussed above, optimization of our supply chain, and increases in pricing, partially offset by the effect of changes in product mix and additional costs incurred related to initiating brewing in Memphis, Tennessee. The increase in the Pubs gross margin rate in 2014 over 2013 was primarily due to the 2013 temporary closure of our Woodinville, Washington Pub for remodeling as discussed above.

Selling, General and Administrative Expenses

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

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

	Year Ended December 31,		Dollar	% Change
	2015	2014	Change	
	$57,932	$53,000	$4,932	9.3 %
As a % of Net sales	28.4 %	26.5 %		

	Year Ended December 31,		Dollar	% Change
	2014	2013	Change	
	$53,000	$46,461	$6,539	14.1 %
As a % of Net sales	26.5 %	25.9 %		

The increase in SG&A in 2015 compared to 2014, both in dollars and as a percentage of Net sales, was primarily due to planned increases in sales and marketing spending, as well as an increase in employee-related costs.

The increase in SG&A in 2014 compared to 2013, both in dollars and as a percentage of Net sales, was primarily due to the planned increases in SG&A spending, primarily for Kona television advertising in select markets, as well as an increase in employee related benefit costs in 2014 compared to 2013.

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Interest Expense

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

	Year Ended December 31,		Dollar	% Change
	2015	2014	Change	
Interest expense	$572	$431	$141	32.7 %
	Year Ended December 31,		Dollar	% Change
	2014	2013	Change	
Interest expense	$431	$464	$(33)	(7.1)%

	Year Ended December 31,		
	2015	2014	2013
Average debt outstanding	$18,530	$12,311	$12,615
Average interest rate	1.96 %	1.83 %	2.92 %

The increase in Interest expense in 2015 compared to 2014 was primarily due to the increase in our average debt outstanding. Our average debt outstanding increased as we have borrowed on our line of credit facility to support our expansion and growth plans, and to fund our working capital needs.

The decrease in Interest expense in 2014 compared to 2013 was due to lower average outstanding borrowings, as well as lower average interest rates.

Income Tax Provision

Our effective income tax rate was 40.3%, 39.7% and 40.0% in 2015, 2014 and 2013, respectively. The effective income tax rates reflect the impact of non-deductible expenses (primarily meals and entertainment expenses), state and local taxes, tax credits, and income excluded from taxation under the domestic production activities exclusion.

Liquidity and Capital Resources

We have required capital primarily for the construction and development of our production breweries, to support our expansion and growth plans, and to fund our working capital needs. Historically, we have financed our capital requirements through cash flows from operations, bank borrowings and the sale of common and preferred stock. We anticipate meeting our obligations for the twelve months beginning January 1, 2016 primarily from cash flows generated from operations and borrowing under our line of credit facility as the need arises. Capital resources available to us at December 31, 2015 included $0.9 million of Cash and cash equivalents and $31.2 million available under our line of credit facility.

We had $10.8 million of working capital and our debt as a percentage of total capitalization (total debt and common shareholders’ equity) was 14.1% at December 31, 2015.

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

	Year Ended December 31,		
	2015	2014	2013
Net cash provided by operating activities	$11,562	$9,911	$8,457
Net cash used in investing activities	(16,174)	(15,529)	(9,894)
Net cash provided by (used in) financing activities	4,542	3,873	(850)
Decrease in cash and cash equivalents	$(70)	$(1,745)	$(2,287)

Cash provided by operating activities of $11.6 million in 2015 resulted from our Net income of $2.2 million, net non-cash expenses of $11.8 million, and changes in our operating assets and liabilities as discussed in more detail below.

Accounts receivable, net, increased $7.2 million to $18.9 million at December 31, 2015 compared to $11.7 million at December 31, 2014. This increase was primarily due a $4.7 million increase in our receivable from A-B to a total of $12.6 million at December 31, 2015, due to the timing of shipments. Historically, we have not had collection problems related to our accounts receivable.

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Inventories decreased $0.7 million to $18.3 million at December 31, 2015 compared to $19.0 million at December 31, 2014, primarily due to the timing of shipments at the end of 2015.

Other current assets decreased $2.0 million to $2.4 million at December 31, 2015 compared to $4.4 million at December 31, 2014, primarily due to a decrease in the deposit for kegs leased from a third-party, which was partially offset by increases in prepaid advertising.

Accounts payable increased $4.1 million to $17.1 million at December 31, 2015 compared to $13.0 million at December 31, 2014, primarily due to the timing of payments for capital projects, and brewing and production activities. The portion of our payable to A-B that is included in our Accounts payable totaled $1.6 million at December 31, 2015, which is consistent with the balance at December 31, 2014.

As of December 31, 2015 we had the following net operating loss carryforwards (“NOLs”) and federal credit carry forwards available to offset payment of future income taxes:

- state NOLs of $30,000, tax-effected; and
- federal alternative minimum tax (“AMT”) credit carry forwards of $343,000.

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

Capital expenditures of $15.7 million in 2015 were primarily directed to beer production capacity and efficiency improvements and Pubs remodeling. As of December 31, 2015, we had an additional $1.3 million of expenditures recorded in Accounts payable on our Consolidated Balance Sheets, compared to $0.6 million at December 31, 2014. Beginning in 2015, we are 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 will be investing approximately $20 million in a new Hawaiian Brewery to expand capacity to 100,000 barrels per year. We anticipate capital expenditures of approximately $19 million to $23 million in 2016 primarily for capacity and efficiency improvements, quality initiatives and restaurant and retail, including spending for the expansion projects.

Loan Agreement

We have a loan agreement (as amended, the “Loan Agreement”) with Bank of America, N.A., which consists of a $40 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 $10.0 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 December 31, 2015, we had $8.8 million of borrowings outstanding under the Line of Credit and $10.0 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 December 31, 2015, our marginal rate was 0.75% resulting in an annual interest rate of 1.11%.

In connection with an amendment to the Loan Agreement on November 15, 2013, we paid down the Term Loan by $0.6 million in order to bring the outstanding principal balance to $10.8 million to achieve an 80% loan to value ratio on certain property securing the Loan Agreement. Accrued interest for the Term Loan is due and payable monthly. Principal payments on the Term Loan are due monthly in accordance with an agreed-upon schedule set forth in the

Loan Agreement, with any unpaid principal balance and unpaid accrued interest due and payable on September 30, 2023.

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

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Contractual Commitments and Obligations

The following is a summary of our contractual commitments and obligations as of December 31, 2015 (in thousands):

	Payments Due By Period				
Contractual Obligations	Total	2016	2017 and 2018	2019 and 2020	2021 and beyond
Term loan	$10,044	$391	$830	$901	$7,922
Interest on term loan[1]	740	111	209	189	231