CRAFT BREW ALLIANCE, INC.
Form 10-K
March 04, 2015

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, 2014
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, 2014 (based upon the closing price of the registrant’s common stock, as reported by the NASDAQ Stock Market, of $11.06 per share) was $122,055,981.

The number of shares outstanding of the registrant’s common stock as of February 16, 2015 was 19,115,396 shares.

Documents Incorporated by Reference
Portions of the registrant’s definitive Proxy Statement for the 2015 Annual Shareholders’ Meeting are incorporated by reference into Part III.

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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 is a leading craft brewing company that brews, brands and markets some of the world’s most respected and best-loved American craft beers.

The company is home to three of the earliest pioneers in craft beer: Redhook Ale Brewery, Washington’s largest craft brewery founded in 1981; Widmer Brothers Brewing, Oregon’s largest craft brewery founded in 1984; and Kona Brewing Company, Hawaii’s oldest and largest craft brewery founded in 1994. As part of Craft Brew Alliance, these craft brewing legends have expanded their reach across the U.S. and more than 15 international markets.

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

Publicly traded on NASDAQ under the ticker symbol BREW, Craft Brew Alliance is headquartered in Portland, 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 12.

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

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

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 17.6% in 2014 over 2013 and by 15.4% in 2013 over 2012. While the overall domestic market experienced a modest decrease in shipments of 0.6% in 2014, the craft beer segment continued its strong growth and captured market share from the rest of the domestic market. Craft beer shipments in 2014 and 2013 were approximately 9.2% and 7.9%, respectively, of total beer shipped in the U.S. Approximately 19.0 million barrels and 16.5 million barrels, respectively, were shipped in the U.S. by the craft beer segment during 2014 and 2013, while total beer sold in the U.S., including imported beer, was 206.2 million barrels and 206.2 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 2014, the number of craft breweries in operation had grown to 3,040. 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.

The recent competitive environment has been characterized by three trends: the number and diversity of craft brewers have significantly increased, Crown has emerged as a significant player in imports with its brewing capacity in Mexico, and the large national domestic brewers have been acquired by or merged with other national domestic and foreign brewers. In 2014, 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.

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 that represent legacy pioneers such as Widmer Brothers, Redhook Brewery, and Kona Brewing Company, as well as bold new trailblazers, including Omission Beer and Square Mile Cider Company.

- 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 the 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 brand portfolio comprises the Kona Brewing Company, Widmer Brothers Brewing, Redhook Brewery, Omission Beer and Square Mile Cider Company brand families.

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 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

Founded in 1984, Widmer Brothers Brewing is celebrating 30 years of beer from April 2014 – April 2015. 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. Since then, the brewery has continued to push the boundaries of craft beer, developing a variety of beers with an unapologetic, uncompromised commitment to innovation. Based in Portland, Oregon, the brewery currently brews a variety of beers including Hefeweizen, Upheaval IPA, Alchemy Pale Ale, Drop Top Amber Ale, a full seasonal lineup, and a series of limited edition beers.

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Redhook Brewery

Redhook was born out of the energy and spirit of the early 80's in the heart of Seattle. While the term didn't exist at the time, Redhook became one of America's first "craft" breweries. From a modest start in a former transmission shop in the Seattle neighborhood of Ballard, to the current breweries in Woodinville, Washington and Portsmouth, New Hampshire, Redhook has become one of America's most recognized craft breweries.

While Redhook has "grown up" over the past 30-plus years, one thing has never changed – Redhook is still brewing great beers like ESB, Long Hammer IPA, and Audible Ale. Most importantly, Redhook has fun doing it. Redhook beers are available both on draught and in bottles.

Omission Beer

Omission Beer is a brand of craft beers introduced in 2012 by Craft Brew Alliance in Portland, Oregon. Omission is the first craft beer brand in the U.S. focused exclusively on brewing great-tasting beers with traditional beer ingredients, including malted barley, that are specially crafted to remove gluten. Each batch of Omission Beer is tested independently using the R5 competitive ELISA test to ensure that it contains gluten levels below the U.S. Food and Drug Administration gluten-free standard of 20ppm or less. Omission produces three craft beers specially crafted to remove gluten: Omission Lager, Omission Pale Ale and Omission IPA.

Square Mile Cider Company

Square Mile Cider Company was launched in 2013. The brand's name pays homage to the fortitude and perseverance of the early American settlers who traveled the Oregon Trail in search of a better future. When they arrived in Oregon in the 1850s, they were granted square mile parcels of land to stake their claims. It was on these square mile claims that some of the original Northwest orchards were planted, and where Square Mile Cider Company chose to stake its claim.

New Brands and Packaging

Our recent brand and packaging announcements include:

Kona Brewing

As Kona's 20th year in business, 2014 represented the fifth consecutive year of double-digit growth for the Hawaiian brewery on the mainland. We continued to expand Longboard Lager and Big Wave Golden Ale into new markets, entering three new states and increasing our U.S. distribution to 40 states. We also added several new countries to our ever-growing line-up, with the long-anticipated move into Canada bringing us to 17 countries at year's end. During the summer, we launched our first-ever integrated marketing campaign that included TV, radio, digital and out of home to drive brand awareness and trial. Additionally, we launched Castaway IPA, previously available only in Hawaii, on the mainland during the summer season.

Widmer Brothers Brewing

In March 2014, Widmer Brothers introduced a new year-round IPA, Upheaval, to its core lineup. This Northwest Style India Pale Ale unleashes a huge hop flavor and aroma with serious bitterness and a balanced finish. Hazy and bold, Upheaval is left unfiltered for the full IPA experience. As part of the brewery's 30th anniversary celebration, Widmer Brothers brewed a series of collaboration beers with six of Oregon's best craft breweries including: Boneyard, Breakside, 10 Barrel, Gigantic, Ninkasi and Deschutes. The limited edition collaboration beers were distributed to select markets on draught and in 22oz bottles. The brewery also introduced the most ambitious beer series ever from an American craft brewery with its 30 Beers for 30 Years Series. Beginning in April, Widmer Brothers brewed one beer to commemorate each year since the brewery was founded in 1984. These are the most memorable, beloved and innovative beers in the brewery's history. Each recipe was faithfully recreated and each bottle features special artwork designed by Portland artists.

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Redhook Brewery

Redhook continued to build on its partnerships with the ongoing promotion of Game Changer Ale in all 1,000-plus Buffalo Wild Wings locations across the U.S. Redhook also continued its partnership with theCHIVE, a popular online media platform, to promote KCCO Black Lager. Redhook's partnership beer with sports commentator Dan Patrick, Audible Ale, won Gold at the World Beer Cup. Redhook also launched False Start Session IPA at the Richard Sherman Celebrity Softball Game to celebrate Super Bowl XLVIII Champions, the Seattle Seahawks.

Omission Beer

In 2014, Omission Beer became the official market leader in the gluten free beer category and continued to gain dollar share over the competition. Omission IPA continued to expand into new markets across the country, following in the footsteps of Omission Lager and Pale Ale. With a major focus on the casual dining sector, Omission Beer is on the menu of such large, national chains as Olive Garden, Red Robin, and T.G.I. Friday's.

Square Mile Cider Company

In 2014, Square Mile Cider Company expanded distribution in select Western states, becoming the number two cider in the Northwest. The brand, which finds its inspiration from the pioneering spirit of the original Oregon pioneers, offers 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.

Multi-Brand Beer Packages

During 2014, we added a Summer Variety Pack to complement our Winter Variety Pack released in 2012. Both Variety Packs include beers from Kona, Widmer Brothers and Redhook to satisfy consumers' thirst for two popular trends in craft beer: seasonal beers and variety packs.

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, 2014, 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.

- 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.

- 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. 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.

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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. In February 2012, we added a canning line at our Oregon Brewery to package our Kona Longboard Island Lager and Redhook Longhammer IPA in various can sizes. 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.

Effective September 1, 2012, in the best interest of both parties, we mutually agreed with Fulton Street Brewery, LLC ("FSB") to end our contract brewing arrangement with them. Under the termination agreement, we phased out production of FSB branded beers utilizing remaining inventory on-hand. In consideration, FSB paid us $70,000 per month through September 2013.

During 2014, we shipped 39,700 barrels under contract brewing arrangements compared to 30,300 barrels in 2013 and 49,600 in 2012.

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.

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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 2014 and 2013, we sold approximately 766,600 barrels and 708,100 barrels, respectively, to the wholesalers in A-B's distribution network through the A-B Distributor Agreement, accounting for 92.3% and 93.6%, 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 and 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,

which represents 31.7% of our outstanding shares of common stock at December 31, 2014.

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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 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.

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.

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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.

The craft beer segment is increasingly competitive due to the proliferation of small craft brewers, including contract brewers, and the large number of products offered by such brewers. Craft brewers have also encountered more competition as their peers expand distribution. Competition also 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 Craft division. A-B's Craft division includes Goose Island, Blue Point Brewing, 10 Barrel Brewing Company and Shock Top. Because of the large number of participants and number of different products offered in this segment, the competition for packaged product placements and especially for 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 brand families and the scale of our production breweries.

We also compete against imported brands, such as Heineken, Corona Extra and Guinness. Most of these foreign brewers 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, most of the major domestic national brewers have introduced fuller-flavored beers, including well-funded significant product launches in the wheat category. While these product offerings are intended to compete with craft beers, many of them are brewed according to methods used by these brewers in their other product offerings. The major national brewers, including Tenth and Blake through MillerCoors, and A-B Craft brands through A-B, have significantly greater financial resources than us 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 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.

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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 creating appealing new brands and better communicating the attributes of our portfolio of existing beers, highlighting and strengthening the identities to better match the preferences and lifestyles of a greater number of 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.

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, 2014, we employed approximately 785 people, including 385 employees in the pubs and retail stores, 210 employees in production, 130 employees in sales and marketing and 60 employees in corporate and administration. Included in the totals above are 244 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 cause our future sales and results of operations to be adversely affected.

Our information systems may experience an interruption or breach in security.

We rely on computer information systems in the conduct of 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.

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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. This 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.

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 the resultant rising unemployment rate, perceived or actual 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.

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.

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.

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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, most 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. 32% of our shipments during 2014 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 has acquired craft breweries and is seeking to increase sales in the high-end category while it owns 31.7% of our outstanding common stock, which makes A-B our largest shareholder. Under the Exchange Agreement, A-B may designate two nominees to our board of directors, who also participate on our audit, compensation, and nominating and governance committees as non-voting observers. This gives A-B an influential voice in board and shareholder deliberations.

Operating breweries at production levels substantially below their current designed capacities could negatively impact our financial results.

As of December 31, 2014, 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 and California.

Approximately 53% of our sales in 2014 were in the Pacific Northwest and California and, consequently, our future sales may be adversely affected by changes in economic and business conditions within these areas. We also believe these regions 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.

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We are dependent upon the services of our key personnel.

We may be unable to retain or recruit qualified personnel in key positions, which 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.

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 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.

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.

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 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. Individual states that we operate in also impose excise taxes on beer and other alcohol beverages in varying amounts, which have been subject to change. 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.

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We are subject to governmental regulations affecting our breweries and pubs.

Federal, state and local laws and regulations govern 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 and financial condition.

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 seasonal 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 2015 are expected to range from $17 million to $21 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, and our financial performance or outlook, or 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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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.

A loss of involvement by the founders of Widmer Brothers Brewing Company in promoting that brand family could adversely affect sales.

The founders of Widmer Brothers Brewing Company, Kurt R. Widmer (“Kurt”) and Robert P. Widmer (“Rob”), are integral to 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 chairman of the board, and Rob, as founder and vice president of corporate quality assurance and industry relations, are emphasized as part of our Widmer Brothers brand communication and have appeal to some drinkers. If Kurt or Rob were not willing or able to continue in their active roles, their absence could detrimentally affect the strength of our messaging and, accordingly, our growth prospects.

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.

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 43.3% 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.

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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, 2014, we had $29.4 million in an assortment of intangible assets, on a net basis, which represented nearly 16.5% 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. If this were to occur, 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. These operating leases expire at various times between 2016 and 2047. Certain of these leases are with related parties. 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.

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

As a result of adding fermentation capacity and modifying our brewing schedules during 2012, the total annual capacity of all our breweries was approximately 1,075,000 barrels as of December 31, 2014 and 2013. 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.

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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 2015.

Substantially all of the personal property and 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:

2013	High	Low
Quarter 1	$7.50	$6.39
Quarter 2	8.24	7.19
Quarter 3	13.80	8.40
Quarter 4	17.78	13.00

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

We had 696 common shareholders of record as of February 16, 2015.

We have not declared or paid any dividends during our existence. Under the terms of our loan agreement with BofA, we may not declare or pay dividends without BofA’s consent. 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 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 2014.

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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.

	Base Period	Indexed Returns Year Ended				
Company/Index	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Craft Brew Alliance, Inc.	$100.00	$307.92	$250.83	$270.00	$684.17	$555.83
NASDAQ Composite	100.00	116.91	114.81	133.07	184.06	208.71
S&P 500 Beverages Index	100.00	114.65	119.86	126.03	150.53	169.39

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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	2014	2013	2012	2011	2010
Net sales	$200,022	$179,180	$169,287	$149,197	$131,731
Cost of sales	141,312	128,919	119,261	104,011	98,064
Gross profit	$58,710	$50,261	$50,026	$45,186	$33,667
Selling, general and administrative expenses	$53,000	$46,461	$44,890	$39,742	$29,938
Operating income	$5,710	$3,800	$5,136	$5,444	$3,170
Gain on sale of equity interest in Fulton Street Brewery, LLC	$-	$-	$-	$10,432	$-
Income before provision for income taxes	$5,099	$3,263	$4,477	$15,692	$2,786
Provision for income taxes	2,022	1,304	1,951	6,041	1,100
Net income	$3,077	$1,959	$2,526	$9,651	$1,686
Basic and diluted net income per share	$0.16	$0.10	$0.13	$0.51	$0.10
Shares used in basic per share calculations	19,038	18,923	18,862	18,834	17,523
Shares used in diluted per share calculations	19,126	19,042	18,934	18,931	17,568

	December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Data					
Cash and cash equivalents	$981	$2,726	$5,013	$795	$164
Working capital (deficit)	8,050	5,782	5,207	2,327	(4,435)
Total assets	178,601	170,286	165,664	158,908	158,266
Current portion of long-term debt and capital leases	1,157	710	642	596	2,460
Long-term debt and capital leases, net of current portion	13,720	11,050	12,440	13,188	24,675
Other long-term obligations	19,738	18,303	17,903	16,261	11,388
Shareholders' equity	115,417	111,232	108,195	104,509	94,196

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

Overview

Craft Brew Alliance is a leading craft brewing company that brews, brands and markets some of the world’s most respected and best-loved American craft beers.

The company is home to three of the earliest pioneers in craft beer: Redhook Ale Brewery, Washington’s largest craft brewery founded in 1981; Widmer Brothers Brewing, Oregon’s largest craft brewery founded in 1984; and Kona Brewing Company, Hawaii’s oldest and largest craft brewery founded in 1994. As part of Craft Brew Alliance, these craft brewing legends have expanded their reach across the U.S. and more than 15 international markets.

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

Publicly traded on NASDAQ under the ticker symbol BREW, Craft Brew Alliance is headquartered in Portland, 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 12.

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

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

Following is a summary of our financial results:

	Net Sales	Net Income	Number of Barrels Sold
2014	$200.0 million	$3.1 million	830,200
2013	$179.2 million	$2.0 million	756,600

2012	$169.3 million	$2.5 million	724,900

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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,		
	2014	2013	2012
Sales	107.3%	107.4%	107.5%
Less excise tax	7.3	7.4	7.5
Net sales	100.0	100.0	100.0
Cost of sales	70.6	71.9	70.4
Gross profit	29.4	28.1	29.6
Selling, general and administrative expenses	26.5	25.9	26.5
Operating income	2.9	2.1	3.0
Interest expense	(0.2)	(0.3)	(0.4)
Other income (expense), net	(0.1)	-	-
Income before income taxes	2.5	1.8	2.6
Income tax provision	1.0	0.7	1.2
Net income	1.5%	1.1%	1.5%

(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,		
2014	Beer Related	Pubs and Other	Total
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%
2012			
Net sales	$145,670	$23,617	$169,287
Gross profit	$46,341	$3,685	$50,026
Gross margin	31.8%	15.6%	29.6%

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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, 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 %

Sales by Category	Year Ended December 31, 2013	2012	Dollar Change	% Change
A-B and A-B related	$159,001	$147,628	$11,373	7.7 %
Contract brewing and beer related[1]	9,082	10,773	(1,691)	(15.7)%
Excise taxes	(13,253)	(12,731)	(522)	4.1 %
Net beer related sales	154,830	145,670	9,160	6.3 %
Pubs[2]	24,350	23,617	733	3.1 %
Net sales	$179,180	$169,287	$9,893	5.8 %

(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,	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 %	

Year Ended December 31,	2013 Shipments	2012 Shipments	Increase (Decrease)	% Change	Change in Depletions[1]
A-B and A-B related	708,100	660,000	48,100	7.3 %	11 %
Contract brewing and beer related[2]	37,100	52,700	(15,600)	(29.6)%	
Pubs	11,400	12,200	(800)	(6.6)%	
Total	756,600	724,900	31,700	4.4 %	

(1) Change in depletions reflects the year-over-year change in barrel volume sales of beer by wholesalers to retailers.
(2) Contract brewing and beer related includes international shipments of our beers.

The increase in sales to A-B and A-B related in 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.

The increase in sales to A-B and A-B related in 2013 compared to 2012 was primarily due to the increase in shipments and a shift in package mix from draft to packaged.

The average revenue per barrel on shipments of beer through the A-B distribution network increased by 1.8% in 2014 compared to 2013, and 0.4% in 2013 compared to 2012, 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 2014, 2013 and 2012, we sold 92.3%, 93.6% and 91.0%, respectively, of our beer through A B at wholesale pricing levels.

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.

The decrease in contract brewing and beer related sales in 2013 compared to 2012 was due to a $3.1 million decrease related to the mutually-agreed upon termination of our contract brewing agreement with Fulton Street Brewery ("FSB") effective September 1, 2012. This decrease was partially offset by a $1.2 million increase in international shipments of our beers, which sell at a higher rate per barrel than contract brewing sales. Pursuant to our agreement with FSB, we phased out production of FSB branded beers by the end of November 2012 utilizing remaining inventory on-hand. In consideration, FSB agreed to a termination fee of $0.8 million that we recorded in Sales during the period from September 1, 2012 to December 31, 2012 and, under the terms of the termination agreement, we collected $70,000 per month from FSB through September 2013.

The increases in excise taxes in 2014 compared to 2013 and in 2013 compared to 2012 were due to higher shipments.

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 the decrease in beer shipment volume through our Pubs.

Pubs sales increased in 2013 compared to 2012 primarily as a result of our Kona Pubs in Hawaii experiencing increased sales as a result of higher guest counts, as well as increased average pricing. The increase in Pubs sales was partially offset by lower sales at our Redhook Pub in Woodinville as a result of its closure for remodeling, in addition to a decrease in beer shipment volume through our pubs. The Redhook Pub in Woodinville, Washington re-opened at the end of May 2013.

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.

The overall increase in volume in 2013 compared to 2012 reflected the continued strength of the Kona Brewing, Redhook Brewery and Omission Beer brands, partially offset by a decrease in the Widmer Brothers brand as we continued its repositioning in the marketplace.

Shipments by Brand

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

Year Ended December 31,	2014 Shipments	2013 Shipments	Increase	% Change	Change in Depletions
Kona	300,600	256,800	43,800	17.1 %	13 %
Widmer Brothers[1]	266,800	252,600	14,200	5.6 %	2 %
Redhook	223,100	216,900	6,200	2.9 %	3 %
Total[2]	790,500	726,300	64,200	8.8 %	7 %

Year Ended December 31,	2013 Shipments	2012 Shipments	Increase (Decrease)	% Change	Change in Depletions
Kona	256,800	220,000	36,800	16.7 %	23 %
Widmer Brothers[1]	252,600	264,300	(11,700)	(4.4)%	(3)%
Redhook	216,900	191,000	25,900	13.6 %	15 %

Total[2]	726,300	675,300	51,000	7.6	%	11	%

(1) Widmer Brothers includes the shipments and depletions from our Omission Beer and Square Mile brand families.
(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 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 increase in our Kona brand shipments in 2013 compared to 2012 was primarily due to the introduction on the mainland of our Big Wave Golden Ale during the third quarter of 2012, as well as expansion of sales of our Kona brands into certain Midwest states at the beginning of 2013, which also contributed to the continued sales growth of our Longboard Lager.

The increase in our Widmer Brothers brand shipments in 2014 compared to 2013 was primarily due to increases in shipments of the Omission Beer brand and Upheaval IPA, partially offset by the discontinuation of our Rotator IPA series.

The decrease in our Widmer Brothers brand shipments in 2013 compared to 2012 was primarily due to a decline in shipments of Hefeweizen, partially offset by an increase in shipments of Omission.

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 Redhook brand shipments in 2013 compared to 2012 was primarily the result of launching our new Audible Ale, a craft beer developed in partnership with Dan Patrick, at the Super Bowl in February 2013, as well as our new Game Changer Ale, co-developed with Buffalo Wild Wings as a craft beer that pairs well with wings. Redhook is also experiencing further penetration into existing markets, particularly by our Long Hammer IPA.

For each of the brand families discussed above, shipments lagged depletions for 2013 as a result of optimizing our supply chain processes, including brewing, during the 2013 first quarter to more closely align with the seasonality of our beer sales.

Shipments by Package

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

Year Ended	2014			2013			2012		
December 31,	Shipments	% of Total		Shipments	% of Total		Shipments	% of Total	
Draft	198,500	25.1	%	205,500	28.3	%	214,800	31.8	%
Packaged	592,000	74.9	%	520,800	71.7	%	460,500	68.2	%
Total	790,500	100.0	%	726,300	100.0	%	675,300	100.0	%

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.

The shift in mix from draft to packaged in 2013 compared to 2012 was primarily the result of the increases in volumes of our Kona and Redhook packaged beers and lower volumes on our Widmer Brothers draft beer.

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Capacity Utilization

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

	Year Ended December 31,		
	2014	2013	2012
Capacity utilization	75%	70 %	73 %

During 2012, we increased the combined capacity of our production breweries from approximately 900,000 barrels per year to approximately 1,075,000 barrels per year. Utilization in 2012 would have been 67% if this increased capacity of our breweries had been available since January 1, 2012.

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 2015.

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	%
	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	$		