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, 2017
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**

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, a smaller reporting company, or an emerging growth company. (See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act). Check one:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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, 2017 (based upon the closing price of the registrant's common stock, as reported by the NASDAQ Stock Market, of $16.85 per share) was $212,304,119.

The number of shares outstanding of the registrant's common stock as of March 1, 2018 was 19,309,829 shares.

Documents Incorporated by Reference
Portions of the registrant's definitive Proxy Statement for the 2018 Annual Shareholders' Meeting are incorporated by reference into Part III.

CRAFT BREW ALLIANCE, INC.
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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

THIRD-PARTY INFORMATION

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

PART I

Item 1. *Business*

Overview

Craft Brew Alliance, Inc. ("CBA") is the sixth largest craft brewing company in the U.S. and a leader in brewing, branding, and bringing to market world-class American craft beers.

Our distinctive portfolio combines the power of Kona Brewing Company, a fast-growing national craft beer brand, with strong regional craft breweries and innovative lifestyle brands, Appalachian Mountain Brewery, Cisco Brewers, Omission Brewing Co., Redhook Brewery, Square Mile Cider Co., Widmer Brothers Brewing, and Wynwood Brewing Co. We nurture the growth and development of our brands in today's increasingly competitive beer market through our state-of-the-art brewing and distribution capability, integrated sales and marketing infrastructure, and strong focus on partnerships, local community and sustainability.

CBA was formed in 2008 through the merger of Redhook Brewery and Widmer Brothers Brewing, the two largest craft brewing pioneers in the Northwest at the time. Following a successful strategic brewing and distribution partnership, Kona Brewing Co. joined CBA in 2010 and has become one of the top craft brands in the U.S. As part of CBA, Kona has expanded its reach across all 50 U.S. states and approximately 30 international markets, while remaining deeply rooted in its home of Hawaii.

As the craft beer market continues to grow and consumers increasingly demand more local offerings, Craft Brew Alliance has expanded its portfolio of brands and maximized its brewing footprint through strategic partnerships with emerging craft beer brands in targeted markets. From 2015 to 2016, we formed strategic partnerships with Appalachian Mountain Brewery, based in Boone, North Carolina; Cisco Brewers, based in Nantucket, Massachusetts; and Wynwood Brewing Co., based in the heart of Miami's vibrant multicultural arts district. Through these strategic partnerships, we gain local relevance in select beer geographies, while our partner breweries gain access to our world-class leadership and national brewing and sales infrastructure to grow their brands.

Publicly traded on NASDAQ under the ticker symbol BREW, Craft Brew Alliance is headquartered in Portland, Oregon and operates breweries and brewpubs across the U.S. For more information about CBA and its brands, see "Available Information" on page 14.

We proudly brew and package our craft beers in three company-owned production breweries located in Portland, Oregon; Portsmouth, New Hampshire; and Kailua-Kona, Hawaii. In 2017, we completed the process of transitioning CBA brewing volume out of a partner brewery in Memphis, as part of a previous alternating proprietorship brewing arrangement, into Anheuser-Busch's Fort Collins Colorado, brewery to leverage a contract brewing agreement with A-B Commercial Strategies, LLC ("ABCS"), an affiliate of Anheuser-Busch, LLC ("A-B"), executed in 2016. Additionally, we own and operate three innovation breweries in Portland, Oregon; Seattle, Washington; and Portsmouth, New Hampshire, which are primarily used for small-batch production and limited-release brews offered primarily in our brewpubs and brands' home markets.

We distribute our beers to retailers through wholesalers that are aligned with the A-B network. These sales are made pursuant to a Master Distributor Agreement (the "A-B Distributor Agreement") with A-B, which extends through 2028. As a result of this distribution arrangement, we believe that, under alcohol beverage laws in a majority of states, these wholesalers would own the exclusive right to distribute our beers in their respective markets if the A-B Distributor Agreement expires or is terminated. As increased competition puts increasing pressure on craft brands outside of their home markets, we continued ongoing work to stabilize and strengthen Widmer Brothers and Redhook in the Pacific Northwest. We have also expanded distribution of Appalachian Mountain Brewery, Cisco Brewers, and Wynwood Brewing Co. across their respective home markets of North Carolina, New England, and South Miami.

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 Brewpubs operations. Beer Related operations include the brewing, and domestic and international sales, of craft beers and ciders from our breweries. Brewpubs operations include our five brewpubs, three of which are located adjacent to our Beer Related operations, other merchandise sales, and sales of our beers directly to customers.

Industry Background

We are one of the top six 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. As the overall domestic market experienced a decrease in shipments of 1.3% in 2017, the craft beer segment began to show signs of a slowdown. Shipments of craft beer in the U.S. are estimated by industry sources to have increased by only 1.4% in 2017 over 2016, compared to a 7% increase in 2016 over 2015. Of total beer shipped in the U.S., craft beer shipments were approximately 14.2% in 2017 and 13.9% in 2016. Approximately 29.2 million barrels and 28.8 million barrels, respectively, were shipped in the U.S. by the craft beer segment during 2017 and 2016, while total beer sold in the U.S., including imported beer, was 204.9 million barrels and 207.7 million barrels, respectively. Compared with the other segments of the U.S. brewing industry, craft brewing is a relative newcomer. Twenty years ago, Redhook and Widmer Brothers Brewery were two of the approximately 200 craft breweries in operation. By the end of 2017, the number of craft breweries in operation had grown to more than 6,000. Industry sources estimate that craft beer produced by regional and national craft brewers, similar to us, accounts for approximately two-thirds of total craft beer sales, with one-third of the production brewed by smaller craft breweries.

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

Business Strategy

At Craft Brew Alliance, we believe we have an advantaged strategy to sustain long-term growth in today's increasingly complex beer market.

The central elements of our business strategy include:

- *Continue to focus on strengthening the topline,* driving our Kona Plus portfolio strategy, supporting our strong regional craft brands in their home markets, and unlocking the potential of Kona as a global lifestyle brand in key international beer markets.
- *Strengthening the core health of our business,* through improving our cost structure and financial management and expanding gross margins.
- *Actualizing the future,* through leveraging CBA's enhanced partnership agreements with Anheuser-Busch to drive growth, value and cost savings, while continuing to invest in our talent and culture.

Key Differentiators

Following are key differentiators that create competitive advantage for CBA in today's rapidly evolving craft beer segment.

- *A distinctive portfolio of authentic craft beer brands* with rich stories that are rooted in their local communities, including Widmer Brothers, Redhook Brewery, and Kona Brewing Company, bold new trailblazers Omission Beer and Square Mile

Cider Company, as well as strong regional craft partners Appalachian Mountain Brewery, Cisco Brewers, and Wynwood Brewing Co.

- *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 designed to ensure that everything, from brewing to quality-assurance to warehousing and distribution, meets our high standards. We believe that maximizing production under our direct supervision and through accomplished and expert partners is critical to our success. Further, we believe that our ability to engage in ongoing product innovation while controlling 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 compared 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.
- *Nationwide sales activation* through robust partnerships with leading retailers. 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 positioned to do.
- *National seamless distribution* through the Anheuser-Busch wholesaler network alliance. This distribution footprint provides efficiencies in logistics and product delivery, state reporting and licensing, billing and collections. We have realized these efficiencies while maintaining full autonomy over the production, sale and marketing of our products as an independent craft beer company.
- *A diverse leadership team* with extensive experience in the beer and beverage industries. The team has a proven ability to manage brand lifecycles, from development to turnaround, in both large and growth-company settings.

Brand Overview

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

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

Below is an overview of our five owned brands:

Kona Brewing Company
Kona Brewing Company was started in Kailua-Kona on the Island of Hawaii in the spring of 1994 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.

Today, Kona is Hawaii's largest and favorite craft brewery, known for top-selling flagship beers Longboard Island Lager and Big Wave Golden Ale and award-winning innovative small-batch beers available across the Islands. The Hawaii born and Hawaii-based craft brewery 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 packaging materials.

Kona Brewing Company has become one of the top craft beer brands in the world, while remaining steadfastly committed to its home market through a strong focus on innovation, sustainability and community outreach.

Widmer Brothers Brewing
Widmer Brothers Brewing was founded in 1984 in Portland, Ore. Brothers Kurt and Rob Widmer, with help from their dad, Ray, helped lead the Pacific Northwest craft beer movement when 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. Since then, Hefe has grown to become Oregon's favorite craft beer and the brewery has continued to push the boundaries, developing beers with an unapologetic, uncompromised commitment to innovation.

The brewery currently brews a variety of award-winning beers including Hefe, Upheaval IPA, Drop Top Amber Ale, a full seasonal lineup, and the new Portland Pub Series, which includes Russell Street IPA, PDX Pils, and Steel Bridge Porter.

Redhook Brewery
Redhook was born out of the entrepreneurial spirit of early 1980s in the heart of Seattle. While the term didn't exist at the time, Redhook became one of America's first craft breweries with its focus on creating a better beer. From a modest start in a former transmission shop in the Seattle neighborhood of Ballard, to a Fremont trolley barn that housed The Trolleyman brewpub, to its current breweries in Seattle, Wash., and Portsmouth, N.H., Redhook has become one of America's most recognized craft breweries.

Redhook opened Brewlab, an experimental 10-barrel brewery and pub in the Capitol Hill neighborhood of Seattle in 2017.
Redhook's beer lineup includes Big Ballard IPA, Bicoastal IPA, ESB, Long Hammer IPA and a variety of seasonal beers, including My Oh My Caramel Macchiato Milk Stout, Tangelic Halo Tangerine IPA, Winterhook, and more. Redhook beers are available on draught and in bottles and cans around the country.

Omission Beer
Founded in 2012, Omission Brewing Co. 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. FDA gluten-free standard of 20ppm or less. Omission's line up of beers is the most awarded within the gluten reduced segment, and includes Omission Lager, Omission Pale Ale, Omission IPA and, most recently, Omission Ultimate Light Golden Ale.

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

We also have brewing and distribution arrangements with the following three partner brands:

Appalachian Mountain Brewery
Nestled in the High Country of North Carolina, Appalachian Mountain Brewery, LLC, is Boone, NC's Beer Pioneer. The brewery is dedicated to making seriously delicious craft beer while focusing its business model on community, sustainability and philanthropy. Their 501(c)3 We Can So You Can and Pints for Non-Profits programs support local organizations that are dedicated to enriching the land, water, air and people of the High Country. Appalachian Mountain Brewery has earned numerous awards for its innovative craft beers and ciders, including Boone Creek Blonde Ale, which won a Gold Medal at the U.S. Open Beer Championships in 2015 and a Gold Medal at the 2017 Great American Beer Festival Competition. The brewery's core portfolio also includes Long Leaf IPA, Spoaty Oaty Pale Ale, and Porter, which was a gold medal winner at the 2015 Great International Beer and Cider Competition.

Cisco Brewers
Located near Cisco Beach on the island of Nantucket, Cisco Brewers is Nantucket's first craft brewery. Founded by hard-working, entrepreneurial islanders who began selling beer from their outdoor brewery in 1995, Cisco has carved out its own special place on Nantucket where they tough out the winters to celebrate the summers. Over the years they've attracted a cult following with visitors to the island and open the door to anyone willing to make the trek. Named a top travel destination by Time Magazine, Huffington Post and Travel & Leisure, Cisco's brewery is a common ground where people from all walks of life connect over classic and approachable craft beers like Whale's Tale Pale Ale, Grey Lady Ale, Indie IPA, and Sankaty Light Lager.

Wynwood Brewing Co
Wynwood Brewing Company is Miami's first craft production. Family owned and operated, Wynwood is committed to bringing fresh, delicious, and creative beers to thirsty South Floridians and tourists alike. They operate a 15-barrel brewhouse and taproom in the heart of the Wynwood Art District and distribute a variety of year-round, seasonal and limited beer offerings throughout South Florida, including flagship La Rubia Blonde Ale.

Developments in Brands and Packaging

Our recent brand and packaging developments include:

Kona Brewing
In 2017, Kona Brewing Co. continued to capitalize on the IPA craft trend with the national launch of its Island-inspired, tropical flavored, Hanalei Island IPA, which ended the year in the top 5 of all new craft brands in the U.S. as measured by Nielsen.

As with all of Kona's beers, Hanalei Island IPA is named for a specific place in Hawaii, Hanalei Bay in Kauai, and evokes the spirit of Hawaii with distinctive local ingredients. Brewed with Hawaii's beloved POG (pineapple, orange and guava) juice, Hanalei Island IPA is a coppery, laidback, session-style ale with tropical flavors and just 4.5% alcohol by volume ("ABV"). 2017 represented the eighth consecutive year of double-digit growth for Kona, including its flagships Big Wave, which grew depletions by 23% over 2016, and Longboard Lager, with distribution across all 50 states and approximately 30 international markets.

Widmer Brothers Brewing

In 2017, Widmer Brothers increased its focus behind the brewery's flagship Hefe, which is the best-selling craft beer in Oregon, with the launch of a new Hefe varietal series. The series included three varieties of Hefe, Hopfruit, Hefe Berry Lime, and Hefe Twisted Citrus. Over the summer of 2017, Widmer Brothers also brought back its 100 Days of Hefe event series, with more than 100 events held in and around the Portland metro area.

Building on the success of its new 10-barrel innovation brewery that opened in 2016, Widmer Brothers opened a beer garden adjacent to its brewpub in North Portland, where guests could enjoy the latest small-batch and experimental beers while looking out across to Portland's west hills. In March 2017, Widmer Brothers added PDX Pils to its year-round portfolio of award-winning packaged beer, making the hoppy Pilsner available in six packs and on draft throughout Oregon and Washington. And, in the summer of 2017, Widmer Brothers brought back a long-time fan favorite, Drifter Pale Ale, in six packs as its new summer seasonal.

As part of its ongoing commitment to support its hometown, Widmer Brothers launched Pints for Portland in 2017, a new program that builds on the brewery's more than 30 years of local community giving. Each month, Widmer Brothers partners with a different local non-profit and hosts a fundraising event at its pub and donates proceeds from beer and retail merchandise sales to support the organization's work.

Redhook Brewery

In 2017, Redhook completed a major milestone by launching a new innovation brewery and pub in the heart of the city where it was born. Redhook's Brewlab is located in the historic Pike Motorworks building in the vibrant Capitol Hill neighborhood of Seattle, WA. For the Brewlab launch in summer 2017, Redhook debuted 16 different collaboration beers created by Innovation Brewer Nick Crandall in partnership with Pacific Northwest craft breweries, reinforcing Redhook's commitment to ongoing experimentation and innovation. At the heart of Redhook Brewlab is a high efficiency brewing system that gives us the flexibility to brew hundreds of different specialty beers using less water and less energy than most breweries.

In 2017, Redhook introduced the first beer from our limited release series, Bicoastal IPA, a full bodied IPA with Tropical Citra, Chinook, Eureka, Mosaic and Azacca hops. Redhook also released Big Ballard Imperial IPA, a bold, cult classic IPA with 8.6% ABV. A long-time pub favorite, Big Ballard launched in 6-packs to huge success, and became the #1 new local craft beer in Washington in 2017. Additionally, we released a new Hoppy Hook Pack, featuring Long Hammer IPA, Big Ballard Imperial IPA, American Pale Ale, and Bicoastal IPA. Redhook also launched Purple and Gold Long Hammer IPA, as a limited release special to celebrate our partnership as the official craft beer of University of Washington Athletics.

Omission Beer

Omission Beer remains the market leader in the gluten-removed beer category. In early 2017, Omission added a new national beer to its portfolio, which includes Omission IPA, Omission Lager, and Omission Pale Ale. With only 5 carbs and 99 calories, Omission's new gluten-removed Ultimate Light Golden Ale addresses the consumer trend towards healthier options that fit with an active lifestyle. Omission launched new packaging in 2017, featuring a bold bright design, and rolled out its newest brand, Ultimate Light, in 12oz cans in four US test markets, Austin, Boston, Denver, and Phoenix.

Square Mile Cider Company

In 2017, Square Mile Cider Company continued to focus on distribution in 12 states. The brand, which finds its inspiration from the pioneering spirit of the original Oregon pioneers, continues to offer two year-round varieties: The Original, a classic American hard cider; and Spur & Vine, a hopped version of the classic American hard cider, with the addition of Citra and Galaxy hops. In 2017, we released a new seasonal, Rosé Cider, a drier apple cider with the addition of rose hips and hibiscus for a rosé flavor and a pink hue.

Brewing Operations

Brewing Facilities
We use highly automated brewing equipment at our owned production breweries and three small-batch innovation breweries. As of December 31, 2017, our total owned production capacity was 855,000 barrels. Our breweries include:

- *Oregon Brewery*. Our Oregon Brewery is our largest capacity production brewery, which has an annual capacity of 630,000 barrels. At the end of 2017, we completed several phases of an expansion to increase capacity and flexibility, while also driving higher efficiency as part of our commitment to sustainability. In 2017, we implemented a CO_2 recovery system to capture and repurpose CO_2 naturally produced during the brewing process.
- *New Hampshire Brewery*. Our New Hampshire Brewery utilizes a 100-barrel brewing system, with an annual capacity of 215,000 barrels, and uses an anaerobic waste-water treatment facility with power co-generation that completes the process cycle.
- *Hawaiian Brewery*. Our Hawaiian Brewery utilizes a 25-barrel brewing system, with an annual capacity of 10,000 barrels, and a 229-kilowatt photovoltaic solar energy generating system to supply approximately 50 percent of its energy requirements through renewable energy. In 2017, we continued to make progress on construction of a new 100,000-barrel brewery near our existing brewery and pub in Kona. The new brewery, which is being built with best-in-class sustainability and innovation, is scheduled to go online in the first quarter of 2019.
- *Innovation Breweries*. In 2017, we built a new 10-barrel small-batch innovation brewery for Redhook in Seattle. The heart of the new brewery is a High Efficiency Brewing System that uses a mash filter press, allowing us to use significantly less water and energy than a typical brewery. The brewery's flexibility enables Redhook to produce hundreds of different beer recipes that can be tested in the pub and scaled for larger production based on popularity. Our Portland 10-barrel innovation brewery and New Hampshire 3-barrel innovation brewery continued to focus on producing limited-release, small batch beers for the local markets.

In addition to our owned brewing capacity, we transitioned production volume into A-B's Fort Collins, Colo. brewery as part of a brewing agreement with ABCS. This partnership, which began in 2016, allows us to produce up to 300,000 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 and our Portsmouth brewery added a can line in 2017. 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. Additionally, we implemented a CO_2 reclamation system in our Portland brewery in 2017 that allows us to capture and repurpose naturally produced CO_2, which eliminates the need to purchase CO_2 for packaging. 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. Additionally, in our Portland Widmer Brothers brewpub, Hawaii brewpub and Seattle brewpub, we package our small-batch and innovation beers for consumers in crowlers.

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

We enter into contract brewing arrangements in an effort to absorb excess capacity under which we produce beer in volumes and per specifications as designated by the arrangements.

During 2017, we shipped 17,700 barrels under contract brewing arrangements, compared to 26,700 barrels in 2016 and 36,800 in 2015.

Brewpubs Operations

We own and operate five brew-pub restaurants and retail stores that support consumer awareness and research and development. Our five brewpub 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 different varieties of hops and malts in all styles of beer, and our brewpubs allow us to bring those beers to market in test-size batches in order to evaluate their potential prior to releasing them on a wider basis.

Distribution

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

We distribute 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 2017 and 2016, we sold approximately 654,200 barrels and 693,300 barrels, respectively, to the wholesalers in A-B's distribution network, accounting for 87.4% and 89.4%, respectively, of our shipment volume for the corresponding periods.

Sales and Marketing

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

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. 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 take tours at our breweries each year 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 space 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 brewpubs, 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

As a significant element of our business operations, we have entered into various contractual relationships with A-B as described in more detail below. With regard to agreements with A-B or one of its affiliates that provide for the payment of fees or other compensation in exchange for products or services, due to the related party nature of the agreements, the contract pricing may not be commensurate with amounts that an independent market participant would pay.

Distributor Agreement
The Master A-B Distributor Agreement (the "A-B Distributor Agreement"), as amended in August 2016, provides for the distribution of our brands, as well as those of AMB, Cisco, and Wynwood, 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 have granted A-B the right of first refusal to distribute our products, including any internally developed new products, but excluding new products that we may acquire. We are responsible for marketing our products to A-B's wholesalers, as well as to retailers and consumers.

As amended in August 2016, the term of the A-B Distributor Agreement will expire on December 31, 2028. 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.

A-B also has the right to deliver a revocation notice and reinstitute the terms of the A-B Distributor Agreement as they existed prior to August 23, 2016, following a "change of control event" that occurs or for which a definitive agreement is entered into prior to August 23, 2019, and is subsequently completed. A "change of control event" includes, with certain exceptions, (i) the acquisition by a person or group of beneficial ownership on a fully diluted basis of 50% or more of our equity securities (or the equity securities of the surviving entity in any merger, consolidation, share exchange or other business combination involving us), (ii) a change in the composition of our board of directors during any consecutive 12-month period such that the incumbent directors cease to constitute at least a majority of the board of directors, or (iii) the completion of a sale, lease, exchange, or other transfer of (A) the Kona brand or (B) 50% or more of our assets based on fair market value. A-B would have a similar revocation right upon the earliest to occur of (x) our rejection of a "qualifying offer" by A-B, (y) the completion of a transaction implementing A-B's qualifying offer, and (z) our failure to enter into a definitive transaction agreement with A-B within 120 days following receipt of A-B's qualifying offer, with certain exceptions. A "qualifying offer" means an offer or proposal on customary terms and conditions, with certain exceptions, made by A-B (or one of its affiliates) for the acquisition of all of our outstanding common stock not owned by A-B or its affiliates, for an aggregate value (subject to adjustment for changes in capitalization) of (a) until August 23, 2017, at least $22.00 per share, (b) from August 24, 2017 through August 23, 2018, at least $23.25 per share, and (c) beginning August 24, 2018, at least $24.50 per share.

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

Under the terms of the International Distribution Agreement, with respect to our exported products produced by us, ABWI will pay us our costs of production plus reasonable out-of-pocket expenses relating to export shipment costs. Additionally, ABWI will pay us an international royalty fee based on volume of our products sold by ABWI, equal to either $40 per barrel or $30 per barrel,

depending on certain factors described in the International Distribution Agreement, which royalty fee will be subject to escalation annually, beginning in calendar year 2018, on the terms described in the International Distribution Agreement. In addition, for calendar year 2016, 2017 and 2018, ABWI has paid or will pay us one-time fees of $3.0 million, $5.0 million and $6.0 million, respectively. The sum of the fees is recognized in Beer Related Net sales on a straight-line basis over the 10-year contract term, while the fees are collected in the first quarter of the year following the applicable calendar year.

The International Distribution Agreement contains specified termination rights, including, among other things, the right of either party to terminate the International Distribution Agreement if (a) the other party fails to perform any material obligation under the International Distribution Agreement, subject to certain cure rights or (b) the Brewing Agreement (as defined below) is terminated pursuant to certain specified provisions thereof. In addition, ABWI has the right to terminate the International Distribution Agreement upon 90 days' prior written notice to us following (i) a "change of control event" (as defined above) that occurs or for which a definitive agreement is entered into prior to August 23, 2019, and is subsequently completed, or (ii) the earliest of (x) our rejection of a "qualifying offer" (as defined above), (y) the completion of a transaction implementing a qualifying offer, and (z) our failure to enter into a definitive transaction agreement within 120 days following receipt of a qualifying offer, with certain exceptions (each of the foregoing subclauses (x) through (z), a "qualifying offer lapse"). Following termination of the International Distribution Agreement due to a qualifying offer lapse, or any change of control event, ABWI shall have the right to purchase the international distribution rights for each of our brands then being distributed under the International Distribution Agreement at the fair market value of such rights, and on otherwise customary terms and conditions, as set forth in the International Distribution Agreement.

Under the International Distribution Agreement, ABWI will also be required to make a one-time $20.0 million payment to us on August 23, 2019. The payment is being recognized in Beer Related Net sales on a straight-line basis over the 10-year contract term. However, ABWI will not (subject to compliance with certain notice requirements) be obligated to make such one-time payment if, prior to that date, (i) a "change of control event" occurs or a definitive agreement for a transaction constituting a change of control event is entered into, (ii) ABWI (or an affiliate thereof) makes a qualifying offer and there is a qualifying offer lapse or (iii) we enter into a definitive agreement with ABWI (or an affiliate thereof) with respect to a qualifying offer but such agreement is subsequently terminated, other than for certain regulatory reasons (in which case the $20.0 million shall remain payable). Unless terminated sooner, the International Distribution Agreement will continue in effect until December 31, 2026.

Contract Brewing Arrangements

On August 23, 2016, we entered into a Contract Brewing Agreement (the "Brewing Agreement") with A-B Commercial Strategies, LLC ("ABCS"), an affiliate of A-B, pursuant to which ABCS will brew, bottle and package up to 300,000 barrels of our mutually agreed products annually, in facilities owned by ABCS within the United States, for an initial term through December 31, 2026. Production of CBA's products in ABCS's brewery in Fort Collins, Colorado, began in the second quarter of 2017. We share equally with ABCS in any cost savings arising from the Brewing Agreement, provided that our cost savings will equal at least $10.00 per barrel on an aggregate basis, following certain adjustments as set forth in the Brewing Agreement. The Brewing Agreement provides specified termination rights, including, among other things, the right of either party to terminate the Brewing Agreement if (i) the other party fails to perform any material obligation under the Brewing Agreement, subject to certain cure rights, (ii) the International Distribution Agreement (as defined above) is terminated pursuant to certain specified provisions thereof, or (iii) subject to certain conditions, if the Master Distributor Agreement (as defined above) is terminated pursuant to certain specified provisions thereof.

In addition, ABCS has the right to terminate the Brewing Agreement, upon 90 days' prior written notice to us, following (i) a change of control event (as defined above) that occurs or for which a definitive agreement is entered into prior to August 23, 2019, and is subsequently completed, or (ii) the earliest to occur of (x) our rejection of a "qualifying offer" (as defined above), (y) the completion of a transaction implementing a qualifying offer, and (z) our failure to enter into a definitive transaction agreement within 120 days following receipt of a qualifying offer, with certain exceptions.

On January 30, 2018, we also entered into a Contract Brewing Agreement with Anheuser-Busch Companies, LLC ("ABC"), another A-B affiliate, pursuant to which we will brew, package, and palletize certain malt beverage products of A-B's craft breweries at our Portland, Oregon, and Portsmouth, New Hampshire breweries, as selected by ABC. Under the terms of this agreement, ABC will pay us a per barrel fee that varies based on the annual volume of the specified product brewed by us, plus (a) our actual incremental costs of brewing the product, and (b) certain capital costs and costs of graphics and labeling that we incur in connection with the brewed products. The agreement will expire on December 31, 2018, unless the arrangement is extended at the mutual agreement of the parties. The agreement also contains specified termination rights, including, among other things, the right of either party to terminate it if (i) the other party fails to perform any material obligation under the agreement or any other agreement between the parties, subject to certain cure rights, or (ii) the A-B Distributor Agreement is terminated.

Exchange Agreement

We have also entered into an Amended and Restated Exchange and Recapitalization Agreement (the "Exchange Agreement") with A-B, pursuant to which we have granted A-B certain contractual rights. The Exchange Agreement originally was entered into in 2004 as part of a recapitalization in which we redeemed preferred shares held by A-B in exchange for cash and the shares of our common stock currently held by A-B. A-B owned 6,069,047, or approximately 31.4%, of our outstanding shares of common stock at December 31, 2017.

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.

On August 23, 2016, we entered into an amendment to the Exchange Agreement with A-B providing it with rights, following a "change of control event" or a "qualifying offer," similar to those described above under "Distributor Agreement."

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. In addition, our contract brewing arrangements call for the payment of fees to the respective brewing partner, and A-B pays us distribution costs and fees and royalty fees under the International Distribution Agreement.

See Note 18 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this report for additional information.

Relationship with Pabst Northwest Brewing Company

On January 8, 2016, we entered into brewing agreements ("the brewing agreements") with Pabst Northwest Brewing Company ("Pabst"), a subsidiary of Pabst Brewing Company, under which Pabst had the ability to brew selected Rainier Brewing Company and other brands at our brewery in Woodinville, Washington under a license agreement and was required to pay us contract brewing volume shortfall fees in each of 2016 and 2017 stemming from brewing volumes below committed levels. In conjunction with the brewing agreements, we also granted Pabst an option to purchase the Woodinville brewery and adjacent pub, as well as related assets, at any time prior to termination of the brewing agreements.

Effective May 1, 2017, we reached an agreement with Pabst to terminate the brewing agreements. Pabst's option to purchase the Woodinville brewery and adjacent pub was also terminated. Pabst paid us $2.7 million in connection with the termination of the brewing agreements and purchase option.

We deferred recognition of the termination payment in our financial statements until the fourth quarter of 2017 due to our potential obligation to pay Pabst up to $2.7 million if the Woodinville brewery was sold to a specified party, which did not occur. Of the $2.7 million, $1.7 million was recorded in Sales and $1.0 million was recorded in Selling, general and administrative expenses.

Seasonality

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

Competition

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

In 2017, the craft brewing industry continued to experience unprecedented change and competition, characterized by three trends: 1) the growing number and popularity of new local craft breweries that captured market share from established craft breweries, 2) continued acquisition and investment activity between craft brewers, large domestic and foreign brewers, and private equity firms, and 3) continued competitive pressure from international brewers, such as Crown, which target both domestic and craft beer drinkers. In 2017, according to industry sources, A-B and MillerCoors accounted for almost 80% of total beer shipped in the

U.S., excluding imports. In addition, A-B and MillerCoors continued to invest in smaller craft breweries and nurtured separate craft-focused divisions in an effort to capitalize on the growing craft beer segment and consumer demand for locally produced products.

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

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

In response to the growth of the craft beer segment, the major domestic national brewers have invested in purchasing small craft breweries. The major national brewers, including Tenth and Blake through MillerCoors, and A-B High End brands through A-B, have significantly greater financial resources than we do and have access to a greater array of advertising and marketing tools to create product awareness of their offerings.

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

Competition for consumers of craft beers also comes from wine and spirits, which reflects today's millennial consumers who typically drink across three alcoholic beverage categories in a single drinking occasion. Growth in this segment appears to be attributable to competitive pricing, television advertising, increased merchandising and greater consumer interest in local wine and craft 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 consumers. 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, including consumers who allow themselves affordable luxuries in the form of high quality alcoholic beverages.

A significant portion of our sales continues to be in the Pacific Northwest and in California, which we believe are among the most competitive craft beer markets in the U.S., 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. Additionally, we are monitoring the impact of cannabis as more states legalize marijuana for retail sales. Our recent marketing efforts have been focused on promoting the national relevance of Kona as a leading lifestyle brand, the authenticity of our pioneering owned brands and the creativity of our partner brands, along with better segmenting our marketing strategies to communicate the attributes of our portfolio to our target consumers. We believe that our broad array of beers and brands enables us to offer an assortment of flavors and experiences that appeal to more people.

Segment and Enterprise-Wide Information

See Note 12 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this report 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 ("FDA"), state alcohol regulatory agencies, and state and local health, sanitation, safety, fire and environmental agencies. In addition, the beer industry is subject to substantial federal and state excise taxes.

The FDA issued a proposed rule in November 2015 on the use of "gluten-free" labeling for fermented and hydrolyzed foods and beverages that may affect our ability to market our Omission Beer as "crafted to reduce gluten." The proposed rule is under review by the Office of Management and Budget and is now expected to become final in late 2018, although adoption may continue to be delayed under the current administration's executive order to reduce regulations. See Item 1A. Risk Factors for additional information.

We operate our breweries under federal licensing requirements imposed by the TTB. The TTB requires the filing of a "Brewer's Notice" upon the establishment of a commercial brewery and the filing of an amended Brewer's Notice whenever 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 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 has levied 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 have been 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 but are usually paid by the wholesaler. We pay excise taxes in states where we produce (Hawaii, Oregon, Washington, and New Hampshire).

In January 2017, the Craft Beverage Modernization and Tax Reform Act was introduced in both the U.S. Senate and the U.S. House of Representatives. In December 2017, this act was modified and included in the Tax Cuts and Jobs Act, which was signed into law and will provide small and regional brewers and small wineries significant excise tax relief effective January 1, 2018. The new law pertains to our operations in the following ways:

- Beer: Reduced the federal excise tax to $3.50 per barrel on the first 60,000 barrels for domestic brewers producing fewer than 2 million barrels annually;
- Beer: Reduced the federal excise tax to $16 per barrel on the first 6 million barrels for all other brewers and all beer importers; and
- Cider: While the existing excise tax on hard cider did not change from $0.226 per gallon, the new laws expanded the small producer tax credit for hard cider to $0.062 on the first 30,000 gallons for an effective rate of $0.164 per gallon; the tax credit on the next 100,000 gallons produced will be $0.056 for an effective rate of $0.17 per gallon; and producers like us who produce between 130,000 and 750,000 gallons will receive a $0.033 credit for an effective tax rate of $0.193 per gallon.

Currently, the changes in the Tax Cuts and Jobs Act are set to expire at the end of 2019. However, the Beer Institute, of which we are a member, and other industry groups support extending the relief embodied in the Tax Cuts and Jobs Act and making federal excise tax relief for all brewers and beer importers permanent. 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 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.

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 brewpubs have addressed this issue by maintaining reasonable hours of operation and routinely performing training for personnel.

Trademarks

We have obtained U.S. trademark registrations for numerous products. Trademark registrations generally include brand names and logos and specific product names. The Kona Brewing Co., Widmer Brothers Brewing, Redhook, and Omission marks and certain other marks are also registered in various foreign countries. We regard our Kona Brewing Co., Widmer Brothers Brewing, Redhook, Omission, Square Mile and other trademarks as having substantial value and as being an important factor in the marketing of our products. We also have several similar international trademarks. 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 material trademarks in our markets whenever possible and to oppose vigorously any infringement of our trademarks.

Employees

At December 31, 2017, we employed approximately 665 people, including 310 employees in the brewpubs and retail stores, 140 employees in production, 130 employees in sales and marketing and 85 employees in corporate and administration. Included in the totals above are 170 part-time employees and 3 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 brewers. We face increasing competition from producers of wine, spirits and flavored alcohol beverages offered by the larger brewers and spirit producers. We are also monitoring the impact of cannabis as more states legalize marijuana for retail sale. Increased competition could adversely affect our future sales and results of operations. See "Competition" in Part I, Item 1 of this report.

Our information systems may experience an interruption or breach in security.
We rely on computer information systems to conduct our business. We have policies and procedures in place to protect against and reduce the occurrence of failures, interruptions, or breaches of security of these systems. However, there can be no assurances that these policies and procedures will eliminate the occurrence of failures, interruptions or breaches of security or that they will adequately restore our systems or minimize any such events. The occurrence of a failure, interruption or breach of security of our computer information systems could result in loss of intellectual property, delays in our production, loss of critical information, or other events, any of which could harm our future sales or operating results.

We manage and store various proprietary information and sensitive or confidential data relating to our business, including sensitive and personally identifiable information. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us, our employees, or our customers,

including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose us, our customers or the individuals affected to a risk of loss or misuse of this information. Any such breach, loss, or disclosure could result in litigation and potential liability for us, damage our brand image and reputation, or otherwise harm our business. In addition, our current data protection measures might not protect us against increasingly sophisticated and aggressive threats, while 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 unemployment or underemployment, perceived or actual declines in disposable consumer income and wealth, and changes in consumer confidence in the economy, could significantly reduce customer demand for craft beer in general, and the products we offer specifically. Furthermore, our consumers may choose to replace our products with the fuller-flavored national brands or other more affordable, although lower quality, alternatives available in the market. Any such decline in consumption of our products would likely have a significant negative impact on our operating results.

Changes in consumer preferences or public attitudes about alcohol could decrease demand for our products.
If consumers become unwilling to accept our products or if general consumer trends cause a decrease in the demand for beer, including craft beer, our sales and results of operations would be adversely affected. There is no assurance that the craft brewing segment will 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. 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. In reaction to these concerns, steps may be taken to restrict advertising by beer producers, to impose additional cautionary labeling or packaging requirements, or to increase excise or other taxes on beer. Any such developments may have a significant adverse impact on our financial condition, operating results and cash flows.

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

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

If the FDA's proposed rule becomes final as written, the TTB's policy may be superseded, which would have a significant impact on our ability to market and sell our Omission beers as "crafted to remove gluten" and negatively impact our operating results. The proposed rule is under review by the Office of Management and Budget and is now expected to become final in late 2018, although adoption may continue to be delayed under the current administration's executive order to reduce regulations.

We may identify material weaknesses in our internal control over financial reporting in the future, which, if not remediated, could result in material misstatements in our financial statements.
Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Management identified a material weakness in our internal control over financial reporting related to accounting for complex revenue transactions for the year ended December 31, 2016. As discussed in Item 9A, the material weakness has been remediated as of December 31, 2017. However, additional material weaknesses in our internal control environment may be identified in the future, which could result in material misstatements in our financial statement and a loss of investor confidence in the integrity of our financial reporting and other public disclosures, potentially

triggering increased sales of our common stock and downward pressure on our stock price.

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

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

Any disruption in the ability of the wholesalers, A-B, or us to distribute products efficiently due to any significant operational problems, such as widespread 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. During 2017, 35% of our shipments were through A-B owned distributors.

Our investments in our sales and marketing infrastructure may negatively affect our financial results without increasing sales.
We intend to reinvest cost savings in selling, general and administrative expenses in our sales and marketing infrastructure, including increased spending to support our Kona brand. Also, beginning January 1, 2019, we will reinvest an additional $0.25 per case-equivalent in our sales and marketing efforts for our products. While we seek to design effective advertising and promotions to support our brands, these efforts may not lead to enhanced brand equity or higher sales in the long term.

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 purchasing a non-brewing entity if the purchase price exceeds $2 million. If A-B opposes strategic or financial investments proposed by our management, A-B may decline to give its consent to activities or investments that our management believes are in the best interest of our shareholders.

A-B has an influential voice in decisions of the board of directors and shareholders.
A-B owns 31.4% of our outstanding common stock, making A-B our largest shareholder. In addition, under the Exchange Agreement, A-B may designate two nominees to our board of directors. These directors also participate on our audit, compensation, and nominating and governance committees as non-voting observers, and one of these directors participates on our strategic planning committee as a voting member. As a result, A-B has an influential voice in deliberations of the board of directors and shareholders. A-B and its affiliates also have the right to terminate our contract brewing arrangements and to rescind certain amendments to our other contracts with them upon the occurrence of certain events. See "Relationship with Anheuser-Busch, LLC" in Item 1. Business above for additional information.

Expansion of our Kona brewery may be subject to various risks, including cost overruns, construction delays, and inability to fully utilize additional production capacity, which may adversely affect our financial condition and results of operations.
During 2015, we held a ground-breaking ceremony on the site of a new, state-of-the-art brewing facility in Kailua-Kona, Hawaii, with an annual production capacity of 100,000 barrels at a total estimated cost of approximately $20 million. As with all projects of this magnitude, there is the potential risk of significant cost overruns, which could require us to increase our borrowing under our revolving credit facility or to find additional financing. We may also experience unforeseen construction delays, which could result in our inability to bring the new Kona brewery into production as scheduled, adversely affecting our results of operations

and financial condition. In addition, if we do not achieve sufficient growth in product sales to absorb the increased production capacity, we may be unable to realize our goals for gross margin improvement, which would have a negative impact on our results of operations and return on investment.

We expect to continue to make strategic 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 brewpubs. 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.

Operating breweries at production levels substantially below their current designed capacities could negatively impact our financial results.
As of December 31, 2017, the annual working capacity of our breweries was approximately 855,000 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 and brewing volumes, the resulting excess capacity and unabsorbed overhead will have an adverse effect on our gross margins, operating cash flows and overall financial performance. We periodically evaluate whether we expect to recover the costs of our production breweries over the course of their useful lives. If facts and circumstances indicate that the carrying value of these long-lived assets may be impaired, an evaluation of recoverability will be performed by comparing the carrying value of the assets to projected future undiscounted cash flows along with other quantitative and qualitative analyses. If we determine that the carrying value of such assets does not appear to be recoverable, we will recognize an impairment loss by a charge against current operations, which could have a material adverse effect on our results of operations.

Our sales are concentrated in the Pacific Northwest, California and Hawaii.
Our sales in 2017 were concentrated in Washington, Oregon, California and Hawaii and, consequently, our future sales may be adversely affected by changes in economic and business conditions within these states. We also believe the Pacific Northwest and California are among the most competitive craft beer markets in the United States, both in terms of number of market participants and consumer awareness. The Pacific Northwest and California offer significant competition to our products, not only from other craft brewers, but also from the major domestic brewers, wine producers and flavored alcohol beverages.

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

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

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

We may be subject to litigation that could adversely affect our business and results of operations.
We may be subject to various types of litigation, including fair trade practice, product liability, and employment-related claims. Such litigation may be time consuming, distracting and costly, and could have a material adverse effect on our business and results of operations. See Note 17, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements found in Part II, Item 8 of this report, for additional information related to legal proceedings.

Our ability to obtain key ingredients for our products, including hops and malt, is dependent on a number of factors, including competition from other brewers, weather, and the decisions of growers regarding which crops to grow.
We purchase most of our raw materials from U.S. brokers, many of which rely on foreign sources, particularly for malt. As a result, prices for these ingredients may be affected by foreign currency fluctuations. Also, as consumer preference for innovative

craft beer products increases, the demand for new hop varietals has grown, and many breweries enter into multi-year contracts with growers. Adverse weather events may also reduce the supply of certain ingredients, many of which are grown in a limited number of geographic regions. There is no assurance that we will be able to obtain certain of our ingredients in a timely fashion to meet consumer demand, and our gross margin may be adversely affected if we are required to pay higher prices to obtain needed ingredients that are in high demand. Such factors may also result in lower sales of our products, which would have a negative effect on our financial results.

We may experience higher packaging costs and shipping costs, which could adversely affect our financial results.
Many of our packaging materials, particularly glass, are obtained from a single source. Although we believe alternative suppliers of packaging materials, including bottles, cans, carriers and labels, are available, a number of factors, including consolidation in the packaging industry and competition from other manufacturers in need of packaging materials, may result in supply shortages or higher prices, which could adversely affect our financial results. We have also seen recent increases in shipping costs for our products. While we are seeking to manage those costs through more efficient management of brewery operations and logistics, we may not be successful. We also may not be able to pass along increased costs through higher prices for our products, with a corresponding negative impact on our financial results.

Higher health care costs may have an adverse effect on our operating results.
We are self-insured with respect to health care expenses for our employees. During 2015, we experienced higher than average medical expense claims, which increased our Selling, general and administrative expenses. If we experience higher costs in the future, 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.
In 2016, we entered into a contract brewing agreement with ABCS and, once fully optimized, anticipate producing up to 300,000 barrels of our beer at this facility annually. If production at this 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 and a negative impact on our wholesaler relationships in those markets.

An increase in excise taxes could adversely affect our financial condition and results of operations.
The U.S. federal government currently levies an excise tax of $18 per barrel on beer sold for consumption in the United States. However, brewers, such as us, that produce less than two million barrels annually, are now taxed at $3.50 per barrel on the first 60,000 barrels shipped, with the remainder of the shipments taxed at $16 per barrel, due to the passage of the Tax Cuts and Jobs Act in December 2017. If the tax cut is not permanently extended, this new rate is scheduled to return to $7 per barrel for the first 60,000 barrels and $18 per barrel up to two million barrels annually in 2020. The individual states in which we operate also impose excise taxes on beer and other alcohol beverages in varying amounts. Federal and state legislators routinely consider various proposals to impose additional excise taxes on the production of alcoholic beverages, including beer. Any such increases in excise taxes, if enacted, would adversely affect our financial condition, results of operations, and cash flows.

We are subject to tax liabilities imposed by the jurisdictions where we operate.
Tax liabilities may vary significantly and are subject to change. Among others, these taxes include income taxes, property taxes, indirect taxes (excise, sales, use and gross receipts taxes), payroll taxes, and withholding taxes. We may not be able to pass these tax costs on to consumers and remain competitive. New tax laws and regulations and changes to existing tax laws and regulations could materially and adversely affect our financial results.

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

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

We may be unable to access public or private debt markets to fund our operations and contractual commitments at competitive rates, on commercially reasonable terms, or in sufficient amounts, if at all.
We depend, in part, on our revolving line of credit with Bank of America, N.A. ("BofA"), to fund our operations and commitments for capital expenditures. This credit line expires in 2020. Our capital expenditures in 2018 are expected to range from $16 million to $19 million. A number of factors could cause us to incur increased borrowing costs and to have greater difficulty accessing public and private markets for debt. These factors include general economic conditions, disruptions or declines in the global capital markets, our financial performance or outlook, and credit. An adverse change in any or all of these factors may materially adversely affect our ability to fund our operations and contractual or financing commitments.

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

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

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 acquired two craft brewers since 2008, as well as a 24.5% equity interest in Wynwood Brewing Company, LLC, in July 2017. We 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 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.

We may be subject to litigation that could adversely affect our business and results of operations.
We may be subject to various types of litigation, including fair trade practice, product liability, and employment-related claims. Such litigation may be time consuming, distracting and costly, and could have a material adverse effect on our business and results of operations. See Note 17, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements found in Part II, Item 8 of this report, for additional information related to legal proceedings.

Any change in, or violation of, federal and state environmental regulations could adversely affect our operations.
Our brewing operations are subject to environmental regulations and local permitting requirements and agreements regarding, among other things, air emissions, water discharges and the handling and disposal of hazardous wastes. While we have no reason to believe the operation of our breweries violates any such regulation or requirement, if such a violation were to occur, or if environmental regulations were to become more stringent in the future, we may 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, three of our founders, together, beneficially own approximately 2.3 million shares, or 11.7%, of our common stock. Collectively, these two groups own 43.1% of our equity. All of these shares are available for sale in the public market, subject to volume, manner of sale and other requirements under the Securities Act of 1933. Such sales in the public market, or the perception that such sales may occur, could cause the market price of our common stock to decline.

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

The fair value of our intangible assets, including goodwill, may become impaired.
As a result of the acquisition of Kona Brewing Company, we have recognized a significant increase in our total intangible assets, including goodwill. As of December 31, 2017, we had $28.9 million in an assortment of intangible assets, on a net basis, which represented nearly 13.8% 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, with a corresponding 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 has occurred. In that event, we would be required to recognize a potentially significant loss on impairment of these assets. Any such impairment loss would be charged against current operations in the period of change and potentially have a material adverse effect on our results of operations.

Item 1B. ***Unresolved Staff Comments***

Not applicable.

Item 2. ***Properties***

We own and operate three highly-automated, small-batch production breweries: the Oregon Brewery, the New Hampshire Brewery, and the Hawaiian Brewery, as well as three small, innovation brewing systems in Portland, Oregon, Seattle, Washington and Portsmouth, New Hampshire. We lease the sites upon which the Hawaiian Brewery and Brewpubs, the New Hampshire Breweries and Brewpub, the Portland Innovation Brewery, and Oregon Brewpub 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, which expires in 2019. In 2015, we entered into a long-term land lease for the location of our new Kona brewery, which expires in 2064, and, in 2016 we entered into a lease for our new Redhook pub in Seattle, which expires in 2026. Certain of these leases are with related parties. See Notes 17 and 18 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
Oregon Brewery	185,000	630
New Hampshire Brewery	125,000	215
Hawaiian Brewery	11,000	10
		855

Late in the fourth quarter of 2017, we completed several phases of an expansion to increase capacity and flexibility of our Oregon brewery which did not materially impact our overall capacity for 2017 and, in 2016, we broke ground on a new 100,000 barrel brewery near our existing brewery and pub in Kona, which is expected to be fully operational in the first quarter of 2019.

In 2016, we entered into a contract brewing agreement with A-B Commercial Strategies, LLC with the ability to have up to 300,000 barrels produced annually and, during the second quarter of 2017, production began in their facilities.

Substantially all of our personal property and fixtures, as well as the real properties associated with the Oregon Brewery, secure our loan agreement with BofA. See Note 9 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, cash flows or results of operations.

See Note 17, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements found in Part II, Item 8 of this report, for additional information related to legal proceedings.

Item 4. ***Mine Safety Disclosures***

Not applicable.

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:

2016	**High**	**Low**
Quarter 1	$ 9.02	$ 7.02
Quarter 2	11.52	7.56
Quarter 3	21.38	10.69
Quarter 4	18.52	13.60

2017	**High**	**Low**
Quarter 1	$ 17.25	$ 12.40
Quarter 2	17.45	12.25
Quarter 3	18.90	16.75
Quarter 4	19.80	17.15

We had 693 common shareholders of record as of March 1, 2018.

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

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

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 2017.

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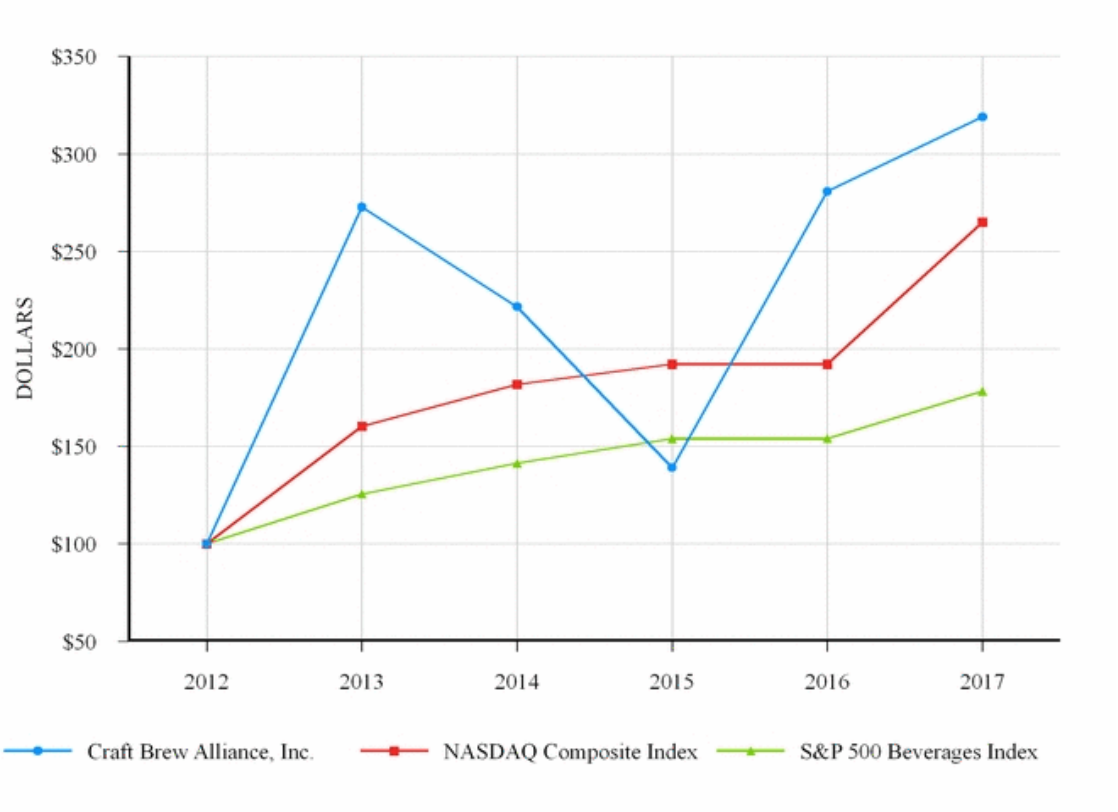
Stock Performance Graph

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

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



Company/Index	Base Period 12/31/2012	Indexed Returns Year Ended 12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Craft Brew Alliance, Inc.	$ 100.00	$ 272.76	$ 221.59	$ 139.04	$ 280.73	$ 318.94
NASDAQ Composite	100.00	160.32	181.80	192.21	192.21	264.99
S&P 500 Beverages Index	100.00	125.59	141.32	153.99	154.01	178.26

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 report.

In thousands, except per share amounts	Year Ended December 31,				
Statement of Operations Data	**2017**	**2016**	**2015**	**2014**	**2013**
Net sales [1]	$ 207,456	$ 202,507	$ 204,168	$ 200,022	$ 179,180
Cost of sales	142,198	142,908	141,972	141,312	128,919
Gross profit	65,258	59,599	62,196	58,710	50,261
Selling, general and administrative expenses[2]	60,463	59,224	57,932	53,000	46,461
Operating income	4,795	375	4,264	5,710	3,800
Interest expense and other income (expense), net	(754)	(681)	(546)	(611)	(537)
Income (loss) before provision for income taxes	4,041	(306)	3,718	5,099	3,263
Income tax provision (benefit)[3]	(5,482)	14	1,500	2,022	1,304
Net income (loss)	$ 9,523	$ (320)	$ 2,218	$ 3,077	$ 1,959
Basic and diluted net income (loss) per share	$ 0.49	$ (0.02)	$ 0.12	$ 0.16	$ 0.10
Shares used in basic per share calculations	19,284	19,225	19,152	19,038	18,923
Shares used in diluted per share calculations	19,447	19,225	19,175	19,126	19,042

	December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
Balance Sheet Data					
Cash and cash equivalents	$ 579	$ 442	$ 911	$ 981	$ 2,726
Working capital	38,005	13,082	8,933	6,380	4,437
Total assets	209,637	200,405	188,429	176,931	168,941
Current portion of long-term debt and capital leases	699	1,317	507	1,157	710
Long-term debt and capital leases, net of current portion	32,599	27,946	18,991	13,720	11,050
Other long-term obligations	14,764	19,844	19,057	18,068	16,958
Shareholders' equity	130,791	119,661	118,738	115,417	111,232

(1) Net sales in 2017 includes a $1.7 million fee from Pabst, related to the termination of the brewing agreements.
(2) Selling, general and administrative expenses in 2017 includes a $1.0 million fee from Pabst related to the termination of a purchase option agreement, as well as, a $0.5 million impairment charge related to the sale of our Woodinville brewery.
(3) The income tax benefit in 2017 includes a $6.9 million benefit related to the effect on our deferred tax assets and liabilities of a change in Federal income tax rates from 34% to 21%.

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

Overview

Craft Brew Alliance, Inc. ("CBA") is the sixth largest craft brewing company in the U.S. and a leader in brewing, branding, and bringing to market world-class American craft beers.

Our distinctive portfolio combines the power of Kona Brewing Company, a dynamic national craft beer brand, with strong regional breweries and innovative lifestyle brands, including Appalachian Mountain Brewery, Cisco Brewers, Omission Brewing Co., Redhook Brewery, Square Mile Cider Co., Widmer Brothers Brewing, and Wynwood Brewing Co. We nurture the growth and development of our brands in today's increasingly competitive beer market through our state-of-the-art brewing and distribution capability, integrated sales and marketing infrastructure, and strong focus on partnerships, local community and sustainability.

CBA was formed in 2008 through the merger of Redhook Brewery and Widmer Brothers Brewing, the two largest craft brewing pioneers in the Northwest at the time. Following a successful strategic brewing and distribution partnership, Kona Brewing Co. joined CBA in 2010 and has become one of the fastest-growing craft brands in the U.S. As part of CBA, Kona has expanded its reach across all 50 U.S. states and approximately 30 international markets, while remaining deeply rooted in its home of Hawaii.

As the craft beer market continues to grow and consumers increasingly demand local offerings, Craft Brew Alliance has expanded its portfolio of brands and maximized its brewing footprint through strategic partnerships with regional craft beer brands in targeted markets. In 2015, we announced strategic partnerships with Appalachian Mountain Brewery, based in Boone, North Carolina; and Cisco Brewers, based in Nantucket, Massachusetts. Through this strategic partnership model, we gain local relevance in select beer geographies, while our partner breweries gain access to our world-class leadership and national brewing and sales infrastructure to grow their brands. In December 2016, we announced a strategic partnership with Wynwood Brewing Co., a fast-growing craft brewery based in the heart of Miami's multicultural Wynwood arts district. In the third quarter of 2017, we acquired a 24.5% interest in Wynwood Brewing Co.

Publicly traded on NASDAQ under the ticker symbol BREW, Craft Brew Alliance is headquartered in Portland, Oregon and operates breweries and brewpubs across the U.S. For more information about CBA and its brands, see "Available Information" on page 14 of this report.

We proudly brew our craft beers in three company-owned breweries located in Portland, Oregon; Portsmouth, New Hampshire; and Kailua-Kona, Hawaii. In 2016, we entered into a contract brewing agreement with A-B Commercial Strategies, LLC ("ABCS"), an affiliate of Anheuser-Busch, LLC ("A-B"), and, during the second quarter of 2017, production began at ABCS's brewery in Fort Collins, Colorado. Additionally, we own and operate three small innovation breweries , which are primarily used for small batch production and experimental limited-release brews that could potentially scale for larger production; these innovation breweries are located in, Portland, Oregon, Seattle, Washington and Portsmouth, New Hampshire.

We distribute our beers to retailers through wholesalers that are aligned with the A-B network. These sales are made pursuant to a Master Distributor Agreement (the "A-B Distributor Agreement") with A-B, which extends through 2028. 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. Our Kona and Omission brands are distributed nationally and internationally, while we focus distribution of Appalachian Mountain Brewery, Cisco Brewers, Redhook, Square Mile Cider, Widmer Brothers and Wynwood Brewing in their respective home markets.

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

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.

Following is a summary of our financial results:

	Net Sales	Net Income (Loss)	Number of Barrels Sold
2017	$207.5 million	$9.5 million	748,300
2016	$202.5 million	$(0.3) million	775,600
2015	$204.2 million	$2.2 million	824,400

Sale of Woodinville Brewery

See Notes 19 and 20 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this report for a discussion of the termination of our agreements with Pabst Brewing Company, LLC, and Pabst Northwest Brewing Company, LLC (collectively, "Pabst"), the determination in 2017 to classify our Woodinville brewery assets as held for sale and a $0.5 million impairment charge recorded related to the assets held for sale. The sale was completed in early 2018 (see Note 21 of Notes to Consolidated Financial Statements).

Agreements with Anheuser-Busch, LLC

On August 23, 2016, we entered into a Contract Brewing Agreement (the “Brewing Agreement”) with A-B Commercial Strategies, LLC (“ABCS”), an affiliate of A-B, pursuant to which ABCS has agreed to brew, bottle and package up to 300,000 barrels of our mutually agreed products annually, in facilities owned by ABCS within the United States, for an initial term through December 31, 2026. Production began at this facility in the second quarter of 2017.

In December 2015, we partnered with Ambev, the Brazilian subsidiary of Anheuser-Busch InBev SA, to distribute Kona beers in Brazil. On August 23, 2016, we also entered into an International Distribution Agreement (the “International Distribution Agreement”) with Anheuser-Busch Worldwide Investments, LLC (“ABWI”), an affiliate of A-B, pursuant to which ABWI will be our sole and exclusive distributor of our malt beverage products in jurisdictions outside the United States, subject to the terms and conditions of our agreement with our existing international distributor, CraftCan Travel LLC, and certain other limitations, in each case as set forth in the International Distribution Agreement. Unless terminated sooner, the International Distribution Agreement will continue in effect until December 31, 2026.

On August 23, 2016, we entered into Amendment No. 3 to the A-B Distributor Agreement. Pursuant to Amendment No. 3, the A-B Distributor Agreement was extended through December 31, 2028 (the “Term”). The existing margin fee structure of $0.25 per case-equivalent will apply throughout the Term. Without Amendment No. 3, beginning on January 1, 2019, a margin fee of $0.75 per case equivalent would have been payable by us under the A-B Distributor Agreement. Amendment No. 3 also provides that, beginning on January 1, 2019, we will reinvest an aggregate amount equal to $0.25 per case equivalent in sales and marketing efforts for our products, subject to specified terms and conditions.

On January 30, 2018, we entered into a Contract Brewing Agreement with Anheuser-Busch Companies, LLC (“ABC”), another A-B affiliate, pursuant to which we will brew, package, and palletize certain malt beverage products of A-B's craft breweries during 2018 at our Portland, Oregon, and Portsmouth, New Hampshire, breweries as selected by ABC. Under the terms of this agreement, ABC will pay us a per barrel fee that varies based on the annual volume of the specified product brewed by us, plus (a) our actual incremental costs of brewing the product, and (b) certain capital costs and costs of graphics and labeling that we incur in connection with the brewed products.

For additional information, see Note 18 of Notes to Consolidated Financial Statements, included in Part II, Item 8 of this report.

Results of Operations

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

	Year Ended December 31,		
	2017	2016	2015
Sales	105.8 %	106.5 %	107.1 %
Less excise tax	5.8	6.5	7.1
Net sales	100.0	100.0	100.0
Cost of sales	68.5	70.6	69.5
Gross profit	31.5	29.4	30.5
Selling, general and administrative expenses	29.1	29.2	28.4
Operating income	2.3	0.2	2.1
Interest expense	(0.3)	(0.4)	(0.3)
Other income (expense), net	—	—	—
Income (loss) before income taxes	1.9	(0.2)	1.8
Income tax provision (benefit)	(2.6)	—	0.7
Net income (loss)	4.6 %	(0.2)%	1.1 %

(1) Percentages may not sum due to rounding.

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

	Year Ended December 31,		
2017	**Beer Related**	**Brewpubs**	**Total**
Net sales	$ 179,830	$ 27,626	$ 207,456
Gross profit	$ 63,412	$ 1,846	$ 65,258
Gross margin	35.3%	6.7%	31.5%
2016			
Net sales	$ 173,657	$ 28,850	$ 202,507
Gross profit	$ 55,667	$ 3,932	$ 59,599
Gross margin	32.1%	13.6%	29.4%
2015			
Net sales	$ 176,343	$ 27,825	$ 204,168
Gross profit	$ 58,610	$ 3,586	$ 62,196
Gross margin	33.2%	12.9%	30.5%

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

	Year Ended December 31,		Dollar	
Sales by Category	**2017**	**2016**	**Change**	**% Change**
A-B and A-B related[1]	$ 164,491	$ 167,725	$ (3,234)	(1.9)%
Contract brewing and beer related[2]	27,430	19,052	8,378	44.0 %
Excise taxes	(12,091)	(13,120)	1,029	(7.8)%
Net beer related sales	179,830	173,657	6,173	3.6 %
Brewpubs[3]	27,626	28,850	(1,224)	(4.2)%
Net sales	$ 207,456	$ 202,507	$ 4,949	2.4 %

Sales by Category	Year Ended December 31, 2016	2015	Dollar Change	% Change
A-B and A-B related[1]	$ 167,725	$ 177,380	$ (9,655)	(5.4)%
Contract brewing and beer related[2]	19,052	13,376	5,676	42.4 %
Excise taxes	(13,120)	(14,413)	1,293	(9.0)%
Net beer related sales	173,657	176,343	(2,686)	(1.5)%
Brewpubs[3]	28,850	27,825	1,025	3.7 %
Net sales	$ 202,507	$ 204,168	$ (1,661)	(0.8)%

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

Shipments by Category

Shipments by category were as follows (in barrels):

Year Ended December 31,	2017 Shipments	2016 Shipments	Increase (Decrease)	% Change	Change in Depletions[1]
A-B and A-B related[2]	654,200	693,300	(39,100)	(5.6)%	(1)%
Contract brewing and beer related[3]	84,800	72,600	12,200	16.8 %	
Brewpubs	9,300	9,700	(400)	(4.1)%	
Total	748,300	775,600	(27,300)	(3.5)%	

Year Ended December 31,	2016 Shipments	2015 Shipments	Increase (Decrease)	% Change	Change in Depletions[1]
A-B and A-B related[2]	693,300	753,400	(60,100)	(8.0)%	—%
Contract brewing and beer related[3]	72,600	60,600	12,000	19.8 %	
Brewpubs	9,700	10,400	(700)	(6.7)%	
Total	775,600	824,400	(48,800)	(5.9)%	

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

The decrease in sales to A-B and A-B related in 2017 compared to 2016 was primarily due to a decrease in shipment volume as we continued to reduce our inventory levels at our wholesaler partners as part of our ongoing efforts to address slowing craft segment growth and the on-going inventory pressures facing distributors in today's complex craft beer market, partially offset by an increase in average unit pricing. The decrease was also partially offset by $3.4 million of international distribution fees earned in 2017 compared to $1.2 million earned in 2016 related to our international distribution agreement with ABWI, which began in the third quarter of 2016.

The decrease in sales to A-B and A-B related in 2016 compared to 2015 was primarily due to a decrease in domestic shipments, partially offset by increases in unit pricing. A primary cause of the decrease was due to a decrease in domestic shipments of the Redhook and Widmer Brothers brands as we concentrate on their home markets of Washington and Oregon, respectively, as well as decreases in shipments of our Omission brand. The decrease was partially offset by the continued successful focus on national distribution of Kona. During the first quarter of 2016, we closed our largest and most efficient brewery, located in Portland, for approximately two weeks as we installed new equipment to further increase capacity and efficiency. This closure resulted in a temporary decrease of shipments across our brands in 2016 compared to 2015. We also experienced increased pressure from wholesalers who wanted to decrease their inventory levels at the end of 2016, resulting in lower than expected shipment volumes.

The average revenue per barrel on shipments of beer through the A-B distribution network increased by 2.4% in 2017 compared to 2016, and 2.0% in 2016 compared to 2015, 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 2017, 2016 and 2015, we sold 87.4%, 89.4% and 91.4%, respectively, of our beer through A-B at wholesale pricing levels.

The increase in contract brewing and beer related sales in 2017 compared to 2016 was primarily due to an increase in our alternating proprietorship volume and an increase in international shipments of our beers not distributed through A-B or Ambev. Contract brewing shortfall and termination fees earned from Pabst were $3.4 million in 2017 compared to a contract brewing shortfall fee of $1.6 million in 2016. In addition, we had a slight increase in our contract brewing volume in 2017 compared to 2016.

The increase in contract brewing and beer related sales in 2016 compared to 2015 was primarily due to contract brewing volume for Cisco Brewers beers, as well as alternating proprietorship fees earned from Appalachian Mountain Brewing Company for leasing the Portsmouth Brewery, which began during the first quarter of 2016, an increase in international shipments of our beers, which sell at a higher rate per barrel than contract brewing sales, as we expanded into additional countries, $1.2 million of fees earned related to the international distribution agreement with ABWI, and $1.6 million of fees earned from Pabst related to a contract brewing volume shortfall. These increases were partially offset by decreases in our other contract brewing volume.

Brewpubs sales decreased in 2017 compared to 2016, primarily as a result of decreased guest counts across our mainland brewpubs, partially offset by an increased guest count at our Kona brewpub on the big island of Kailua-Kona in Hawaii and the opening of our newest brewpub, Redhook Brewlab, in Seattle, Washington. Our Woodinville brewpub closed at the end of 2017.

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

Excise taxes vary directly with the volume of beer shipped.

Shipments by Brand

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

Year Ended December 31,	2017 Shipments	2016 Shipments	Increase (Decrease)	% Change	Change in Depletions
Kona	424,600	397,400	27,200	6.8 %	10 %
Widmer Brothers	123,300	148,100	(24,800)	(16.7)%	(16)%
Redhook	94,200	127,200	(33,000)	(25.9)%	(24)%
Omission	44,000	42,900	1,100	2.6 %	(2)%
All other[1]	44,500	33,300	11,200	33.6 %	17 %
Total[2]	730,600	748,900	(18,300)	(2.4)%	(1)%

Year Ended December 31,	2016 Shipments	2015 Shipments	Increase (Decrease)	% Change	Change in Depletions
Kona	397,400	352,100	45,300	12.9 %	17 %
Widmer Brothers	148,100	175,700	(27,600)	(15.7)%	(17)%
Redhook	127,200	185,900	(58,700)	(31.6)%	(23)%
Omission	42,900	51,500	(8,600)	(16.7)%	(11)%
All other[1]	33,300	22,400	10,900	48.7 %	70 %
Total[2]	748,900	787,600	(38,700)	(4.9)%	— %

(1) All other includes the shipments and depletions from our Square Mile and Resignation brand families, as well as the non-owned Cisco Brewers, Appalachian Mountain Brewing and Wynwood Brewing brand families, shipped by us pursuant to distribution agreements.

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

The increase in our Kona brand shipments in 2017 compared to 2016 was due to increases in both in domestic and international shipments, primarily led by demand for Hanalei Island IPA and Big Wave Golden Ale, partially offset by a decline in Castaway IPA.

The increase in our Kona brand shipments in 2016 compared to 2015 was primarily due to increases in domestic and international shipments, primarily led by demand for Big Wave Golden Ale.

The decrease in our Widmer Brothers brand shipments in 2017 compared to 2016 was led by a decrease in Hefeweizen brand shipments, primarily due to a continued strategic focus on the home market of Oregon, partially offset by the release of Drifter and the Hefe Fruit variety pack.

The decrease in our Widmer Brothers brand shipments in 2016 compared to 2015 was primarily due to a strategic decision to focus on the home market of Oregon, led by decreases in Hefeweizen brand shipments.

The decrease in our Redhook brand shipments in 2017 compared to 2016 was primarily due to a continued strategic focus on the home market of Washington, led by a decline in Longhammer IPA and ESB brand shipments, partially offset by higher demand for Big Ballard IPA and the release of Bicoastal IPA.

The decrease in our Redhook brand shipments in 2016 compared to 2015 was primarily due to a strategic decision to focus on the home market of Washington, led by decreased shipments of Longhammer IPA and ESB.

The increase in our Omission brand shipments in 2017 compared to 2016 was primarily led by increased demand for our new brand Omission Ultimate Light, which was introduced in the first quarter of 2017, offset by a decrease in Omission Pale Ale.

The decrease in our Omission brand shipments in 2016 compared to 2015 was primarily due to lower demand for the Pale Ale style.

The increase in our All other shipments in 2017 compared to 2016 was primarily due to an increase in shipment volumes related to our distribution agreements with Wynwood Brewing, Cisco Brewers and Appalachian Mountain Brewing.

The increase in our All other shipments in 2016 compared to 2015 was primarily due to an increase in shipment volumes related to our new distribution agreements with Cisco Brewers and Appalachian Mountain Brewing, partially offset by decreases in our Resignation and Square Mile brand families.

Shipments by Package

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

Year Ended December 31,	2017		2016		2015	
	Shipments	% of Total	Shipments	% of Total	Shipments	% of Total
Draft	165,600	22.7%	171,100	22.8%	180,700	22.9%
Packaged	565,000	77.3%	577,800	77.2%	606,900	77.1%
Total	730,600	100.0%	748,900	100.0%	787,600	100.0%

The package mix was relatively consistent through the three-year period.

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	
	2017	2016	Change	% Change
Beer Related	$ 116,418	$ 117,990	$ (1,572)	(1.3)%
Brewpubs	25,780	24,918	862	3.5 %
Total	$ 142,198	$ 142,908	$ (710)	(0.5)%

	Year Ended December 31,		Dollar	
	2016	2015	Change	% Change
Beer Related	$ 117,990	$ 117,733	$ 257	0.2%
Brewpubs	24,918	24,239	679	2.8%
Total	$ 142,908	$ 141,972	$ 936	0.7%

The decrease in Beer Related Cost of sales in 2017 compared to 2016 was primarily due to a decrease in cost of goods related to lower shipment volume, efficiency improvements and improved distribution rates on a per barrel basis, partially offset by an increase in brewery costs on a per barrel basis and alternating proprietorship volume.

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

Early in the fourth quarter of 2016, we laid off approximately half of our production employees at our Woodinville brewery. The fourth quarter costs of the layoff were immaterial and effectively offset by the cost savings in the fourth quarter.

Brewpubs Cost of sales increased in 2017 compared to 2016 primarily due to increases in employee related costs and rent and other startup costs related to our Seattle brewpub, partially offset by a decrease in guest counts.

Brewpubs Cost of sales increased in 2016 compared to 2015 primarily due to increases in Sales at our Kona brewpub on the island of Oahu. The increase was also partially due to expenses associated with the start up of our Seattle brewpub with anticipated opening in 2017.

Capacity Utilization

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

	Year Ended December 31,		
	2017	2016	2015
Capacity utilization	60%	67%	71%

In June 2014, we initiated full-scale brewing with our brewing partner in Memphis, Tennessee. This partnership provided us scalable capacity and we had the ability to produce up to 100,000 barrels at this location annually. Production ceased with this brewing partner during the second quarter of 2017. In 2016, we entered into a contract brewing agreement with ABCS with the ability to have up to 300,000 barrels produced annually and, during the second quarter of 2017, production began in their facilities. Our capacity utilization declined in 2017 compared to 2016 due to reductions in wholesaler inventories, as well as a larger percentage of our beer being brewed by ABCS as part of our contract brewing relationship and shifts in our brewery footprint.

As discussed in Notes 19 and 20 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this report, we ceased production at our Woodinville, Washington brewery during the second quarter of 2017, which reduced the capacity of our owned breweries beginning in the third quarter of 2017. As a result, beginning with the third quarter of 2017, our capacity utilization calculation was revised to exclude, from the denominator, the production capacity of our Woodinville, Washington brewery, which we estimated to be approximately 220,000 barrels per year.

Gross Profit

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

	Year Ended December 31,		Dollar	
	2017	2016	Change	% Change
Beer Related	$ 63,412	$ 55,667	$ 7,745	13.9 %
Brewpubs	1,846	3,932	(2,086)	(53.1)%
Total	$ 65,258	$ 59,599	$ 5,659	9.5 %

	Year Ended December 31,		Dollar	
	2016	2015	Change	% Change
Beer Related	$ 55,667	$ 58,610	$ (2,943)	(5.0)%
Brewpubs	3,932	3,586	346	9.6 %
Total	$ 59,599	$ 62,196	$ (2,597)	(4.2)%

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

	Year Ended December 31,		
	2017	2016	2015
Beer Related	35.3%	32.1%	33.2%
Brewpubs	6.7%	13.6%	12.9%
Total	31.5%	29.4%	30.5%

The increases in Beer Related Gross profit and gross margin rate in 2017 compared to 2016 were primarily due to increased unit pricing and higher alternating proprietorship volume, as well as a $2.2 million increase in the ABWI international distribution fee earned and $1.8 million of additional fees earned from Pabst related to contract brewing volume shortfall and termination fees in 2017 compared to 2016, and a decrease in distribution rates on a per barrel basis. The favorable benefits to Beer Related Gross profit were partially offset by an increase in brewery costs on a per barrel basis and a decrease in shipment volume.

The decrease in the Beer Related Gross profit in 2016 compared to 2015 was primarily due to the increase in brewery costs per barrel at our owned breweries as we temporarily closed our most efficient brewery in Portland, Oregon in the first quarter of 2016, higher distribution rates per barrel and a decrease in shipment volume, partially offset by an increase in unit pricing, decreased component materials costs, fees earned from Pabst and ABWI, and increased alternating proprietorship fees earned.

The decrease in the Beer Related gross margin rate in 2016 compared to 2015 was primarily due to higher brewery and distribution costs per barrel, partially offset by fees earned from Pabst and ABWI, as well as improved unit pricing and lower component material costs per barrel. Beer Related gross margin was also negatively impacted by lower capacity utilization at the Woodinville brewery as production volume for owned brands was moved from Woodinville to Portland in anticipation of increased contract brewing volume in Woodinville. Contract brewing volume was lower than anticipated, resulting in under absorption of fixed overhead costs in Woodinville.

The decreases in the Brewpubs Gross profit and gross margin rate in 2017 compared to 2016 were primarily due to decreased guest counts, increased employee related costs and costs related to preparations to open our Seattle brewpub.

The increases in the Brewpubs Gross profit and gross margin rate in 2016 compared to 2015 were primarily due to higher guest counts at our Kona brewpub on the island of Oahu in Hawaii, which has a higher revenue per guest than the Redhook and Widmer Brothers brewpubs, and cost management achievements at both Kona brewpub locations, partially offset by expenses associated with the start up of our Seattle brewpub.

Selling, General and Administrative Expenses

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

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

	Year Ended December 31,		Dollar	
	2017	2016	Change	% Change
	$ 60,463	$ 59,224	$ 1,239	2.1%
As a % of Net sales	29.1%	29.2%		

	Year Ended December 31,		Dollar	
	2016	2015	Change	% Change
	$ 59,224	$ 57,932	$ 1,292	2.2%
As a % of Net sales	29.2%	28.4%		

The increase in SG&A in 2017 compared to 2016 was primarily due to increased professional fees, technology related expenses and an impairment charge of $0.5 million related to the sale of our Woodinville Brewery, partially offset by a $1.0 million contract settlement fee received from Pabst, as well as a decrease in creative and media spend.

The increase in SG&A in 2016 compared to 2015, both in dollars and as a percentage of Net sales, was primarily due to increases in expense related to brand marketing, international support and emerging business, partially offset by decreases in employment costs.

Interest Expense

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

	Year Ended December 31,		Dollar	
	2017	2016	Change	% Change
Interest expense	$ 715	$ 709	$ 6	0.8%

	Year Ended December 31,		Dollar	
	2016	2015	Change	% Change
Interest expense	$ 709	$ 572	$ 137	24.0%

	Year Ended December 31,		
	2017	2016	2015
Average debt outstanding	$ 27,189	$ 27,548	$ 18,530
Average interest rate	2.08%	1.51%	1.96%

The increase in Interest expense in 2017 compared to 2016 was primarily due to an increase in our average interest rate, partially offset by a decrease in our average debt outstanding. The decrease in our average debt outstanding was due to principal payments made on our term loan and a decrease in the average amount outstanding on our line of credit, which fluctuates with our operating capital needs.

The increase in Interest expense in 2016 compared to 2015 was primarily due to an increase in our average debt outstanding. Our average debt outstanding increased as we have borrowed on our line of credit facility to support our expansion and growth plans, and to fund our working capital needs. The increase in average debt outstanding was partially offset by the decrease in the average interest rate.

Income Tax Provision (Benefit)

Our effective income tax rate was (135.7)%, (4.6)% and 40.3% in 2017, 2016 and 2015, respectively. The effective income tax rates reflect the impact of non-deductible expenses (primarily meals and entertainment expenses), state and local taxes, tax credits, and income excluded from taxation under the domestic production activities exclusion.

In the second quarter of 2017, we recognized a tax credit of $164,000 for a biofuel project at our New Hampshire brewery. The tax credit was claimed on our 2016 tax return and is based upon a study completed in the second quarter of 2017.

In the fourth quarter of 2017, we recognized the impact of enacted tax legislation, which reduced our federal tax rate from 34% to 21% effective January 1, 2018. This reduction resulted in a $6.9 million decrease to our deferred tax liability, which was recognized as a reduction to our income tax provision in the fourth quarter of 2017, the period of enactment. Before consideration of the effects of tax reform, our income tax provision would have been $1.4 million, for an effective income tax rate of 34.9%. Our accounting for the income tax effects of the new tax legislation is complete, and we do not anticipate adjustments to such accounting in future periods.

Liquidity and Capital Resources

We have required capital primarily for the construction and development of our production breweries, to support our expansion and growth plans, and to fund our working capital needs. Historically, we have financed our capital requirements through cash flows from operations, bank borrowings and the sale of common and preferred stock. We anticipate meeting our obligations for the twelve months beginning January 1, 2018, primarily from cash flows generated from operations, proceeds from the sale of

our Woodinville brewery, and borrowing under our line of credit facility as the need arises. Capital resources available to us at December 31, 2017 included $0.6 million of Cash and cash equivalents and $17.8 million available under our line of credit facility.

We had $38.0 million and $13.1 million of working capital and our debt as a percentage of total capitalization (total debt and common shareholders' equity) was 20.3% and 19.6% at December 31, 2017 and 2016, respectively.

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

	Year Ended December 31,		
	2017	2016	2015
Net cash provided by operating activities	$ 16,778	$ 7,444	$ 11,562
Net cash used in investing activities	(20,348)	(16,572)	(16,174)
Net cash provided by financing activities	3,707	8,659	4,542
Increase (decrease) in cash and cash equivalents	$ 137	$ (469)	$ (70)

Cash provided by operating activities of $16.8 million in 2017 resulted from our Net income of $9.5 million, net non-cash expenses of $7.8 million, and changes in our operating assets and liabilities as discussed in more detail below.

Accounts receivable, net, increased $3.8 million to $27.8 million at December 31, 2017, compared to $24.0 million at December 31, 2016. This increase was primarily due to a $4.7 million increase in our receivable from A-B to a total of $20.7 million at December 31, 2017, primarily due to the $5.0 million international distribution agreement fee from ABWI outstanding at December 31, 2017, which was received in January 2018, compared to the $3.0 million fee outstanding at December 31, 2016, as well as a change in A-B payment terms from 15 days to 30 days. Historically, we have not had collection problems related to our accounts receivable.

Inventories decreased $5.3 million to $13.8 million at December 31, 2017, compared to $19.1 million at December 31, 2016, primarily due to decreases in raw materials, work in progress, and finished goods as a result of having production begin at ABCS where we do not own the inventory, as well as ceasing production at our Washington brewery and at our partner brewery in Memphis, where we owned the inventory.

Accounts payable decreased $1.8 million to $14.3 million at December 31, 2017, compared to $16.1 million at December 31, 2016, primarily due to the timing of payments for capital projects, as well as a decrease in our raw material inventory. The portion of our payable to A-B that is included in our Accounts payable totaled $4.8 million at December 31, 2017, which is slightly higher than the balance at December 31, 2016, primarily due to the timing of payments related to our contract brewing relationship with ABCS.

As of December 31, 2017 we had the following net operating loss carryforwards ("NOLs") and federal credit carry forwards available to offset payment of future income taxes:

- state NOLs of $26,000, tax-effected;
- federal NOL of $0.2 million, tax-effected;
- federal alternative minimum tax ("AMT") credit carry forwards of $0.3 million; and
- federal employer FICA tips credit of $0.7 million.

We anticipate that we will utilize the remaining NOLs and federal credit carry forwards in the near future and, accordingly, once utilized, we will be required to satisfy all of our income tax obligations with cash. The AMT credit carryforward is refundable over the next five years pursuant to recently enacted tax legislation. As such, the carryforward is recognized as a tax receivable on our Consolidated Balance Sheets at December 31, 2017.

Capital expenditures of $18.3 million in 2017 were primarily directed to beer production capacity and efficiency improvements and Brewpubs remodeling. As of December 31, 2017, we had an additional $0.5 million of expenditures recorded in Accounts payable on our Consolidated Balance Sheets, compared to $0.9 million at December 31, 2016. Beginning in 2015, we invested approximately $10 million in our Oregon Brewery to expand capacity; the project was completed in the fourth quarter of 2017. Also beginning in 2015 through expected completion in 2019, we are investing approximately $20 million in a new Hawaiian Brewery. We anticipate capital expenditures of approximately $16 million to $19 million in 2018, primarily for our new Kona brewery and the addition of a new can line in our Portland brewery to address consumer demand.

Loan Agreement

We have a loan agreement (as amended, the "Loan Agreement") with Bank of America, N.A., which consists of a $40 million revolving line of credit ("Line of Credit"), including provisions for cash borrowings and up to $2.5 million notional amount of letters of credit, and a $10.8 million term loan ("Term Loan"). We may draw upon the Line of Credit for working capital and general corporate purposes until expiration on November 30, 2020. The maturity date of the Term Loan is September 30, 2023. At December 31, 2017, we had $22.2 million of borrowings outstanding under the Line of Credit and $9.2 million outstanding under the Term Loan.

As discussed in Note 21 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this report, we completed the sale of our Woodinville, Washington brewery on January 12, 2018 for a total selling price of $24.5 million. We used proceeds from the sale to fully pay down our Line of Credit effective January 26, 2018.

Under the Loan Agreement, interest accrues at an annual rate based on the London Inter-Bank Offered Rate ("LIBOR") Daily Floating Rate plus a marginal rate. The marginal rate varies from 0.75% to 1.75% for the Line of Credit and Term Loan based on our funded debt ratio. At December 31, 2017, our marginal rate was 0.75% resulting in an annual interest rate of 2.26%.

Accrued interest for the Term Loan is due and payable monthly. Principal payments on the Term Loan are due monthly in accordance with an agreed-upon schedule set forth in the Loan Agreement, with any unpaid principal balance and unpaid accrued interest due and payable on September 30, 2023.

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

Contractual Commitments and Obligations

The following is a summary of our contractual commitments and obligations as of December 31, 2017 (in thousands):

	Payments Due By Period				
Contractual Obligations	**Total**	**2018**	**2019 and 2020**	**2021 and 2022**	**2023 and beyond**
Term loan	$ 9,244	$ 422	$ 901	$ 973	$ 6,948
Interest on term loan[1]	522	102	189	168	63
Line of credit	22,199	—	22,199	—	—
Interest on line of credit[1]	284	97	187	—	—
Operating leases	36,400	9,179	3,753	2,755	20,713
Capital leases	2,059	333	862	465	399
Purchase commitments	24,036	11,839	8,952	3,245	—
Sponsorship obligations	3,547	1,663	1,017	867	—
Interest rate swap[2]	1,195	267	499	312	117
	$ 99,486	$ 23,902	$ 38,559	$ 8,785	$ 28,240

(1) The variable interest rate on our Term Loan and Line of Credit was 2.26% at December 31, 2017.
(2) The fixed rates on our interest rate swaps are 2.86% and 1.28%. We pay interest at the fixed rate and receive interest at the Benchmark Rate, which was 1.49% at December 31, 2017.

See Notes 9 and 17 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this report for additional information.

Inflation

We believe that the impact of inflation was minimal on our business in 2017, 2016 and 2015.

Critical Accounting Policies and Estimates

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

Goodwill and Other Indefinite-Lived Intangible Assets

We test goodwill and other indefinite-lived intangible assets for impairment on an annual basis, or as indicators of impairment are present. We have an option to first assess certain qualitative factors for indications of impairment in order to determine whether it is necessary to perform the quantitative, two-step impairment test. If we choose not to first perform the qualitative test, or we determine that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, we perform the quantitative two-step impairment test.

Our goodwill and other indefinite-lived intangible assets impairment loss calculations contain uncertainties because they require management to make assumptions in the qualitative assessment of relevant events and circumstances and to estimate the fair value of our reporting units and indefinite-lived intangible assets, including estimating future cash flows. These calculations contain uncertainties because they require management to make assumptions and apply judgment to estimate economic factors and the profitability of future business operations and, if necessary, the fair value of a reporting unit's assets and liabilities. Further, our ability to realize the future cash flows used in our fair value calculations is affected by changes in such factors as our operating performance, our business strategies, our industry and economic conditions.

We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill. Based on the results of our annual impairment test for goodwill and other indefinite-lived intangible assets, no impairment was recorded. We believe, based on our assessment discussed above, that our goodwill and other indefinite-lived intangible assets are not at risk of impairment. However, if actual results are not consistent with our estimates or assumptions or there are significant changes in any of these estimates, projections or assumptions, the fair value of these assets in future measurement periods could be materially affected, resulting in an impairment that could have a material adverse effect on our results of operations.

Refundable Deposits on Kegs

We distribute our draft beer in kegs that are owned by us and are reflected as a component of Property, equipment and leasehold improvements in our Consolidated Balance Sheets at cost and are depreciated over the estimated useful life of the keg. When draft beer is shipped to the wholesaler, we collect a refundable deposit, reflected as a current liability in our Consolidated Balance Sheets. Upon return of the keg to us, the deposit is refunded to the wholesaler. When a wholesaler cannot account for some of our kegs for which it is responsible, it pays us a fixed fee and forfeits its deposit for each keg determined to be lost. We have experienced some loss of kegs and anticipate that some loss will occur in future periods due to the significant volume of kegs handled by each wholesaler and retailer, the similarities between kegs owned by most brewers, and the relatively low deposit collected on each keg when compared with the market value of the keg. We believe that this is an industry-wide issue and our loss experience is typical of the industry. In order to estimate forfeited deposits attributable to lost kegs, we periodically use internal records, A-B records, other third-party records, and historical information to estimate the physical count of kegs held by wholesalers and A-B.

These estimates affect the amount recorded as brewery equipment and refundable deposits as of the date of the consolidated financial statements. The actual liability for refundable deposits could differ from estimates.

Revenue Recognition

We recognize revenue from product sales, net of excise taxes, discounts and certain fees we must pay in connection with sales to a member of the A-B wholesale distributor network, when the products are delivered to the member. A member of the A-B wholesale distributor network may be a branch of A-B or an independent wholesale distributor.

We recognize revenue on contract brewing sales when the product is shipped to our contract brewing customer.

We recognize revenue on retail sales at the time of sale and we recognize revenue from events at the time of the event.

We recognize revenue related to non-refundable payments to be received on specified dates throughout a contract term on a straight-line basis over the life of the related contract or contracts.

Deferred Taxes
Deferred tax assets arise from the tax benefit of amounts expensed for financial reporting purposes but not yet deducted for tax purposes and from unutilized tax credits and net operating loss carry forwards. We evaluate our deferred tax assets on a regular basis to determine if a valuation allowance is required. To the extent it is determined the recoverability of the deferred tax assets is not more likely than not, we will record a valuation allowance against deferred tax assets. If we are unable to generate adequate taxable income in future periods or our assessment that it is more likely than not that certain deferred tax assets will be realized is otherwise not accurate, we may incur charges in future periods to record a valuation allowance on our gross deferred tax assets.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

See Note 3 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

Interest Rate Risk

We have assessed our vulnerability to certain market risks, including interest rate risk associated with financial instruments included in Cash and cash equivalents and Long-term debt. To mitigate this risk, on January 23, 2014, we entered into an $8.0 million notional amount interest rate swap agreement, which expires September 29, 2023, to hedge the variability of interest payments associated with our variable-rate borrowings on our term loan. On November 25, 2015, we entered into a $9.1 million notional amount interest rate swap agreement effective January 4, 2016, which expires January 1, 2019, to hedge the variability of interest payments associated with our variable-rate borrowings on our line of credit. The notional amount fluctuates based on a predefined schedule based on our anticipated borrowings. Since the interest rate swaps hedge the variability of interest payments on variable rate debt with similar terms, they qualify for cash flow hedge accounting treatment. These interest rate swaps fully hedge our term loan and line of credit outstanding, reducing our overall interest rate risk. As of December 31, 2017, we had unhedged variable-rate debt outstanding of $2.3 million on our term loan and $13.1 million on our line of credit. A 10% increase or decrease in the interest rate on our variable-rate debt would not have a material effect on our financial position, results of operations or cash flows.

Due to the nature of our highly liquid Cash and cash equivalents, an increase or decrease in interest rates would not materially affect the fair value of our cash or the related interest income.

Item 8. ***Financial Statements and Supplementary Data***

Unaudited quarterly financial data for each of the eight quarters in the two-year period ended December 31, 2017 is as follows:

2017 (In thousands, except per share data)	*1st Quarter*	*2nd Quarter*	*3rd Quarter*	*4th Quarter*
Net sales[1]	$ 44,302	$ 60,550	$ 56,638	$ 45,966
Cost of sales	31,633	42,221	37,254	31,090
Gross profit	12,669	18,329	19,384	14,876
Selling, general and administrative expenses[2]	15,469	15,560	16,328	13,106
Operating income (loss)	(2,800)	2,769	3,056	1,770
Interest expense and Other expense, net	(178)	(163)	(238)	(175)
Income (loss) before income taxes	(2,978)	2,606	2,818	1,595
Income tax provision (benefit)[3]	(1,191)	882	1,067	(6,240)
Net income (loss)	$ (1,787)	$ 1,724	$ 1,751	$ 7,835
Income (loss) per share:[4]				
Basic	$ (0.09)	$ 0.09	$ 0.09	$ 0.41
Diluted	$ (0.09)	$ 0.09	$ 0.09	$ 0.40
Shares used in basic per share calculation	19,261	19,278	19,296	19,302
Shares used in diluted per share calculation	19,261	19,389	19,443	19,507

2016 (In thousands, except per share data)	*1st Quarter*	*2nd Quarter*	*3rd Quarter*	*4th Quarter[5]*
Net sales	$ 39,222	$ 62,278	$ 55,203	$ 45,804
Cost of sales	30,505	41,780	38,229	32,394
Gross profit	8,717	20,498	16,974	13,410
Selling, general and administrative expenses	13,924	16,548	15,876	12,876
Operating income (loss)	(5,207)	3,950	1,098	534
Interest expense and Other expense, net	(141)	(181)	(179)	(180)
Income (loss) before income taxes	(5,348)	3,769	919	354
Income tax provision (benefit)	(2,139)	1,508	367	278
Net income (loss)	$ (3,209)	$ 2,261	$ 552	$ 76
Basic and diluted net income (loss) per share[4]	$ (0.17)	$ 0.12	$ 0.03	$ —
Shares used in basic per share calculation	19,179	19,216	19,244	19,259
Shares used in diluted per share calculation	19,179	19,232	19,343	19,361

(1) During the fourth quarter, Net sales includes a $1.7 million fee from Pabst, related to the termination of the brewing agreements.
(2) During the fourth quarter, Selling, general and administrative expenses includes a $1.0 million fee from Pabst, related to the termination of a purchase option agreement, as well as, a $0.5 million impairment charge related to the sale of our Woodinville brewery.
(3) During the fourth quarter, the income tax benefit includes a $6.9 million benefit related to the effect on our deferred tax assets and liabilities of a change in Federal income tax rates from 34% to 21%.
(4) Basic and diluted net income (loss) per share may not sum to the full year as presented on the Consolidated Statements of Operations due to rounding.
(5) During the preparation of our financial statements for the year ended December 31, 2016, we determined that we had incorrectly (i) accounted for certain fees payable to us by A-B in connection with the International Distribution Agreement, (ii) classified reimbursements for Selling, general and administrative costs as revenue, and (iii) accounted for a severance benefit that had no future obligation on the part of the former employee. Based on our analysis of quantitative and qualitative factors, we believe the errors are immaterial to prior periods. Accordingly, the following adjustments were made to our fourth quarter results: a reduction to Net sales and gross profit of $1.3 million and a reduction to Selling, general and administrative expenses of $0.6 million, for a net reduction to our Income (loss) before income taxes of $0.7 million.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
Craft Brew Alliance, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Craft Brew Alliance, Inc. (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2018 expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Moss Adams LLP

Portland, Oregon
March 7, 2018

We have served as the Company's auditor since 2004.

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

	December 31,	
	2017	**2016**
Assets		
Current assets:		
Cash and cash equivalents	$ 579	$ 442
Accounts receivable, net	27,784	24,008
Inventory, net	13,844	19,091
Assets held for sale	22,946	—
Other current assets	4,335	2,495
Total current assets	69,488	46,036
Property, equipment and leasehold improvements, net	106,283	121,970
Goodwill	12,917	12,917
Intangible, equity method investment and other assets, net	20,949	19,482
Total assets	$ 209,637	$ 200,405
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 14,338	$ 16,076
Accrued salaries, wages and payroll taxes	5,877	4,967
Refundable deposits	4,816	6,486
Other accrued expenses	5,753	4,108
Current portion of long-term debt and capital lease obligations	699	1,317
Total current liabilities	31,483	32,954
Long-term debt and capital lease obligations, net of current portion	32,599	27,946
Fair value of derivative financial instruments	221	424
Deferred income tax liability, net	12,886	18,181
Other liabilities	1,657	1,239
Total liabilities	78,846	80,744
Commitments and contingencies (Note 17)		
Common shareholders' equity:		
Common stock, $0.005 par value. Authorized 50,000,000 shares; issued and outstanding 19,309,829 and 19,261,245	96	96
Additional paid-in capital	142,196	140,687
Accumulated other comprehensive loss	(164)	(262)
Accumulated deficit	(11,337)	(20,860)
Total common shareholders' equity	130,791	119,661
Total liabilities and common shareholders' equity	$ 209,637	$ 200,405

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

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

	Year Ended December 31,		
	2017	**2016**	**2015**
Sales	$ 219,547	$ 215,627	$ 218,581
Less excise taxes	12,091	13,120	14,413
Net sales	207,456	202,507	204,168
Cost of sales	142,198	142,908	141,972
Gross profit	65,258	59,599	62,196
Selling, general and administrative expenses	60,463	59,224	57,932
Operating income	4,795	375	4,264
Interest expense	(715)	(709)	(572)
Other income (expense), net	(39)	28	26
Income (loss) before income taxes	4,041	(306)	3,718
Income tax provision (benefit)	(5,482)	14	1,500
Net income (loss)	$ 9,523	$ (320)	$ 2,218
Basic and diluted net income (loss) per share	$ 0.49	$ (0.02)	$ 0.12
Shares used in basic per share calculations	19,284	19,225	19,152
Shares used in diluted per share calculations	19,447	19,225	19,175

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

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

	Year Ended December 31,		
	2017	**2016**	**2015**
Net income (loss)	$ 9,523	$ (320)	$ 2,218
Unrealized gain (loss) on derivative hedge transactions, net of tax	98	90	(40)
Comprehensive income (loss)	$ 9,621	$ (230)	$ 2,178

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

CRAFT BREW ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Common Shareholders' Equity
	Shares	Par Value				
Balance at December 31, 2014	19,115	$ 96	$ 138,391	$ (312)	$ (22,758)	$ 115,417
Issuance of shares under stock plans, net of shares withheld for tax payments	18	—	93	—	—	93
Stock-based compensation, net of shares withheld for tax payments	46	—	1,157	—	—	1,157
Tax benefit related to stock options	—	—	44	—	—	44
Unrealized losses on derivative financial instruments, net of tax benefit of $26	—	—	—	(40)	—	(40)
Tax payments related to stock-based awards	—	—	(151)	—	—	(151)
Net income	—	—	—	—	2,218	2,218
Balance at December 31, 2015	19,179	96	139,534	(352)	(20,540)	118,738
Issuance of shares under stock plans, net of shares withheld for tax payments	20	—	172	—	—	172
Stock-based compensation, net of shares withheld for tax payments	62	—	1,087	—	—	1,087
Unrealized gains on derivative financial instruments, net of tax of $55	—	—	—	90	—	90
Tax payments related to stock-based awards	—	—	(106)	—	—	(106)
Net loss	—	—	—	—	(320)	(320)
Balance at December 31, 2016	19,261	96	140,687	(262)	(20,860)	119,661
Issuance of shares under stock plans, net of shares withheld for tax payments	25	—	219	—	—	219
Stock-based compensation, net of shares withheld for tax payments	24	—	1,317	—	—	1,317
Unrealized gains on derivative financial instruments, net of tax of $105	—	—	—	98	—	98
Tax payments related to stock-based awards	—	—	(27)	—	—	(27)
Net income	—	—	—	—	9,523	9,523
Balance at December 31, 2017	19,310	$ 96	$ 142,196	$ (164)	$ (11,337)	$ 130,791

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

	Year Ended December 31,		
	2017	**2016**	**2015**
Cash flows from operating activities:			
Net income (loss)	$ 9,523	$ (320)	$ 2,218
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	10,457	10,862	9,722
Loss on sale or disposal of Property, equipment and leasehold improvements	428	96	343
Deferred income taxes	(5,400)	360	876
Stock-based compensation	1,316	1,087	1,157
Impairment of assets held for sale	493	—	—
Excess tax benefit from employee stock plans	—	—	(44)
Other	539	654	(283)
Changes in operating assets and liabilities:			
Accounts receivable, net	(3,776)	(5,082)	(7,185)
Inventories	5,500	(1,614)	1,295
Other current assets	(1,840)	(55)	1,973
Accounts payable and other accrued expenses	277	1,515	3,151
Accrued salaries, wages and payroll taxes	910	(501)	354
Refundable deposits	(1,649)	442	(2,015)
Net cash provided by operating activities	16,778	7,444	11,562
Cash flows from investing activities:			
Expenditures for Property, equipment and leasehold improvements	(18,342)	(15,722)	(15,653)
Proceeds from sale of Property, equipment and leasehold improvements	95	75	412
Expenditures for long-term deposits	—	(925)	(933)
Investment in Wynwood	(2,101)	—	—
Net cash used in investing activities	(20,348)	(16,572)	(16,174)
Cash flows from financing activities:			
Principal payments on debt and capital lease obligations	(709)	(605)	(1,094)
Net borrowings under revolving line of credit	4,224	9,198	5,737
Proceeds from issuances of common stock	219	172	93
Debt issuance costs	—	—	(87)
Tax payments related to stock-based awards	(27)	(106)	(151)
Excess tax benefit from employee stock plans	—	—	44
Net cash provided by financing activities	3,707	8,659	4,542
Increase (decrease) in Cash and cash equivalents	137	(469)	(70)
Cash and cash equivalents:			
Beginning of period	442	911	981
End of period	$ 579	$ 442	$ 911
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 716	$ 667	$ 629
Cash paid for income taxes, net	1,158	587	398
Supplemental disclosure of non-cash information:			
Purchases of Property, equipment and leasehold improvements with capital leases	$ 521	$ 1,173	$ —
Purchases of Property, equipment and leasehold improvements included in Accounts payable at end of period	519	889	1,334

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

Note 1. Nature of Operations

Overview
Craft Brew Alliance, Inc. ("CBA") is the sixth largest craft brewing company in the U.S. and a leader in brewing, branding, and bringing to market world-class American craft beers.

Our distinctive portfolio combines the power of Kona Brewing Company, a fast-growing national craft beer brand, with strong regional craft breweries and innovative lifestyle brands, Appalachian Mountain Brewery, Cisco Brewers, Omission Brewing Co., Redhook Brewery, Square Mile Cider Co., Widmer Brothers Brewing, and Wynwood Brewing Co. We nurture the growth and development of our brands in today's increasingly competitive beer market through our state-of-the-art brewing and distribution capability, integrated sales and marketing infrastructure, and strong focus on partnerships, local community and sustainability.

CBA was formed in 2008 through the merger of Redhook Brewery and Widmer Brothers Brewing, the two largest craft brewing pioneers in the Northwest at the time. Following a successful strategic brewing and distribution partnership, Kona Brewing Co. joined CBA in 2010 and has become one of the top craft brands in the U.S. As part of CBA, Kona has expanded its reach across all 50 U.S. states and approximately 30 international markets, while remaining deeply rooted in its home of Hawaii.

As the craft beer market continues to grow and consumers increasingly demand more local offerings, Craft Brew Alliance has expanded its portfolio of brands and maximized its brewing footprint through strategic partnerships with emerging craft beer brands in targeted markets. From 2015 to 2016, we formed strategic partnerships with Appalachian Mountain Brewery, based in Boone, North Carolina; Cisco Brewers, based in Nantucket, Massachusetts; and Wynwood Brewing Co., based in the heart of Miami's vibrant multicultural arts district. Through these strategic partnerships, we gain local relevance in select beer geographies, while our partner breweries gain access to our world-class leadership and national brewing and sales infrastructure to grow their brands.

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

We proudly brew and package our craft beers in three company-owned production breweries located in Portland, Oregon; Portsmouth, New Hampshire; and Kailua-Kona, Hawaii. In 2017, we completed the process of transitioning CBA brewing volume out of a partner brewery in Memphis, as part of a previous alternating proprietorship brewing arrangement, into Anheuser-Busch's Fort Collins, Colorado brewery to leverage a contract brewing agreement with A-B Commercial Strategies, LLC ("ABCS"), an affiliate of Anheuser-Busch, LLC ("A-B") established in 2016. Additionally, we own and operate three innovation breweries in Portland, Oregon; Seattle, Washington; and Portsmouth, New Hampshire, which are primarily used for small-batch production and limited-release brews offered primarily in our brewpubs and brands' home markets.

We distribute our beers to retailers through wholesalers that are aligned with the A-B network. These sales are made pursuant to a Master Distributor Agreement (the "A-B Distributor Agreement") with A-B, which extends through 2028. 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. In 2017, Kona beers were distributed in all 50 states. As increased competition put increasing pressure on craft brands outside of their home markets, we continued ongoing work to retrench and stabilize Widmer Brothers and Redhook in the Pacific Northwest. We expanded distribution of Appalachian Mountain Brewery, Cisco Brewers, and Wynwood Brewing Co. across their respective home markets of North Carolina, New England, and South Miami.

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 Brewpubs operations. Beer Related operations include the brewing, and domestic and international sales, of craft beers and ciders from our breweries. Brewpubs operations include our five brewpubs, four of which are located adjacent to our Beer Related operations, other merchandise sales, and sales of our beers directly to customers.

Basis of Presentation
The consolidated financial statements include the accounts of Craft Brew Alliance, Inc. and our wholly owned subsidiaries. All intercompany transactions and balances are eliminated in consolidation.

Note 2. Significant Accounting Policies

Cash and Cash Equivalents
We maintain cash balances with financial institutions that may exceed federally insured limits. We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of December 31, 2017 and 2016, we did not have any cash equivalents.

Under our cash management system, we utilize a controlled disbursement account to fund cash distribution checks presented for payment by the holder. Checks issued but not yet presented to banks may result in overdraft balances for accounting purposes. As of December 31, 2017 there were no bank overdrafts. As of December 31, 2016 there were $1.1 million of bank overdrafts. Changes in bank overdrafts from period to period are reported in the Consolidated Statements of Cash Flows as a component of operating activities within Accounts payable and Other accrued expenses.

Accounts Receivable
Accounts receivable primarily consists of trade receivables due from wholesalers and A-B for beer and promotional product sales. Because of state liquor laws and each wholesaler's agreement with A-B, we do not have collectability issues related to the sale of our beer products. Accordingly, we do not regularly provide an allowance for doubtful accounts for beer sales. We have provided an allowance for promotional merchandise receivables that have been invoiced to the wholesaler, which reflects our best estimate of probable losses inherent in the accounts. We determine the allowance based on historical customer experience and other currently available evidence. When a specific account is deemed uncollectible, the account is written off against the allowance. The allowance for doubtful accounts was $25,000 at both December 31, 2017 and 2016.

Activity related to our allowance for doubtful accounts was immaterial in 2017, 2016 and 2015.

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

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

Property, Equipment and Leasehold Improvements
Property, equipment and leasehold improvements are stated at cost, less accumulated depreciation and accumulated amortization. Expenditures for repairs and maintenance are expensed as incurred; renewals and betterments are capitalized. Upon disposal of equipment and leasehold improvements, the accounts are relieved of the costs and related accumulated depreciation or amortization, and resulting gains or losses are reflected in our Consolidated Statements of Operations.

Depreciation and amortization of property, equipment and leasehold improvements is provided on the straight-line method over the following estimated useful lives:

Buildings	30 – 50 years
Brewery equipment	10 – 25 years
Furniture, fixtures and other equipment	2 – 10 years
Vehicles	5 years
Leasehold improvements	The lesser of useful life or term of the lease

Valuation of Long-Lived Assets
We evaluate potential impairment of long-lived assets when facts and circumstances indicate that the carrying values of such assets may be impaired. An evaluation of recoverability is performed by comparing the carrying value of the assets to projected future undiscounted cash flows. Upon indication that the carrying value of such assets may not be recoverable, we recognize an impairment loss in the current period in our Consolidated Statements of Operations. During 2017, a $0.5 million impairment charge was recorded as a component of Selling, general and administrative expenses related to the sale of our Woodinville brewery (see Note 20). There were no impairments recorded during 2016 or 2015.

Definite-lived intangible assets are amortized using a straight line basis of accounting. Definite-lived intangible assets and their respective estimated lives are as follows:

Distributor agreements	15 years
Non-compete agreements	5 years

Goodwill
Goodwill is not amortized but rather is reviewed for impairment at least annually, or more frequently if an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We first make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If the conclusion is that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we then perform a two-step goodwill impairment test. Under the first step, the fair value of the reporting unit is compared to its carrying value, and, if an indication of goodwill impairment exists in the reporting unit, the second step of the impairment test is performed to measure the amount of any impairment loss. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill as determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. We conduct our annual impairment test as of December 31 of each year and have determined there to be no impairment for any of the periods presented.

Indefinite-Lived Intangible Assets
Indefinite-lived intangible assets consist primarily of trademarks, domain name and recipes. We evaluate the recoverability of indefinite-lived intangible assets annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired, by comparing the carrying amount of the asset to its estimated fair value measured by using discounted cash flows that the asset is expected to generate. We have determined there to be no impairment for any of the periods presented.

Refundable Deposits on Kegs
We distribute our draft beer in kegs that are owned by us and are reflected in our Consolidated Balance Sheets at cost and are depreciated over the estimated useful life of the keg. When draft beer is shipped to the wholesaler, we collect a refundable deposit, presented as a current liability, Refundable deposits, in our Consolidated Balance Sheets. Upon return of the keg to us, the deposit is refunded to the wholesaler.

We have experienced some loss of kegs and anticipate that some loss will occur in future periods due to the significant volume of kegs handled by each wholesaler and retailer, the homogeneous nature of kegs owned by most brewers, and the relatively small deposit collected for each keg when compared with its market value. In order to estimate forfeited deposits attributable to lost kegs, we periodically use internal records, records maintained by A-B, records maintained by other third party vendors and historical information to estimate the physical count of kegs held by wholesalers and A-B. These estimates affect the amount recorded as equipment and refundable deposits as of the date of the consolidated financial statements. The actual liability for refundable deposits may differ from estimates. Our Consolidated Balance Sheets included $4.5 million and $6.3 million at December 31, 2017 and 2016, respectively, in Refundable deposits on kegs and $10.0 million and $10.8 million, respectively, in keg equipment, net of accumulated depreciation, included as a component of Property, equipment and leasehold improvements, net.

Concentrations of Risk
Financial instruments that potentially subject us to credit risk consist principally of Accounts receivable. While wholesalers and A-B account for substantially all Accounts receivable, this concentration risk is limited due to the number of wholesalers, their geographic dispersion and state laws regulating the financial affairs of wholesalers of alcoholic beverages.

Comprehensive Income (Loss)
Comprehensive income (loss) includes changes in the fair value of interest rate derivatives that are designated as cash flow hedges.

Revenue Recognition
We recognize revenue from product sales, net of excise taxes, discounts and certain fees we must pay in connection with sales to a member of the A-B wholesale distributor network, when the products are delivered to the member. A member of the A-B wholesale distributor network may be a branch of A-B or an independent wholesale distributor.

We recognize revenue on contract brewing sales when the product is shipped to our contract brewing customer.

We recognize revenue on retail sales at the time of sale and we recognize revenue from events at the time of the event.

We recognize revenue related to non-refundable payments to be received on specified dates throughout a contract term on a straight-line basis over the life of the related contract or contracts.

Excise Taxes
The federal government levies excise taxes on the sale of alcoholic beverages, including beer. For brewers producing less than two million barrels of beer per calendar year, the federal excise tax is $7.00 per barrel on the first 60,000 barrels of beer removed for consumption or sale during the calendar year, and $18.00 per barrel for each barrel in excess of 60,000 barrels. Beginning in 2018, as a result of the "Tax Cuts and Jobs Act," our federal excise tax rate on beer will decrease from $7.00 per barrel to $3.50 per barrel on the first 60,000 barrels of beer removed for consumption or sale during the calendar year, and from $18.00 per barrel to $16.00 per barrel for each barrel in excess of 60,000 barrels. These lower rates currently expire at the end of 2019. Individual states also impose excise taxes on alcoholic beverages in varying amounts. As presented in our Consolidated Statements of Operations, Sales reflects the amounts invoiced to A-B, wholesalers and other customers. Excise taxes due to federal and state agencies are not collected from our customers, but rather are our responsibility. Net sales, as presented in our Consolidated Statements of Operations, are reduced by applicable federal and state excise taxes.

Taxes Collected from Customers and Remitted to Governmental Authorities
We account for tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction (i.e., sales, use, value added) on a net (reduction of revenue) basis.

Shipping and Handling Costs
Costs incurred to ship our product are included in Cost of sales in our Consolidated Statements of Operations.

Advertising Expenses
Advertising costs, consisting of television, radio, print, outdoor advertising, on-line and social media, sponsorships, trade events, promotions and printed product information, as well as costs to produce these media, are expensed as incurred. The costs associated with point of sale display items and related promotional merchandise are inventoried and charged to expense when first used. For the years ended December 31, 2017, 2016 and 2015, we recognized costs for all of these activities totaling $14.8 million, $14.6 million and $16.2 million, respectively, which are reflected as Selling, general and administrative expenses in our Consolidated Statements of Operations.

Advertising expenses frequently involve the local wholesaler sharing in the cost of the program. Reimbursements from wholesalers for advertising and promotion activities are recorded as a reduction to Selling, general and administrative expenses in our Consolidated Statements of Operations. Pricing discounts to wholesalers are recorded as a reduction of Sales in our Consolidated Statements of Operations.

Stock-Based Compensation
The fair value of restricted stock unit awards is determined based on the number of units granted and the quoted price of our common stock on the date of grant. The fair value of stock option awards is estimated at the grant date as calculated by the Black-Scholes-Merton ("BSM") option-pricing model. The BSM model requires various judgmental assumptions including expected volatility and option life.

The estimated fair value of stock-based awards is recognized as compensation expense over the vesting period of the award, net of estimated forfeitures. We estimate forfeitures of stock-based awards based on historical experience and expected future activity.

The estimated fair value of performance-based stock awards is recognized over the service period based on an assessment of the probability that performance goals will be met. We re-measure the probability of achieving the performance goals during each reporting period. In future reporting periods, if we determine that performance goals are not probable of occurrence, no additional compensation expense will be recognized and any previously recognized compensation expense would be reversed.

Legal Costs
We are a party to legal proceedings arising in the normal course of business. We accrue for certain legal costs, including attorney fees, as well as potential settlement amounts and other losses related to various legal proceedings that are estimable and probable. If not estimable and probable, legal costs are expensed as incurred as a component of Selling, general and administrative expenses.

Income Taxes
Deferred income taxes are established for the difference between the financial reporting and income tax basis of assets and liabilities as well as operating loss and tax credit carryforwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

We recognize the benefits of tax return positions when it is determined that the positions are “more-likely-than-not” to be sustained by the taxing authority. Interest and penalties accrued on unrecognized tax benefits are recorded as tax expense in the period incurred. At December 31, 2017 and 2016, we did not have any unrecognized tax benefits or any interest and penalties accrued on unrecognized tax benefits.

In the fourth quarter of 2017, we recognized the impact of enacted tax legislation, which reduced our federal tax rate from 34% to 21% effective January 1, 2018. This reduction resulted in a $6.9 million decrease to our deferred tax liability, which was recognized as a reduction to our income tax provision in the fourth quarter of 2017, the period of enactment. Our accounting for the income tax effects of the new tax legislation is complete, and we do not anticipate adjustments to such accounting in future periods.

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

Earnings per Share
Basic earnings per share is computed on the basis of the weighted average number of shares that were outstanding during the period. Diluted earnings per share include the dilutive effect of common share equivalents calculated under the treasury stock method. Performance-based restricted stock grants are included in basic and diluted earnings per share when the underlying performance metrics have been met.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances at the time. Actual results could differ from those estimates under different assumptions or conditions.

Note 3. Recent Accounting Pronouncements

ASU 2017-12
In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 refines and expands hedge accounting for both financial and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. ASU 2017-12 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2018, on a prospective basis. We do not expect the adoption of ASU 2017-12 to have a material effect on our financial position, results of operations or cash flows.

ASU 2017-09
In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718) - Scope of Modification Accounting." ASU 2017-09 provides clarity and is expected to reduce both diversity in practice and the cost and complexity when accounting for a change to the terms of a stock-based award. ASU 2017-09 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017, on a prospective basis. Early adoption is permitted. We do not expect the adoption of ASU 2017-09 to have a material effect on our financial position, results of operations or cash flows.

ASU 2017-04

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment." ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. An entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if applicable. The loss recognized should not exceed the total amount of goodwill allocated to the reporting unit. The same impairment test also applies to any reporting unit with a zero or negative carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2019, on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. We do not expect the adoption of ASU 2017-04 to have a material effect on our financial position, results of operations or cash flows.

ASU 2016-15

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

ASU 2016-13

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

ASU 2016-02

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

ASU 2016-01

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

ASU 2015-17

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes." ASU 2015-17 simplifies the presentation of deferred income taxes, and requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments apply to all entities that present a classified statement of financial position and aligns the presentation of deferred income tax assets and liabilities with International Financial Reporting Standards. ASU 2015-17 is effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. We adopted this new accounting standard retrospectively in the first quarter of 2017. As of December 31, 2017 and December 31, 2016, we had $0.8 million and $2.1 million of current deferred tax assets that are now classified as noncurrent on the Consolidated Balance Sheets under this new accounting standard.

ASU 2015-11

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory (Topic 330)." ASU 2015-11 simplifies the accounting for the valuation of all inventory not accounted for using the last-in, first-out ("LIFO") method by prescribing that inventory be valued at the lower of cost and net realizable value. ASU 2015-11 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 on a prospective basis. The adoption of ASU 2015-11 in the first quarter of 2017 did not have a material effect on our financial position, results of operations or cash flows.

ASU 2014-09, ASU 2016-10 and ASU 2016-12

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

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing." ASU 2016-10 clarifies aspects of Topic 606 related to identifying performance obligations and the licensing implementation guidance, while retaining the related core principles for those areas. The effective date and transition requirements for ASU 2016-10 are the same as the effective date and transition requirements in ASU 2014-09.

In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients." ASU 2016-12 clarifies aspects of Topic 606 related to the guidance on assessing collectibility, presentation of sales taxes, non-cash consideration, and completed contracts and contract modifications. The effective date and transition requirements for ASU 2016-12 are the same as the effective date and transition requirements in ASU 2014-09.

The standards permit either the retrospective or the modified retrospective (cumulative effect) transition method. We have elected the modified retrospective transition method and are currently evaluating the impact of adopting Topic 606 on January 1, 2018. We are currently preparing to implement changes to its accounting policies and controls to support the new revenue recognition and disclosure requirements.

Note 4. Inventories

Inventories consisted of the following (in thousands):

	December 31,	
	2017	**2016**
Raw materials	$ 4,290	$ 6,947
Work in process	1,960	2,996
Finished goods	5,555	6,601
Packaging materials	410	567
Promotional merchandise	1,161	1,353
Pub food, beverages and supplies	468	627
	$ 13,844	$ 19,091

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

Note 5. Equity Method Investment

On July 12, 2017, we purchased a 24.5% interest in Wynwood Brewing Company, LLC ("Wynwood") for $2.1 million in cash. Our investment is accounted for under the equity method of accounting and is recorded as a component of Intangible, equity method investment and other assets, net on our Consolidated Balance Sheets. The carrying value of our investment was $2.0 million as of December 31, 2017.

See also Note 18.

Note 6. Other Current Assets and Other Accrued Expenses

Other current assets consisted of the following (in thousands):

	December 31,	
	2017	2016
Prepaid property taxes	$ 534	$ 421
Prepaid insurance	518	448
Income taxes receivable	1,153	68
Other	2,130	1,558
	$ 4,335	$ 2,495

Other accrued expenses consisted of the following (in thousands):

	December 31,	
	2017	2016
Deferred international distribution fee from ABWI	$ 3,385	$ 1,785
Accrued pricing discounts	1,011	933
Other	1,357	1,390
	$ 5,753	$ 4,108

Note 7. Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements consisted of the following (in thousands):

	December 31,	
	2017	2016
Brewery equipment	$ 97,606	$ 113,460
Buildings	32,925	56,477
Land and improvements	3,821	7,606
Furniture, fixtures and other equipment	20,388	19,192
Leasehold improvements	16,239	9,786
Vehicles	106	125
Construction in progress	8,661	11,760
	179,746	218,406
Less accumulated depreciation and amortization	(73,463)	(96,436)
	$ 106,283	$ 121,970

Note 8. Goodwill and Intangible, Equity Method Investment and Other Assets

Goodwill

Goodwill totaled $12.9 million at both December 31, 2017 and 2016 and there were no changes to the goodwill balance during 2017, 2016 or 2015. There are no impairment losses netted against the goodwill balance.

Intangible, Equity Method Investment and Other Assets

Intangible, equity method investment and other assets and the related accumulated amortization were as follows (in thousands):

	December 31,	
	2017	2016
Trademarks and domain name	$ 14,429	$ 14,429
Recipes	700	700
Distributor agreements	2,200	2,200
Accumulated amortization	(1,393)	(1,247)
	807	953
Other	348	348
Accumulated amortization	(255)	(228)
	93	120
Intangible assets, net	16,029	16,202
Promotional merchandise	818	1,106
Deposits and other	2,076	2,174
Equity method investment	2,026	—
Intangible, equity method investment and other assets, net	$ 20,949	$ 19,482

Amortization expense was as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Amortization expense	$ 260	$ 199	$ 222

Estimated amortization expense to be recorded for the next five fiscal years and thereafter is as follows (in thousands):

2018	$ 191
2019	172
2020	170
2021	147
2022	147
Thereafter	73
	$ 900

Note 9. Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consisted of the following (in thousands):

	December 31,	
	2017	2016
Term loan, due September 30, 2023	$ 9,244	$ 9,653
Line of credit, due November 30, 2020	22,199	17,975
Capital lease obligations for equipment	1,855	1,635
	33,298	29,263
Less current portion	(699)	(1,317)
	$ 32,599	$ 27,946

Required principal payments on outstanding debt obligations as of December 31, 2017 for the next five years and thereafter are as follows (in thousands):

	Term Loan	Line of Credit	Capital Lease Obligations
2018	$ 422	$ —	$ 333
2019	442	—	529
2020	459	22,199	333
2021	477	—	266
2022	496	—	199
Thereafter	6,948	—	399
	$ 9,244	$ 22,199	2,059
Amount representing interest			(204)
			$ 1,855

Term Loan and Line of Credit

We have a loan agreement (as amended, the "Loan Agreement") with Bank of America, N.A. ("BofA"), which presently comprises a $40.0 million revolving line of credit ("Line of Credit"), including provisions for cash borrowings and up to $2.5 million notional amount of letters of credit, and a term loan (the "Term Loan") with an original balance of $10.8 million. We may draw upon the Line of Credit for working capital and general corporate purposes until expiration on November 30, 2020. The maturity date of the Term Loan is September 30, 2023. At December 31, 2017, we had $9.2 million outstanding on our Term Loan and $22.2 million outstanding under the Line of Credit.

Under the Loan Agreement, interest accrues at an annual rate based on the London Inter-Bank Offered Rate ("LIBOR") Daily Floating Rate plus a marginal rate. The marginal rate varies from 0.75% to 1.75% for the Line of Credit and Term Loan based on our funded debt ratio. At December 31, 2017, our marginal rate was 0.75% resulting in an annual interest rate of 2.26%.

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

Under the Loan Agreement, a quarterly fee on the unused portion of the Line of Credit, including the undrawn amount of the related standby letter of credit, varies from 0.15% to 0.30% based upon our funded debt ratio.

At December 31, 2017, the quarterly fee was 0.15% and the fee totaled the following (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Loan Agreement fee	$ 37	$ 36	$ 24

An annual fee is payable in advance on the notional amount of each standby letter of credit issued and outstanding multiplied by an applicable rate ranging from 0.75% to 1.75%. We had no letters of credit outstanding during 2017, 2016 or 2015.

We were in compliance with all applicable contractual financial covenants of the Loan Agreement at December 31, 2017. These financial covenants under the Loan Agreement are measured on a trailing four-quarter basis. We are required to maintain a funded debt ratio of up to 3.5 to 1 and a fixed charge coverage ratio above 1.20 to 1. The funded debt ratio maximum is reduced to 3.0 to 1 on January 1, 2018.

The Loan Agreement is secured by substantially all of our personal property and fixtures and by our Oregon brewery. In addition, we are permitted to declare or pay dividends, repurchase outstanding common stock or incur additional debt, subject to limitations. We are restricted from entering into any agreement that would result in a change in control.

Note 10. Derivative Financial Instruments

Interest Rate Swap Contracts

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

We have assessed our vulnerability to certain business and financial risks, including interest rate risk associated with our variable-rate long-term debt. To mitigate this risk, effective January 23, 2014, we entered into an interest rate swap contract with BofA for 75% of the Term Loan balance, to hedge the variability of interest payments associated with our variable-rate borrowings under our Term Loan with BofA. The Term Loan contract and the interest rate swap terminate on September 30, 2023. The Term Loan contract had a total notional value of $6.9 million as of December 31, 2017. Through this swap agreement, we pay interest at a fixed rate of 2.86% and receive interest at a floating-rate of the one-month LIBOR, which was 1.49% at December 31, 2017.

Effective January 4, 2016, we entered into a $9.1 million notional amount interest rate swap contract with BofA, which expires January 1, 2019, to hedge the variability of interest payments associated with our variable-rate borrowings on our line of credit. The notional amount fluctuates based on a predefined schedule based on our anticipated borrowings. Through this swap agreement, we pay interest at a fixed rate of 1.28% and receive interest at a floating-rate of the one-month LIBOR, which was 1.49% at December 31, 2017.

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

As of December 31, 2017, unrealized net losses of $221,000 were recorded in Accumulated other comprehensive loss as a result of these hedges. The effective portion of the gain or loss on the derivatives is reclassified into Interest expense in the same period during which we record Interest expense associated with the related debt. There was no hedge ineffectiveness during 2017, 2016 or 2015.

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

	December 31,	
	2017	2016
Fair value of interest rate swaps	$ (221)	$ (424)

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

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in Accumulated OCI (Effective Portion)	Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)
Year Ended December 31,			
2017	$ 203	**Interest expense**	$ 150
2016	$ 145	**Interest expense**	$ 292
2015	$ (66)	**Interest expense**	$ 209

See also Note 11.

Note 11. Fair Value Measurements

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

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

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

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

Fair Value at December 31, 2017	Level 1	Level 2	Level 3	Total
Interest rate swap	$ —	$ (221)	$ —	$ (221)

Fair Value at December 31, 2016				
Interest rate swap	$ —	$ (424)	$ —	$ (424)

We did not have any assets measured at fair value on a recurring basis at December 31, 2017 or December 31, 2016.

The fair value of our interest rate swap was based on quarterly statements from the issuing bank. There were no changes to our valuation techniques during 2017, 2016 or 2015.

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

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

	December 31,	
	2017	2016
Fixed-rate debt on balance sheet	$ 1,855	$ 935
Estimated fair value of fixed-rate debt	$ 1,915	$ 993

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

Note 12. Segment Results and Concentrations

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

2017	Beer Related	Brewpubs	Total
Net sales	$ 179,830	$ 27,626	$ 207,456
Gross profit	$ 63,412	$ 1,846	$ 65,258
Gross margin	35.3%	6.7%	31.5%
2016			
Net sales	$ 173,657	$ 28,850	$ 202,507
Gross profit	$ 55,667	$ 3,932	$ 59,599
Gross margin	32.1%	13.6%	29.4%
2015			
Net sales	$ 176,343	$ 27,825	$ 204,168
Gross profit	$ 58,610	$ 3,586	$ 62,196
Gross margin	33.2%	12.9%	30.5%

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

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

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

Year Ended December 31,		
2017	**2016**	**2015**
74.9%	77.8%	81.2%

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

December 31,	
2017	**2016**
74.4%	66.6%

All of our long-term assets are located in the U.S. and Sales outside of the U.S. are insignificant.

Note 13. Stock-Based Plans and Stock-Based Compensation

We maintain several stock incentive plans under which stock-based awards are, or have been, granted to employees and non-employee directors. We issue new shares of common stock upon exercise or settlement of the stock-based awards. All of our stock plans are administered by the Compensation Committee of our Board of Directors, which determines the grantees, the number of shares of common stock for which awards may be exercised or settled and the exercise or grant prices of such shares, among other terms and conditions of stock-based awards under our stock-based plans.

With the approval of the 2014 Stock Incentive Plan (the “2014 Plan”) in May 2014, no further grants of stock-based awards may be made under our 2010 Stock Incentive Plan (the “2010 Plan”). However, the provisions of the 2010 Plan will remain in effect until all outstanding awards are exercised, settled or terminated. Shares subject to terminated awards under the 2010 Plan are not added to the pool of shares available for grant pursuant to the 2014 Plan.

Shares to be issued upon the exercise of stock options and the vesting of stock awards will come from newly issued shares.

2014 Stock Incentive Plan

The 2014 Plan provides for grants of stock options, restricted stock, restricted stock units ("RSUs"), performance awards and stock appreciation rights, as well as other stock-based awards. While incentive stock options may only be granted to employees, awards other than incentive stock options may be granted to employees, non-employee directors and outside consultants. Options granted to our employees are generally subject to a four-year vesting period. Vested options generally remain exercisable for ten years following the date of grant. RSUs generally vest over a period of three years. The exercise price of stock options must be at least equal to the fair market value per share of our common stock on the date of grant. A maximum of 1,000,000 shares of common stock are authorized for issuance under the 2014 Plan. As of December 31, 2017, there were 421,581 shares available for future awards pursuant to the 2014 Plan.

Terms of awards granted pursuant to the 2010 Plan and predecessor plans were similar to the terms of awards granted pursuant to the 2014 Plan.

Stock-Based Compensation

Certain information regarding our stock-based compensation was as follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2017	2016	2015
Weighted average per share fair value of stock options granted	$ —	$ 4.06	$ 7.68
Intrinsic value of stock options exercised	265	223	92
Intrinsic value of fully-vested stock awards granted	1,812	944	42

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

	Year Ended December 31,		
	2017	2016	2015
Selling, general and administrative expense	$ 1,197	$ 1,005	$ 1,074
Cost of sales	119	82	83
Total stock-based compensation expense	$ 1,316	$ 1,087	$ 1,157

We amortize stock-based compensation on a straight-line basis over the vesting period of the individual awards, which is the requisite service period, with estimated forfeitures considered.

At December 31, 2017, we had total unrecognized stock-based compensation expense of $2.9 million, which will be recognized over the weighted average remaining vesting period of 1.9 years.

The following weighted average assumptions were utilized in determining fair value pursuant to the Black-Scholes option pricing model:

	Year Ended December 31,		
	2017	2016	2015
Risk-free interest rate	—%	1.66%	1.87%
Dividend yield	—%	—%	—%
Expected life	—	6.81 years	6.72 years
Volatility	—%	51.70%	61.50%

The risk-free rate used is based on the U.S. Treasury yield curve over the estimated term of the options granted. Expected lives were estimated based on historical exercise data. The expected volatility is calculated based on the historical volatility of our common stock.

Stock-Based Awards Plan Activity

Stock Option Activity
Stock option activity for the year ended December 31, 2017 was as follows:

	Options Outstanding	Weighted Average Exercise Price
Outstanding at December 31, 2016	440,247	$ 9.83
Granted	—	—
Exercised	(30,826)	9.84
Canceled	(49,708)	9.42
Outstanding at December 31, 2017	359,713	9.88

Certain information regarding options outstanding as of December 31, 2017 was as follows:

	Options Outstanding	Options Exercisable
Number	359,713	195,059
Weighted average exercise price	$ 9.88	$ 9.91
Aggregate intrinsic value	$ 3,351,000	$ 1,812,000
Weighted average remaining contractual term	6.7 years	6.1 years

Restricted Stock Unit Activity
In February 2017, we granted a total of 59,395 RSUs with a grant date fair value of $15.85 per share to selected executive officers and other members of our executive and impact leadership teams. The RSUs vest on March 31, 2020, provided that the participant continues to be employed through that date.

In June 2017, we granted a total of 14,526 RSUs with a grant date fair value of $17.45 per share to our full-time, non-executive employees, subject to our achievement of EBITDA at a specified target level for the year ended December 31, 2017. For this grant, 84% of the target number of RSUs will vest on May 31, 2018, subject to participants' continued employeement through that date.

In November 2017, we granted 4,393 RSUs with a grant date fair value of $19.35 per share to an executive officer. These RSUs vest in installments on each of December 31, 2018, December 31, 2019, and December 31, 2020, per a vesting schedule, subject to the participant's continued employment through that date.

During 2016, we granted a total of 52,503 RSUs with a weighted average grant date fair value of $7.69 per share to selected officers and other members of our leadership teams. The RSUs will vest on March 31, 2019, provided that the participant continues to be employed through that date.

Performance-Based Stock Awards Activity
We granted performance-based stock awards to selected executives in each of the past seven years. Performance goals for the 2017 awards are tied to target amounts of the compounded-average growth rates of Net Sales and average adjusted EBITDA margin over a three-year performance period. The awards outstanding at December 31, 2017 will vest from zero to 125% of the targeted number of performance shares.

For the 2012 grant, 46% of the target number of performance shares were earned in 2015. No shares were earned for the 2013 grant and we do not expect any shares to be earned pursuant to the 2014 grant due to failure to meet the specified performance goals. Awards, if earned, are paid in shares of our common stock.

Cumulative activity related to performance-based awards during the year ended December 31, 2017 was as follows (in shares):

	Awards Expected to Vest	Weighted Average Grant Date Fair Value Per Share
Awards expected to vest as of January 1, 2017	189,703	$ 9.61
Granted (target amount)	61,218	15.85
Not expected to vest due to failure to meet performance goals	(67,200)	13.10
Awards expected to vest as of December 31, 2017	183,721	10.41

Stock Grants
On the date of our 2017 Annual Meeting of Shareholders, each non-employee director received an annual grant of fully-vested shares of our common stock with a fair value of $45,000, except for the chairman whose grant had a fair value of $67,500. The 2017 grants included 2,778 fully-vested shares of common stock granted to seven of our non-employee directors; the chairman received 4,167 shares, for a total of 23,613 shares.

Note 14. Earnings Per Share

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

	Year Ended December 31,		
	2017	2016	2015
Weighted average common shares used for basic EPS	19,284	19,225	19,152
Dilutive effect of stock-based awards	163	—	23
Shares used for diluted EPS	19,447	19,225	19,175
Stock-based awards not included in diluted per share calculations as they would be antidilutive	25	221	241

Note 15. Income Taxes

All of our income is generated in the U.S. The components of income tax provision (benefit) were as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Current federal	$ (413)	$ (378)	$ 491
Current state	331	32	133
	(82)	(346)	624
Deferred federal	(5,368)	285	728
Deferred state	(32)	75	148
	(5,400)	360	876
	$ (5,482)	$ 14	$ 1,500

Income tax provision (benefit) differs from the amount computed by applying the statutory federal income tax rate to income (loss) before income taxes as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Provision at U.S. statutory rate	$ 1,374	$ (104)	$ 1,264
State taxes, net of federal benefit	189	49	182
Effect of tax rate change on deferred tax assets and liabilities	(6,923)	—	—
Permanent differences, primarily meals and entertainment	180	264	250
Stock-based compensation	(11)	(41)	—
Domestic production activities deduction	—	(20)	(63)
Tax credits	(291)	(134)	(133)
	$ (5,482)	$ 14	$ 1,500

Significant components of our deferred tax assets and liabilities were as follows (in thousands):

	December 31,	
	2017	2016
Deferred tax assets		
Net operating losses and tax credit carryforwards	$ 982	$ 496
Accrued salaries and severance	1,127	1,207
Other	1,497	1,615
	3,606	3,318
Deferred tax liabilities		
Property, equipment and leasehold improvements	(12,287)	(15,194)
Intangible assets	(4,054)	(6,112)
Other	(151)	(193)
	(16,492)	(21,499)
	$ (12,886)	$ (18,181)

As of December 31, 2017, included in our net operating losses and tax credit carryforwards were the following (in thousands):

State NOLs, tax effected	$ 26
Federal NOLs, tax effected	208
Federal employer FICA tips credit	748

We also have an AMT credit carryforward of $340,000, which is refundable over the next five years pursuant to recently enacted tax legislation. As such, the carryforward is recognized as a tax receivable on our Consolidated Balance Sheets as of December 31, 2017.

In assessing the realizability of our deferred tax assets, we consider future taxable income expected to be generated by the projected differences between financial statement depreciation and tax depreciation, cumulative earnings generated to date and other evidence available to us. Based upon this consideration, we assessed that all of our deferred taxes are more likely than not to be realized, and, as such, we have not recorded a valuation allowance as of December 31, 2017 or 2016.

There were no unrecognized tax benefits as of December 31, 2017 or 2016 and we do not anticipate significant changes to our unrecognized tax benefits within the next twelve months.

Note 16. Employee Benefit Plans

We sponsor a defined contribution 401(k) plan for all employees 18 years or older. Employee contributions may be made on a before-tax basis, limited by IRS regulations. For the years ended December 31, 2017, 2016 and 2015, we matched 50% of the employee's contributions up to 6% of eligible compensation. Eligibility for the matching contribution in all years began after the participant had worked a minimum of three months. Our matching contributions to the plan vest ratably over five years of service by the employee. During 2017, 2016 and 2015, we used approximately $69,000, $198,000 and $17,000, respectively, of previously forfeited matching contributions to fund current matching contributions, which decreased expense for the corresponding periods. We recognized expense associated with matching contributions as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
401(k) expense	$ 805	$ 882	$ 817

Note 17. Commitments and Contingencies

General

We are subject to various claims and pending or threatened lawsuits in the normal course of business. We are not currently party to any claims or legal proceedings that management believes are reasonably probable to have a material adverse effect on our financial position, results of operations or cash flows.

Operating Leases

We lease office space, restaurant and production facilities, warehouse and storage space, land and equipment under operating leases that expire at various dates through the year ending December 31, 2064. Certain leases contain renewal options for varying periods and escalation clauses for adjusting rent to reflect changes in price indices. Certain leases require us to pay for insurance, taxes and maintenance applicable to the leased property. Under the terms of the land lease for our New Hampshire Brewery, we hold a first right of refusal to purchase the property should the lessor decide to sell the property.

Minimum aggregate future lease payments under non-cancelable operating leases as of December 31, 2017 are as follows (in thousands):

2018	$ 9,179
2019	2,039
2020	1,714
2021	1,381
2022	1,374
Thereafter	20,713
	$ 36,400

Rent expense under all operating leases, including short-term rentals as well as cancelable and noncancelable operating leases, gross, was as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Rent expense	$ 2,869	$ 2,613	$ 2,042

We sub-leased corporate office space to an unrelated party pursuant to a 5-year lease that began in February 2011. In December 2014, the lease agreement was amended to extend the lease through 2025, with an option to cancel in 2020 with 180 days' written notice and a payment of $150,000. In December 2017, we entered into an agreement to sell the property where the sub-leased corporate office space was located to an unrelated party. The sale of the property was finalized in January 2018, so will no longer receive rental payments pursuant to this agreement. We recognized rental income related to the sublease, which was recorded as an offset to rent expense in our Consolidated Statements of Operations, as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Rental income	$ 406	$ 369	$ 369

We lease our headquarters office space, restaurant and storage facilities located in Portland, land and certain equipment from two limited liability companies, both of whose members include our former Board Chair, and his brother, who continues to be employed by us. Lease payments to these lessors were as follows (in thousands) and are included in the Rent expense under all operating leases above:

Year Ended December 31,		
2017	2016	2015
$ 136	$ 120	$ 120

The lease for the headquarters office space and restaurant facility expires in 2034, with an extension at our option for two 10-year periods, while the lease for the other facilities, land and equipment expires in 2022 with an extension at our option for an additional 5-year period. We hold a right to purchase the headquarters office space and restaurant facility at the greater of $2.0 million or the fair market value of the property as determined by a contractually established appraisal method. The right to purchase is not valid in the final year of either renewal term, as applicable. All lease terms are considered to be arm's-length.

We hold lease and sublease obligations for certain office space and the land underlying the brewery and pub location in Kona, Hawaii, with a company whose owners include a shareholder who owns more than 5% of our common stock. The sublease contracts expire on various dates through 2020, with an extension at our option for two 5-year periods. Lease payments to this lessor were as follows (in thousands) and are included in the Rent expense under all operating leases above:

Year Ended December 31,		
2017	2016	2015
$ 574	$ 554	$ 524

All lease terms are considered to be arm's-length. In December 2015, related to the execution of the long-term land lease with an unrelated third party for our new Kona brewery, we also paid approximately $100,000 to the lessor described above to acquire its right of first refusal on the land lease from the unrelated third party.

Purchase and Sponsorship Commitments

We periodically enter into commitments to purchase certain raw materials in the normal course of business. Furthermore, we have entered into purchase commitments and commodity contracts to ensure we have the necessary supply of malt and hops to meet future production requirements. Certain of the malt and hop commitments are for crop years through 2022. We believe that malt and hop commitments in excess of future requirements, if any, will not have a material impact on our financial condition or results of operations. We may take delivery of the commodities in excess of our requirements or make payments against the purchase commitments earlier than contractually obligated, which means our cash outlays in any particular year may exceed or be less than the commitment amount disclosed.

In certain cases, we have executed agreements with selected vendors to source our requirements for specific malt and hop varieties for the years ending December 31, 2018, 2019, 2020, 2021 and 2022; however, either the quantity to be delivered or the full price for the commodity has not been established at the present time. To the extent the commitment is not measurable or has not been fixed, that portion of the commitment has been excluded from the table below.

We have entered into multi-year sponsorship and promotional commitments with certain professional sports teams and entertainment companies. Generally, in exchange for our sponsorship consideration, we post signage and provide other promotional materials at the site or the event. The terms of these sponsorship commitments expire at various dates through December 31, 2022.

Aggregate future payments under purchase and sponsorship commitments as of December 31, 2017 are as follows (in thousands):

	Purchase Obligations	Sponsorship Obligations	Total
2018	$ 11,839	$ 1,663	$ 13,502
2019	4,787	549	5,336
2020	4,165	468	4,633
2021	3,196	289	3,485
2022	49	578	627
Thereafter	—	—	—
	$ 24,036	$ 3,547	$ 27,583

Legal

On February 28, 2017 and March 6, 2017, respectively, two lawsuits, Sara Cilloni and Simone Zimmer v. Craft Brew Alliance, Inc., and Theodore Broomfield v. Kona Brewing Co. LLC, Kona Brew Enterprises, LLP, Kona Brewery LLC, and Craft Brew Alliance, Inc., were filed in the United States District Court for the Northern Division of California. On April 7, 2017, the two lawsuits were consolidated into a single complaint under the Broomfield case. The consolidated lawsuit purports to be a class action brought on behalf of all persons who purchased Kona Brewing Company beer within the relevant statute of limitations period. The lawsuit alleges that the defendants misled customers regarding the state in which Kona Brewing Company beers are manufactured and in describing Kona Brewing Company beer as "craft beer." On April 28, 2017, we filed a motion to dismiss the complaint. The motion to dismiss was granted in part and denied in part on September 1, 2017. We have not recorded any liabilities with respect to the claims. We intend to vigorously defend against the foregoing action.

Note 18. Related Party Transactions

For additional related party transactions, see Notes 5 and 17.

As of each of December 31, 2017 and 2016, A-B owned approximately 31.4% of our outstanding common stock.

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

In December 2015, we partnered with Ambev, the Brazilian subsidiary of Anheuser-Busch InBev SA, to distribute Kona beers into Brazil. In August 2016, we also entered into an International Distribution Agreement with ABWI, an affiliate of A-B, pursuant to which ABWI will distribute our malt beverage products in jurisdictions outside the United States, subject to the terms and conditions of our agreement with our existing international distributor, CraftCan Travel LLC, and certain other limitations summarized in "International Distribution Agreement" below.

Transactions with A-B, Ambev and ABWI consisted of the following (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Gross sales to A-B and Ambev	$ 163,368	$ 168,929	$ 179,974
International distribution fee earned from ABWI	3,400	1,216	—
International distribution fee from ABWI, recorded as deferred revenue in Other accrued expenses	3,384	1,784	—
Margin fee paid to A-B, classified as a reduction of Sales	2,277	2,420	2,594
Inventory management and other fees paid to A-B, classified in Cost of sales	384	377	396
Media reimbursement from A-B, classified as a reduction of Selling, general and administrative expenses	290	750	—

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

	December 31,	
	2017	2016
Amounts due from A-B related to beer sales pursuant to the A-B distributor agreement	$ 15,663	$ 12,246
Amounts due from ABWI and A-B related to international distribution fee and media reimbursement	5,000	3,750
Refundable deposits due to A-B	(1,619)	(2,162)
Amounts due to A-B for services rendered	(4,836)	(1,782)
Net amount due from A-B and ABWI	$ 14,208	$ 12,052

Agreements with Anheuser-Busch, LLC

Contract Brewing Agreement

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

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

In addition, ABCS has the right to terminate the Brewing Agreement upon 90 days' prior written notice to us following (i) a "change of control event" (as defined below) that occurs or for which a definitive agreement is entered into prior to August 23, 2019, and is subsequently completed, or (ii) the earliest of (x) our rejection of a "qualifying offer" (as defined below), (y) the completion of a transaction implementing a qualifying offer, and (z) our failure to enter into a definitive transaction agreement within 120 days following receipt of a qualifying offer, with certain exceptions.

Under the terms of each of the Brewing Agreement, the International Distribution Agreement, the Master Distributor Agreement and the Recapitalization Agreement (as defined below) (collectively, the "Commercial Arrangements"), a "qualifying offer" is defined to include any offer made by ABCS or an affiliate thereof, for the acquisition of all of the issued and outstanding shares of our common stock not owned by ABCS or its affiliates, on customary terms and conditions for a transaction of the type proposed by ABCS or its affiliate, in each case, for an aggregate value of (x) not less than $22.00 per share of our common stock if the offer is made on or prior to August 23, 2017, (y) not less than $23.25 per share of our common stock if the offer is made during the period beginning August 24, 2017 through August 23, 2018 and (z) not less than $24.50 per share of our common stock if the offer is made on or after August 24, 2018. A "change of control event" includes, with certain exceptions, (i) the acquisition by a person or group of beneficial ownership on a fully diluted basis of 50% or more of our equity securities (or the equity securities of the surviving entity in any merger, consolidation, share exchange or other business combination involving us), (ii) a change in the composition of our board of directors during any consecutive 12-month period such that the incumbent directors cease to constitute at least a majority of the board of directors, or (iii) the completion of a sale, lease, exchange, or other transfer of (A) the Kona brand or (B) 50% or more of our assets based on fair market value.

International Distribution Agreement

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

Under the terms of the International Distribution Agreement, with respect to our exported products produced by us, ABWI will pay us our costs of production plus reasonable out-of-pocket expenses relating to export shipment costs. Additionally, ABWI will pay us an international royalty fee based on volume of our products sold by ABWI, equal to either $40 per barrel or $30 per barrel, depending on certain factors described in the International Distribution Agreement, which royalty fee will be subject to escalation annually, beginning in calendar year 2018, on the terms described in the International Distribution Agreement. For calendar year 2016, 2017 and 2018, ABWI will also pay us one-time fees of $3.0 million, $5.0 million and $6.0 million, respectively. These amounts are subject to proration if the International Distribution Agreement is terminated early in any given year. The sum of the fees is recognized in Beer Related Net sales on a straight-line basis over the 10-year contract term, while the fees are collected in the first quarter of the year following the applicable calendar year.

The International Distribution Agreement contains specified termination rights, including, among other things, the right of either party to terminate the International Distribution Agreement if (a) the other party fails to perform any material obligation under the International Distribution Agreement, subject to certain cure rights or (b) the Brewing Agreement is terminated pursuant to certain specified provisions thereof. In addition, ABWI has the right to terminate the International Distribution Agreement upon 90 days'

prior written notice to us following (i) a "change of control event" (as defined above) that occurs or for which a definitive agreement is entered into prior to August 23, 2019, and is subsequently completed, or (ii) the earliest of (x) our rejection of a "qualifying offer" (as defined above), (y) the completion of a transaction implementing a qualifying offer, and (z) our failure to enter into a definitive transaction agreement within 120 days following receipt of a qualifying offer, with certain exceptions (each of the foregoing subclauses (x) through (z), a "qualifying offer lapse"). Following termination of the International Distribution Agreement due to a qualifying offer lapse, or any change of control event, ABWI shall have the right to purchase the international distribution rights for each of our brands then being distributed under the International Distribution Agreement at the fair market value of such rights, and on otherwise customary terms and conditions, as set forth in the International Distribution Agreement.

Under the International Distribution Agreement, ABWI will also be required to make a one-time $20.0 million payment to us on August 23, 2019. The payment is being recognized in Beer Related Net sales on a straight-line basis over the 10-year contract term. However, ABWI will not (subject to compliance with certain notice requirements) be obligated to make such one-time payment if, prior to that date, (i) a "change of control event" occurs or a definitive agreement for a transaction constituting a change of control event is entered into, (ii) ABWI (or an affiliate thereof) makes a qualifying offer and there is a qualifying offer lapse or (iii) we enter into a definitive agreement with ABWI (or an affiliate thereof) with respect to a qualifying offer but such agreement is subsequently terminated, other than for certain regulatory reasons (in which case the $20.0 million shall remain payable). Unless terminated sooner, the International Distribution Agreement will continue in effect until December 31, 2026.

Amendment to Master Distributor Agreement and Amendment to Exchange and Recapitalization Agreement

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

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

Contract pricing may not be commensurate with amounts that an independent market participant would pay due to the related party nature of the agreements.

Transactions with Wynwood

As of December 31, 2017 we owned a 24.5% interest in Wynwood.

Transactions with Wynwood consisted of the following (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Master distributor fee earned	$ 18	$ —	$ —
Royalty fee paid	94	—	—
Brewery representative reimbursement, classified as a reduction of Selling, general and administrative expenses	90	—	—
Share of loss, classified as a component of Other income (expense), net	75	—	—

Amounts receivable from or due to Wynwood were as follows (in thousands):

	December 31,	
	2017	2016
Amounts receivable related to raw materials and alternating proprietorship fees	$ 148	$ —
Amounts receivable related to Brewery representative reimbursements	32	—
Amounts due related to purchases of beer pursuant to the distributor agreement	(116)	—
Amounts due related to Royalty fees	(4)	—
Net amount receivable	$ 60	$ —

Note 19. Brewing Arrangement and Termination Thereof with Pabst Northwest Brewing Company

On January 8, 2016, we entered into brewing agreements ("the brewing agreements") with Pabst Northwest Brewing Company ("Pabst"), a subsidiary of Pabst Brewing Company, under which Pabst had the ability to brew selected Rainier Brewing Company and other brands at our brewery in Woodinville, Washington under a license agreement and was required to pay us contract brewing volume shortfall fees in each of 2016 and 2017 stemming from brewing volumes below committed levels. In conjunction with the brewing agreements, we granted Pabst an option to purchase the Woodinville brewery and adjacent pub, as well as related assets, at any time prior to termination of the brewing agreements.

Effective May 1, 2017, we reached an agreement with Pabst to terminate the brewing agreements. Pabst's option to purchase the Woodinville brewery and adjacent pub was also terminated. Pabst agreed to pay us $2.7 million in connection with the termination of the brewing agreements and purchase option.

We deferred recognition of the termination payment in our results of operations until the fourth quarter of 2017 due to the potential obligation to pay Pabst up to $2.7 million if the Woodinville brewery was sold to a specified party, which did not occur. Of the $2.7 million. $1.7 million was recorded in Sales and $1.0 million was recorded in Selling, general and administrative expenses.

Ceasing Production at our Woodinville, Washington Brewery
We ceased production at our Woodinville, Washington brewery as of July 1, 2017. As a result, we incurred $250,000 in incremental employee and severance related costs and $150,000 to safely and properly prepare the brewing equipment to become idle during the second and third quarters of 2017, respectively. We incurred approximately $100,000 in additional cost during the fourth quarter of 2017 to further prepare the brewing equipment to be idle, which were expensed as incurred. These expenses are recorded in our Consolidated Statements of Operations for the applicable periods.

See Note 20 for a discussion of the classification of the assets related to our Woodinville brewery as assets held for sale.

Note 20. Assets Held for Sale

Designating the Woodinville, Washington Brewery as Held for Sale
We designated our Woodinville, Washington brewery as held for sale on May 1, 2017 and, accordingly, we ceased depreciating the related assets and recorded them on our Consolidated Balance Sheets at the lower of carrying value or fair value less estimated selling costs. We expected to sell the Woodinville property, including the adjacent pub, within 12 months of the date it was classified as held for sale. During 2017, a $0.5 million impairment charge was recorded related to the sale of our Woodinville brewery, which was completed in early 2018.

The proximity to our largest and most efficient owned brewery in Portland, Oregon, which recently underwent a capacity expansion, as well as the decrease in our contract brewing volume, made our Woodinville capacity redundant. Production volume from our Woodinville brewery was transferred to our Portland brewery in the second quarter of 2017. The Woodinville pub operations ceased on December 29, 2017 in anticipation of finalizing the sale of the Woodinville property.

Assets held for sale were as follows (in thousands):

	December 31, 2017
Brewery equipment	$ 6,972
Buildings	12,562
Land and improvements	3,451
Furniture, fixtures and other equipment	454
	23,439
Impairment of assets held for sale	(493)
	$ 22,946

See Note 21 for a discussion of the sale of the Woodinville brewery in January 2018.

Note 21. Subsequent Events

Sale of Woodinville, Washington Brewery

On January 12, 2018, we sold our Woodinville brewery to assignees of Sound Commercial Investment Holdings, LLC, for a total purchase price of $24.5 million (the "Sale Transaction"), pursuant to the terms and conditions in the Commercial and Investment Real Estate Purchase and Sale Agreement between the parties dated as of November 29, 2017, as amended by an Addendum dated December 29, 2017, and a Second Addendum dated January 5, 2018 (as amended, the "Agreement"). The assets that were sold included the real property, equipment, fixtures, mechanical systems, and certain personal property used in our operation of the brewery and adjacent brewpub. We paid real estate brokerage commissions totaling $560,000 from the sale proceeds.

In contemplation of the sale of certain brewing and bottling equipment included in the Sale Transaction, $500,000 of the total purchase price will be placed in escrow within 60 days following the closing. If the purchaser of the equipment sells it for less than $3.5 million, the shortfall will be paid to the purchaser up to the amount held in escrow, with the balance, if any, paid to us. If the equipment has not been sold within 180 days following the closing date, the $500,000 in escrow will be paid to us.

Cross Brewing Arrangement with Anheuser-Busch Companies, LLC ("ABC")

On January 30, 2018, we entered into a Contract Brewing Agreement (the “Brewing Agreement”) with ABC, an affiliate of A-B, pursuant to which we will brew, package, and palletize certain malt beverage products of A-B's craft breweries at our Portland, Oregon, and Portsmouth, New Hampshire, breweries as selected by ABC. Under the terms of the Brewing Agreement, ABC will pay us a per barrel fee that varies based on the annual volume of the specified product brewed by us, plus (a) our actual incremental costs of brewing the product, and (b) certain capital costs and costs of graphics and labeling that we incur in connection with the brewed products.

The Brewing Agreement will expire on December 31, 2018, unless the arrangement is extended at the mutual agreement of the parties. The Brewing Agreement contains specified termination rights, including, among other things, the right of either party to terminate the Brewing Agreement if (i) the other party fails to perform any material obligation under the Brewing Agreement or any other agreement between the parties, subject to certain cure rights, or (ii) the Master Distributor Agreement is terminated.

Item 9. ***Changes In and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

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

Report of Management on Internal Control over Financial Reporting
Our management is responsible for establishing and maintaining adequate internal control over financial reporting in accordance with Exchange Act Rule 13a-15(f). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Our management assessed the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control - Integrated Framework, issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2017.

Changes in Internal Control Over Financial Reporting
During the fourth quarter of 2017, other than as described below, no changes in our internal control over financial reporting were identified in connection with the evaluation required by Exchange Act Rule 13a-15 or 15d-15 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

To address material weaknesses identified in connection with the preparation of our Annual Report on Form 10-K for the year ended December 31, 2016, management developed a remediation plan which included:

- revising the design of existing controls, and designing and implementing additional key controls related to identifying and accounting for non-routine transactions, which include protocols for engaging third-party accounting experts, where necessary;
- establishing protocols to ensure key controls operate on a timely basis to prevent and detect misstatement; and
- providing additional GAAP technical accounting and internal control related training to both accounting and non-accounting departments.

Report of Independent Registered Public Accounting Firm
Moss Adams LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2017, as stated in their report, which is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
Craft Brew Alliance, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Craft Brew Alliance, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of Craft Brew Alliance, Inc. as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements") and our report dated March 7, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting included in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Moss Adams LLP

Portland, Oregon
March 7, 2018

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

The information required by this Item is contained in part in our definitive proxy statement for our 2018 Annual Meeting of Shareholders to be held on May 16, 2018 (the "2018 Proxy Statement") under the captions "Board of Directors – Nominees for Director," "Board of Directors – Committees of the Board – Audit Committee," "Executive Officers," and "Section 16(a) Beneficial Ownership Reporting Compliance," and the information contained therein is incorporated herein by reference.

Code of Conduct

We adopted a Code of Conduct and Ethics (the "Code") applicable to all employees, including our principal executive officer, principal financial officer, principal accounting officer and directors. The Code and the charters of each of the Board committees are posted on our website at www.craftbrew.com (select Investor Relations — Governance — Highlights). Copies of these documents are available to any shareholder who requests them. Such requests should be directed to Investor Relations, Craft Brew Alliance, Inc., 929 N. Russell Street, Portland, OR 97227. Any waivers of the Code for our directors or executive officers are required to be approved by our Board of Directors. We will disclose any such waivers on a current report on Form 8-K within four business days after the waiver is approved.

Item 11. ***Executive Compensation***

Information required by this Item is contained in our 2018 Proxy Statement under the captions "Compensation Committee Report," "Compensation Discussion and Analysis," "Executive Compensation," "Employment Agreements and Potential Payments Upon Termination or Change-in-Control," "Director Compensation" and "Board of Directors – Committees of the Board – Compensation Committee" and the information contained therein is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Securities Authorized for Issuance Under Equity Compensation Plans

The following is a summary as of December 31, 2017 of all of our plans that provide for the issuance of equity securities as compensation. See Note 13 of Notes to Consolidated Financial Statements in Part II, Item 8 of this report for additional information.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	621,748	(1)	$ 9.88	421,581
Equity compensation plans not approved by shareholders	—		—	—
Total	621,748		$ 9.88	421,581

(1) Includes a total of 183,721 performance shares that may vest between April 1, 2018 and March 31, 2020, based on the expected levels of achievement of financial targets over two separate performance periods, and 78,314 RSUs. These shares are excluded from the calculation of weighted average price in column (b) because they have no exercise price.

The remaining information required by this Item is contained in our 2018 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management," and the information contained therein is incorporated herein by reference.

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Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by this Item is contained in our 2018 Proxy Statement under the captions "Transactions with Related Persons" and "Board of Directors – Director Independence" and the information contained therein is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

The information required by this Item is contained in our 2018 Proxy Statement under the caption "Proposal No. 2 — Ratification of Appointment of Independent Registered Public Accounting Firm" and the information contained therein is incorporated herein by reference.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

Financial Statements and Schedules

There are no schedules required to be filed herewith.

Exhibits
Exhibits are listed in the Exhibit Index that appears immediately following the signature page of this report and is incorporated herein by reference, and are filed or incorporated by reference as part of this Annual Report on Form 10-K.

Item 16. ***Form 10-K Summary***

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in Portland, Oregon, on March 7, 2018.

Craft Brew Alliance, Inc.

By: /s/ Edwin A. Smith
Edwin A. Smith
Corporate Controller and
Principal Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on March 7, 2018.

Signature	Title
/s/ Andrew J. Thomas Andrew J. Thomas	Chief Executive Officer (Principal Executive Officer)
/s/ Joseph K. Vanderstelt Joseph K. Vanderstelt	Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ Edwin A. Smith Edwin A. Smith	Corporate Controller and Principal Accounting Officer (Principal Accounting Officer)
* David R. Lord	Chairman of the Board and Director
* Timothy P. Boyle	Director
* Marc J. Cramer	Director
* Paul D. Davis	Director
* Kevin R. Kelly	Director
* Nickolas A. Mills	Director
* Michael R. Taylor	Director
* Jacqueline S. Woodward	Director

*By: /s/ Andrew J. Thomas
Andrew J. Thomas,
as attorney in fact

EXHIBIT INDEX

Exhibit Number	Description
2.1**	Commercial and Investment Real Estate Purchase and Sale Agreement between Sound Commercial Investment Holdings, LLC, and Craft Brew Alliance, Inc., dated as of November 29, 2017, as amended by an Addendum dated December 29, 2017, and a Second Addendum dated January 5, 2018 (incorporated by reference from Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on January 19, 2018)
3.1	Restated Articles of Incorporation of the Registrant, dated January 2, 2012 (incorporated by reference from Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011)
3.2	Amended and Restated Bylaws of the Registrant, dated December 1, 2010 (incorporated by reference from Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010)
10.1*	2010 Stock Incentive Plan
10.2*	Form of Nonqualified Stock Option Agreement (Executive Officer Grants) for the 2010 Stock Incentive Plan (incorporated by reference from Exhibit 10.11 to the Registrant's Form 10-K for the year ended December 31, 2010)
10.3*	Form of Performance Share Award Agreement for Executive Officers for the 2010 Stock Incentive Plan (incorporated by reference from Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended March 31, 2014)
10.4*	2014 Stock Incentive Plan (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 27, 2014)
10.5*	Form of Nonqualified Option Agreement for the 2014 Stock Incentive Plan (incorporated by reference from Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended June 30, 2015)
10.6*	Form of Performance Share Award Agreement for Executive Officers for Awards in 2015 under the 2014 Stock Incentive Plan (incorporated by reference from Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended March 31, 2015)
10.7*	Form of Restricted Stock Unit Award Agreement for the 2014 Stock Incentive Plan (incorporated by reference from Exhibit 10.7 to the Registrant's Form 10-K for the year ended December 31, 2016)
10.8*	Transition and Separation Agreement between the Registrant and Mark D. Moreland, dated October 31, 2014 (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 5, 2014)
10.9*	Letter of Agreement between the Registrant and Robert Widmer dated May 26, 2010 (incorporated by reference from Exhibit 10.2 to the Registrant's Form 10-Q for the quarter ended June 30, 2010)
10.10*	Employment Agreement between the Registrant and Andrew J. Thomas, dated July 1, 2016 (incorporated by reference from Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended June 30, 2016)
10.11*	Employment Agreement between the Registrant and J. Scott Mennen, dated July 5, 2016 (incorporated by reference from Exhibit 10.3 to the Registrant's Form 10-Q for the quarter ended June 30, 2016)
10.12*	Employment Agreement between the Registrant and John W. Glick, dated July 5, 2016 (incorporated by reference from Exhibit 10.5 to the Registrant's Form 10-Q for the quarter ended June 30, 2016)
10.13*	Employment Agreement between the Registrant and Kenneth C. Kunze, dated July 1. 2016 (incorporated by reference from Exhibit 10.4 to the Registrant's Form 10-Q for the quarter ended June 30, 2016)
10.14*	Employment Agreement between the Registrant and Joseph K. Vanderstelt, dated June 29, 2016 (incorporated by reference from Exhibit 10.2 to the Registrant's Form 10-Q for the quarter ended June 30, 2016)
10.15*	Separation Agreement between Kurt D. Widmer and the Registrant dated as of February 24, 2016 (incorporated by reference from Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended March 31, 2016)
10.16*	Letter of Confidentiality/Proprietary Information and Noncompetition Agreement between the Registrant and Joseph K. Vanderstelt dated April 27, 2015 (incorporated by reference from Exhibit 10.3 to the Registrant's Form 10-Q for the quarter ended March 31, 2015)
10.17*	Summary of Compensation Arrangements for Non-Employee Directors as of January 1, 2017 (incorporated by reference from Exhibit 10.17 to the Registrant's Form 10-K for the year ended December 31, 2016)
10.18*	Annual Cash Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 22, 2015)
10.19	Sublease between Pease Development Authority as Sublessor and the Registrant as Sublessee, dated May 30, 1995
10.20	Amended and Restated Credit Agreement, dated November 30, 2015, among the Registrant, its subsidiaries, and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 3, 2015)

Exhibit Number	Description
10.21	Amended and Restated Security Agreement, dated November 30, 2015, among the Registrant, its subsidiaries, and Bank of America, N.A. (incorporated by reference from Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 3, 2015)
10.22	Amended and Restated Continuing and Unconditional Guaranty, dated November 30, 2015, among the Registrant, its subsidiaries, and Bank of America, N.A. (incorporated by reference from Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on December 3, 2015)
10.23	Amended and Restated Exchange and Recapitalization Agreement dated as of May 1, 2011 between the Registrant and Anheuser-Busch, LLC ("A-B") as successor in interest to Anheuser-Busch, Incorporated (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 4, 2011)
10.24	Amendment No. 1 to Amended and Restated Exchange and Recapitalization Agreement, dated August 23, 2016, by and between the Registrant and A-B (incorporated by reference from Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on August 24, 2016)
10.25	Amended and Restated Master Distributor Agreement dated as of May 1, 2011 between the Registrant and A-B (the "A-B Master Distributor Agreement") (incorporated by reference from Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 4, 2011)
10.26	Amendment to A-B Master Distributor Agreement dated May 11, 2012 (incorporated by reference from Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012)
10.27	Amendment to A-B Master Distributor Agreement dated November 20, 2013 (incorporated by reference from Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2013)
10.28	Amendment No. 3 to the A-B Master Distributor Agreement, dated August 23, 2016 (incorporated by reference from Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on August 24, 2016)
10.29†	Contract Brewing Agreement, dated August 23, 2016, by and between the Registrant and A-B Commercial Strategies, LLC (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 24, 2016)
10.30†	International Distribution Agreement, dated August 23, 2016, by and between the Registrant and Anheuser-Busch Worldwide Investments, LLC (incorporated by reference from Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on August 24, 2016)
10.31	Registration Rights Agreement dated as of July 1, 2004 between the Registrant and A-B (incorporated by reference from Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on July 2, 2004) (File No. 0-26542)
10.32	Master Lease Agreement dated as of June 6, 2007 between Banc of America Leasing & Capital, LLC and Widmer Brothers Brewing Company (incorporated by reference from Exhibit 10.2 to the Registrant's Amendment No. 1 to the Registration Statement on Form S-4, No. 333-149908 filed on May 2, 2008 ("S-4 Amendment No. 1"))
10.33	Amended and Restated License Agreement dated as of February 28, 1997 between Widmer Brothers Brewing Company and Widmer's Wine Cellars, Inc. and Canandaigua Wine Company, Inc. (incorporated by reference to Exhibit 10.3 from the S-4 Amendment No. 1)
10.34	Restated Lease dated as of January 1, 1994 between Smithson & McKay Limited Liability Company and Widmer Brothers Brewing Company (incorporated by reference to Exhibit 10.3 to the Registrant's Form 10-Q for the quarter ended September 30, 2010)
10.35	Commercial Lease (Restated) dated as of December 18, 2007 between Widmer Brothers LLC and Widmer Brothers Brewing Company (incorporated by reference to Exhibit 10.5 from the S-4 Amendment No. 1)
10.36	Sublease dated as of September 1, 2010 between Manini Holdings, LLC and Kona Brewing Co., LLC. (incorporated by reference from Exhibit 10.41 to the Registrant's Form 10-K for the year ended December 31, 2010)
10.37†	Amended and Restated Continental Distribution and Licensing Agreement between the Registrant and Kona Brewery LLC dated March 26, 2009 (incorporated by reference from Exhibit 10.4 to the Registrant's Form 10-Q for the quarter ended September 30, 2010)
10.38	Sublease dated as of March 31, 2011 between Manini Holdings, LLC and Kona Brewing Co., LLC (incorporated by reference from Exhibit 10.43 to the Registrant's Amendment No. 1 to Form 10-K for the year ended December 31, 2010)
10.39†	Option and Agreement of Purchase and Sale dated as of January 8, 2016, by and between the Registrant and Pabst Northwest Brewing Company, LLC (incorporated by reference from Exhibit 10.2 to Amendment No. 1 to the Registrant's Form 10-Q for the quarter ended March 31, 2016)
10.40*	Form of Performance Share Award Agreement for Executive Officers for Awards in 2016 and 2017 under the 2014 Stock Incentive Plan (incorporated by reference from Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended March 31, 2017)

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Exhibit Number	Description
10.41†	Contract Brewing Agreement between Anheuser-Busch Companies, LLC and Craft Brew Alliance, Inc. dated January 30, 2018 (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 1, 2018)
21.1	Subsidiaries of the Registrant (incorporated by reference from Exhibit 21.1 to the Registrant's Form 10-K for the year ended December 31, 2010 filed on April 1, 2011)
23.1	Consent of Moss Adams LLP, Independent Registered Public Accounting Firm
24.1	Power of Attorney – Directors of Craft Brew Alliance, Inc.
31.1	Certification of Chief Executive Officer of Craft Brew Alliance, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer of Craft Brew Alliance, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Form 10-K for the year ended December 31, 2017 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Press Release dated March 7, 2018
99.2	Description of Common Stock (incorporated by reference from Exhibit 99.2 to the Registrant's Form 10-K for the year ended December 31, 2012)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Denotes a management contract or a compensatory plan or arrangement.

** The Company has omitted schedules and similar attachments pursuant to Item 601(b)(2) of Regulation S-K and will furnish a copy of any omitted schedule or similar attachment to the United States Securities and Exchange Commission upon request.

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

EXHIBIT 10.1

CRAFT BREWERS ALLIANCE, INC.

2010 STOCK INCENTIVE PLAN

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CRAFT BREWERS ALLIANCE, INC.
2010 STOCK INCENTIVE PLAN

1. PURPOSE; ELIGIBILITY.

1.1 Name of Plan; General Purposes. The name of this plan is the Craft Brewers Alliance, Inc. 2010 Stock Incentive Plan (the "Plan"). The purposes of the Plan are (i) to enable Craft Brewers Alliance, Inc., a Washington corporation (the "Company"), and any Affiliate to obtain and retain the services of the types of Employees and Directors who will contribute to the Company's long-term success and (ii) to provide incentives that are linked directly to increases in share value, which will benefit all shareholders of the Company.

1.2 Eligible Award Recipients. The persons eligible to receive Awards are Employees and Directors.

1.3 Available Awards. The Plan will afford eligible recipients of Awards an opportunity to benefit from increases in value of the Common Stock through the granting of one or more of the following types of Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Restricted Awards, (iv) Performance Awards, and (v) Stock Appreciation Rights.

2. DEFINITIONS.

2.1 "Administrator" means whichever of the Board or the Committee is from time to time authorized by Section 3.1 to administer the Plan.

2.2 "Affiliate" means any parent corporation or subsidiary corporation of the Company, whether now or hereafter existing, as those terms are defined in Sections 424(e) and 424(f), respectively, of the Code.

2.3 "Award" means any right granted under the Plan, including an Incentive Stock Option, a Nonstatutory Stock Option, a Restricted Award, a Performance Award and a Stock Appreciation Right.

2.4 "Award Agreement" means a written agreement between the Company and a holder of an Award evidencing the terms and conditions of an individual Award grant. Each Award Agreement shall be subject to the terms and conditions of the Plan.

2.5 "Beneficial Owner" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" shall be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

2.6 "Board" means the Board of Directors of the Company.

2.7 "Business Combination" has the meaning set forth in Section 2.9(e).

2.8 "Cause" means (a) in the case of a Participant who is subject to an employment or service agreement or employment policy manual of the Company or one of its Affiliates that provides a definition of "Cause," "Cause" as defined therein, and (b) in the case of all other Participants (i) the commission of, or plea

of guilty or no contest to, a felony or a crime involving moral turpitude or the commission of any other act involving willful malfeasance or material breach of a fiduciary duty with respect to the Company or an Affiliate, (ii) conduct tending to bring the Company into substantial public disgrace or disrepute, (iii) gross negligence or willful misconduct with respect to the Company or an Affiliate, or (iv) material violation of state or federal securities laws. The Administrator, in its absolute discretion, shall determine the effect of all matters and questions relating to whether a Participant has been discharged for Cause.

2.9 "Change in Control" means:

(a) The direct or indirect sale, transfer, conveyance or other disposition (other than by way of a Business Combination), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company to any "person" (as that term is used in Section 13(d)(3) of the Exchange Act);

(b) The Incumbent Directors ceasing for any reason to constitute at least a majority of the Board;

(c) The adoption of a plan relating to the liquidation or dissolution of the Company;

(d) Any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) becoming, without the approval, recommendation or authorization of the Board, the Beneficial Owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities eligible to vote for the election of the Board (the "Company Voting Securities"); or

(e) The consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its Subsidiaries that requires the approval of the Company's shareholders, whether for such transaction or the issuance of securities in the transaction (a "Business Combination"), unless immediately following such Business Combination: 50% or more of the total voting power of (i) the entity that survives or results from the Business Combination (the "Surviving Entity"), or (ii) the ultimate parent entity (the "Parent Entity") that directly or indirectly controls the Surviving Entity, is represented by Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares or other securities into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination.

(f) The foregoing notwithstanding, a transaction shall not constitute a Change in Control if (A) its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction; or (B) it constitutes a secondary public offering that results in any security of the Company being listed (or approved for listing) on any U.S. national securities exchange.

2.10 "Code" means the Internal Revenue Code of 1986, as amended.

2.11 "Committee" has the meaning set forth in Section 3.1.

2.12 “Common Stock” means the common stock, par value $0.005 per share of the Company.

2.13 “Company” means Craft Brewers Alliance, Inc., a Washington corporation.

2.14 “Continuous Service” means that the Participant’s service with the Company or an Affiliate, whether as an Employee or Director, is not interrupted or terminated. The Participant’s Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant’s Continuous Service. For example, a change in status from an Employee of the Company to a Director will not constitute an interruption of Continuous Service. The Administrator or its delegate, in its sole discretion, may determine whether Continuous Service shall be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal or family leave of absence.

2.15 “Covered Employee” has the meaning set forth in Section 162(m)(3) of the Code.

2.16 “Date of Grant” means the date on which the Administrator adopts a resolution, or takes other appropriate action, expressly granting an Award to a Participant that specifies the key terms and conditions of the Award and from which the Participant begins to benefit from or be adversely affected by subsequent changes in the Fair Market Value of the Common Stock or, if a later date is set forth in such resolution, or determined by the Administrator, as the Date of Grant, then such date as is set forth in such resolution.

2.17 “Director” means a member of the Board.

2.18 “Disability” means that the Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment; provided, however, for purposes of determining the term of an Incentive Stock Option pursuant to Section 6.8 hereof, the term Disability shall have the meaning ascribed to it under Code Section 22(e)(3). The determination of whether an individual has a Disability shall be determined under procedures established by the Administrator. Except in situations where the Administrator is determining Disability for purposes of the term of an Incentive Stock Option pursuant to Section 6.8 hereof within the meaning of Code Section 22(e)(3), the Administrator may rely on any determination that a Participant is disabled for purposes of benefits under any long-term disability plan maintained by the Company or any Affiliate in which a Participant participates.

2.19 “Effective Date” means the date the Plan is approved by the Company's shareholders in accordance with Section 12.7.

2.20 “Employee” means any person employed by the Company or an Affiliate.

2.21 “Exchange Act” means the Securities Exchange Act of 1934, as amended.

2.22 “Fair Market Value” means, as of any date, the value of the Common Stock as determined in good faith by the Administrator; provided, however, that (a) if the Common Stock is admitted to trading on a national securities exchange, the Fair Market Value on any date shall be the closing selling price reported for the Common Stock on such exchange for such date or, if no sales were reported for such date, for the most recent date on which such a sale was reported and (b) if the Common Stock is not admitted to trading on a national securities exchange, but is admitted to quotation on an over the counter market or any interdealer quotation system, the Fair Market Value on any given date shall be the average of the highest bid and lowest asked prices

of the Common Stock reported for such date or, if no bid and asked prices were reported for such date, for the last day preceding that date for which such prices were reported.

2.23 "Good Reason" has the meaning set forth in the Participant's Award Agreement, or if not defined therein, means, with respect to a Participant, the occurrence in connection with a Change in Control, without the Participant's express written consent, of one of the following events or conditions:

(a) A material reduction in the level of the Participant's responsibilities in comparison to the level thereof at the time of the Change in Control;

(b) The assignment to the Participant of a job title that is not of comparable prestige and status as the Participant's job title at the time of the Change in Control;

(c) The assignment to the Participant of any duties inconsistent with the Participant's position at the time of the Change in Control, other than pursuant to the Participant's promotion;

(d) A material reduction in the Participant's salary level;

(e) A material reduction in the overall level of employee benefits or perquisites available to the Participant at the time of the Change in Control, or the Participant's right to participate therein, unless such reduction is nondiscriminatory as to the Participant;

(f) Requiring the Participant to be based anywhere more than 50 miles from the business location to which the Participant normally reported for work at the time of the Change in Control, other than for required business travel not significantly greater than the Participant's business travel obligations at the time of the Change in Control; or

(g) Occurrence of any of the foregoing events and conditions before consummation of the Change in Control if the Participant reasonably demonstrates that such occurrence was at the request of a third party or otherwise arose in connection with or in anticipation of the Change in Control (for purposes of such demonstration, references in the foregoing events and conditions to the time of the Change in Control shall be deemed to refer to the time of commencement of discussions regarding the Change in Control).

2.24 "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

2.25 "Incumbent Directors" means individuals who, on the Effective Date, constitute the Board, provided that any individual becoming a Director subsequent to the Effective Date whose election or nomination for election to the Board was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval without objection to such nomination in the proxy statement of the Company in which such person was named as a nominee for Director) shall be an Incumbent Director. No individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to Directors or as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board shall be an Incumbent Director.

2.26 "Market Stand-Off" has the meaning set forth in Section 12.6.

2.27 "Non-Employee Director" means a Director who is a "non-employee director" within the meaning of Rule 16b-3.

2.28 “Nonstatutory Stock Option” means an Option not intended to qualify as an Incentive Stock Option.

2.29 “Option” means an Incentive Stock Option or a Nonstatutory Stock Option granted pursuant to the Plan.

2.30 “Optionholder” means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

2.31 “Outside Director” means a Director who is an “outside director” within the meaning of Section 162(m) of the Code and Treasury Regulations Section 1.162-27(e)(3).

2.32 “Participant” means a person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Award.

2.33 “Performance Award” means Awards granted pursuant to Section 7.2, which may be share- or cash-denominated.

2.34 “Plan” means this Craft Brewers Alliance, Inc. 2010 Stock Incentive Plan.

2.35 “Restricted Award” means any Award granted pursuant to Section 7.1.1.

2.36 “Restricted Period” has the meaning set forth in Section 7.1.1.

2.37 “Rule 16b-3” means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

2.38 “SAR Exercise Price” has the meaning set forth in Section 7.3.1.

2.39 “Securities Act” means the Securities Act of 1933, as amended.

2.40 “Stock Appreciation Right” or "SAR" means the right pursuant to an award granted pursuant to Section 7.3.

2.41 “Stock for Stock Exchange” has the meaning set forth in Section 6.4(i).

2.42 “Ten Percent Shareholder” means a person who owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of any of its Affiliates.

3. ADMINISTRATION.

3.1 Administration by Committee or Board. The Plan shall be administered by the Compensation Committee of the Board unless the Board delegates administration to a different committee of the Board (the Compensation Committee or such other committee, as the case shall be, shall be referred to as the “Committee”) or determines to administer the Plan itself.

3.2 Powers of Administrator. The Administrator shall have the power and authority to select Participants and grant them Awards pursuant to the terms of the Plan.

3.3 Specific Powers. In particular, the Administrator shall have the authority: (a) to construe and interpret the Plan and apply its provisions; (b) to promulgate, amend, and rescind rules and regulations relating to the administration of the Plan; (c) to authorize any person to execute, on behalf of the Company, any instrument required to carry out the purposes of the Plan; (d) to delegate its authority to one or more officers of the Company with respect to awards that do not involve Covered Employees or "insiders" within the meaning of Section 16 of the Exchange Act; (e) to determine when Awards are to be granted under the Plan; (f) from time to time to select, subject to the limitations set forth in the Plan, those Participants to whom Awards shall be granted; (g) to determine the number of shares of Common Stock to be made subject to each Award; (h) to determine whether an Option is to be an Incentive Stock Option or a Nonstatutory Stock Option; (i) to prescribe the terms and conditions of each Award, including, without limitation, the exercise price and medium of payment and vesting provisions, and to specify the provisions of the Award Agreement relating to such Award; (j) subject to Section 11.5, to amend any outstanding Awards, including for the purpose of modifying the time or manner of vesting, the purchase price or exercise price, or the term of any outstanding Award; (k) to determine the duration and purpose of leaves of absence that may be granted to a Participant without constituting termination of his or her employment for purposes of the Plan, which periods shall be no shorter than the periods generally applicable to Employees under the Company's employment policies; and (l) to exercise discretion to make any and all other determinations that it determines to be necessary or advisable for administration of the Plan.

3.4 Decisions Final. All decisions made by the Administrator pursuant to the provisions of the Plan shall be final and binding on the Company and the Participants and any other person having any interest in an Award, unless such decisions are determined by a court having jurisdiction to have been arbitrary and capricious.

3.5 The Committee. If the Plan is administered by a Committee, the Committee shall have, in connection with the administration of the Plan, the powers that the Board would possess if it were administering the Plan, including the power to delegate to a subcommittee or, to the extent permitted by applicable law, to the chair of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Administrator shall thereafter be to such subcommittee or chair), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan. The members of the Committee shall be appointed by and serve at the pleasure of the Board. From time to time, the Board may increase or decrease the size of the Committee, add additional members to, remove members (with or without cause) from, appoint new members in substitution therefor, and fill vacancies, however caused, in the Committee. The Committee shall act pursuant to a vote of the majority of its members or, in the case of a Committee comprised of only two members, the unanimous consent of its members, whether present or not, or by the unanimous written consent of its members and minutes shall be kept of all of its meetings and copies thereof shall be provided to the Board. Subject to the limitations prescribed by the Plan and the Board, the Committee may establish and follow such rules and regulations for the conduct of its business as it may determine to be advisable.

3.6 Section 409A Compliance. Awards granted under the Plan are intended to be exempt from or comply with Section 409A of the Code ("Code Section 409A") and ambiguous provisions, if any, in the Plan or any Award Agreement shall be construed in a manner that causes each Award to be exempt from or compliant with Code Section 409A, as appropriate.

4. SHARES SUBJECT TO THE PLAN.

4.1 Share Reserve. Subject to the provisions of Section 10.1 relating to adjustments upon changes in Common Stock, the shares that may be issued pursuant to Awards shall consist of the Company's authorized but unissued Common Stock, and the maximum aggregate amount of such Common Stock that may be issued upon exercise of all Awards under the Plan shall be 750,000 shares, of which a maximum of 400,000 shares may be issued as Incentive Stock Options. If any payment required in connection with an Award (whether on account of the exercise price for an Option or Award, the satisfaction of withholding tax liabilities in connection with the Award or otherwise) is satisfied through the tendering of shares of Common Stock (either by actual tender or by attestation) or by the withholding of shares of Common Stock, only the number of shares of Common Stock issued by the Company, net of the shares tendered or withheld, shall be counted for purposes of determining the number of shares of Common Stock available for issuance under the Plan.

4.2 Reversion of Shares to the Share Reserve. If any Award shall for any reason expire or otherwise terminate, in whole or in part, the shares of Common Stock not acquired under such Award shall revert to and again become available for issuance under the Plan. If shares of Common Stock issued under the Plan are reacquired by the Company pursuant to the terms of any forfeiture provision, such shares shall again be available for purposes of the Plan.

4.3 Prior Plans. The Plan is separate from the Craft Brewers Alliance, Inc. 2007 Stock Incentive Plan and the Craft Brewers Alliance, Inc. 2002 Stock Option Plan (the "Prior Plans"). The adoption of the Plan neither affects nor is affected by the continued existence of the Prior Plans except that no further Awards will be granted under the Prior Plans after the Effective Date.

4.4 Source of Shares. The shares of Common Stock subject to the Plan will be authorized but unissued Common Stock.

4.5 Use of Proceeds From Sale of Stock. Cash proceeds from the sale of Common Stock pursuant to Awards shall constitute general funds of the Company.

5. ELIGIBILITY.

5.1 Eligibility for Specific Awards. Incentive Stock Options may be granted only to Employees. Awards other than Incentive Stock Options may be granted to Employees and to Directors.

5.2 Ten Percent Shareholders. A Ten Percent Shareholder shall not be granted an Incentive Stock Option unless the exercise price of such Option is at least 110% of the Fair Market Value of the Common Stock at the Date of Grant and the Option is not exercisable after the expiration of five years from the Date of Grant.

5.3 Section 162(m) Limitation. Subject to the provisions of Section 10.1 relating to adjustments upon changes in the shares of Common Stock, no Employee shall be eligible to be granted (a) Options or Stock Appreciation Rights covering more than 250,000 shares during any fiscal year or (b) Performance Awards that could result in such Employee receiving Common Stock, hypothetical Common Stock units, or cash (in the case of share-denominated cash Performance Awards) representing more than 250,000 shares of Common Stock during any fiscal year.

6. OPTION PROVISIONS.

Each Option shall be in such form and shall contain such terms and conditions as the Administrator shall deem appropriate; provided, however, that no Option shall contain a "reload" feature automatically entitling

the Option holder to receive an additional Option upon exercise of the original Option. All Options shall be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. Notwithstanding the foregoing, the Company shall have no liability to any Participant or any other person if an Option designated as an Incentive Stock Option fails to qualify as such at any time or if an Option is determined to constitute "nonqualified deferred compensation" within the meaning of Code Section 409A. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions, to the extent applicable:

6.1 Term. Subject to the provisions of Section 5.2 regarding Ten Percent Shareholders, no Incentive Stock Option shall be exercisable after the expiration of 10 years from the date it was granted.

6.2 Exercise Price of an Incentive Stock Option. Subject to the provisions of Section 5.2 regarding Ten Percent Shareholders, the exercise price of each Incentive Stock Option shall be not less than 100% of the Fair Market Value of the Common Stock subject to the Option on the Date of Grant of the Option. Notwithstanding the foregoing, an Incentive Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

6.3 Exercise Price of a Nonstatutory Stock Option. The exercise price of each Nonstatutory Stock Option shall be not less than 100% of the Fair Market Value of the Common Stock subject to the Option on the Date of Grant of the Option. Notwithstanding the foregoing, a Nonstatutory Stock Option may be granted with an exercise price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 424(a) of the Code.

6.4 Consideration. The exercise price of Common Stock acquired pursuant to an Option shall be paid, to the extent permitted by applicable statutes and regulations, either (a) in cash or by certified or bank check at the time the Option is exercised or (b) in the discretion of the Administrator, upon such terms as the Administrator shall approve:

(i) by delivery to the Company of other Common Stock, duly endorsed for transfer to the Company, with a Fair Market Value on the date of delivery equal to the exercise price due for the number of shares being acquired, or by means of attestation whereby the Participant (A) identifies for delivery specific shares of Common Stock that have been held for more than six months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes) and that have a Fair Market Value on the date of attestation equal to the exercise price and (B) receives a number of shares of Common Stock equal to the difference between the number of shares thereby purchased and the number of identified attestation shares of Common Stock (a "Stock for Stock Exchange");

(ii) during any period when the Common Stock is publicly traded, by a copy of instructions to a broker directing such broker to sell the Common Stock for which such Option is exercised, and to remit to the Company the aggregate exercise price of such Option (a "Cashless Exercise");

(iii) for Nonstatutory Stock Options only, by shares of Common Stock otherwise issuable to the Participant upon exercise of the Option valued at Fair Market Value as of the date of exercise; or

(iv) in any other form of legal consideration that may be acceptable to the Administrator.

Notwithstanding the foregoing, during any period when the Common Stock is publicly traded, a transaction by a Director or executive officer that involves or may involve a direct or indirect extension of credit or arrangement of an extension of credit by the Company or an Affiliate in violation of Section 402(a) of the Sarbanes-Oxley Act (codified as Section 13(k) of the Exchange Act) shall be prohibited with respect to any Award under this Plan. Unless otherwise specified in the Award Agreement, payment of the exercise price by a Participant who is an officer, director or other "insider" subject to Section 16(b) of the Exchange Act in the form of a Stock for Stock Exchange is subject to pre-approval by the Administrator, in its sole discretion. The Administrator may require some or all Participants to use one or more brokers designated by the Administrator to sell Common Stock in connection with a Cashless Exercise. No Option may be exercised for a fraction of a share of Common Stock.

6.5 Transferability of an Option. An Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder.

6.6 Vesting Generally. The Option may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Administrator may deem appropriate. The vesting provisions of individual Options may vary. The Administrator in its discretion may provide, either in the Award Agreement for an Option or by a subsequent determination, for acceleration of the vesting and exercisability of the Option at any time.

6.7 Termination of Continuous Service. Unless otherwise specified in an Award Agreement for an Option or in an Optionholder's employment agreement, if the Optionholder's Continuous Service terminates (other than upon the Optionholder's death or Disability or termination by the Company for Cause), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination), but only during the period ending on the earlier of (a) the date three months following the termination of the Optionholder's Continuous Service, or (b) the expiration of the term of the Option as set forth in its Award Agreement. To the extent the Option is not exercised within that period, it shall terminate. Unless otherwise specified in an Award Agreement for an Option or in an Optionholder's employment agreement, or as otherwise provided in Sections 6.8 and 6.9 of the Plan, outstanding Options that are not exercisable at the time the Optionholder's Continuous Service terminates for any reason other than for Cause (including an Optionholder's death or Disability) shall be forfeited and expire at the close of business on the date of such termination. If the Optionholder's Continuous Service terminates for Cause, all outstanding Options shall be forfeited (whether or not vested) and expire as of the beginning of business on the date of such termination for Cause.

6.8 Disability of Optionholder. Unless otherwise specified in an Award Agreement for an Option or in an Optionholder's employment agreement, if the Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the

Optionholder was entitled to exercise such Option as of the date of termination), but only during the period ending on the earlier of (a) the date 12 months following such termination or (b) the expiration of the term of the Option as set forth in its Award Agreement. To the extent the Option is not exercised within that period, it shall terminate.

6.9 Death of Optionholder. Unless otherwise specified in an Award Agreement for an Option or in an Optionholder's employment agreement, if the Optionholder's Continuous Service terminates as a result of the Optionholder's death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only during the period ending on the earlier of (a) the date 12 months following the date of death or (b) the expiration of the term of such Option as set forth in its Award Agreement. To the extent the Option is not exercised within that period, it shall terminate.

6.10 Incentive Stock Option $100,000 Limitation. To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and its Affiliates) exceeds $100,000, the Options or portions thereof that exceed such limit (according to the order in which they were granted) shall be treated as Nonstatutory Stock Options.

7. PROVISIONS OF AWARDS OTHER THAN OPTIONS.

7.1 Restricted Awards.

7.1.1 Nature of Restricted Awards. A "Restricted Award" is an Award of actual shares of Common Stock (so-called "restricted stock") or hypothetical Common Stock units (so-called "restricted stock units") having a value equal to the Fair Market Value of an identical number of shares of Common Stock, which may, but need not, provide that such Restricted Award may not be sold, assigned, transferred or otherwise disposed of, pledged or hypothecated as collateral for a loan or as security for the performance of any obligation or for any other purpose for such period (the "Restricted Period") as the Administrator shall determine. The terms and conditions of the Restricted Award may change from time to time, and the terms and conditions of separate Restricted Awards need not be identical, but each Restricted Award shall include (through incorporation of provisions hereof by reference in the Award Agreement or otherwise) the substance of each of the provisions of this Section 7.1, to the extent applicable.

7.1.2 Purchase Price. The purchase price of Restricted Awards, if any, shall be determined by the Administrator, and may be stated as cash, property or services.

7.1.3 Consideration. The cash consideration, if any, for Common Stock acquired pursuant to the Restricted Award shall be paid either: (i) in cash at the time of purchase; or (ii) in any other form of legal consideration that may be acceptable to the Administrator in its discretion including, without limitation, property, a Stock for Stock Exchange, or services that the Administrator determines have a value at least equal to the Fair Market Value of such Common Stock.

7.1.4 Vesting. Shares of Common Stock acquired under or subject to the Restricted Award may, but need not, be subject to a Restricted Period during which such shares or the right to acquire such shares will be forfeited to the Company if the specified restrictions or conditions for the Restricted Award are not satisfied. The Administrator in its discretion may provide, either in the Award Agreement for a Restricted

Award or by a subsequent determination, for acceleration of the end of the Restricted Period at any time, in which event all such restrictions and conditions shall lapse or be deemed satisfied, as the case may be.

7.1.5 Termination of Participant's Continuous Service. Unless otherwise provided in the Award Agreement for a Restricted Award or in the employment agreement of the Participant holding the Restricted Award, if the Participant's Continuous Service terminates for any reason, the Participant shall forfeit the unvested portion of a Restricted Award acquired in consideration of prior or future services, and all of the shares of Common Stock held by the Participant that have not vested as of the date of termination under the terms of the Restricted Award shall be forfeited and the Participant shall have no further rights with respect to the unvested portion of the Award.

7.1.6 Transferability. Rights to acquire shares of Common Stock under the Restricted Award shall be transferable by the Participant only upon such terms and conditions as are set forth in the Award Agreement, as the Administrator shall determine in its discretion, so long as Common Stock awarded under the Restricted Award remains subject to the terms of the Award Agreement.

7.1.7 Lapse of Restrictions. Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Administrator, the restrictions applicable to the Restricted Award shall lapse and a stock certificate for the number of shares of Common Stock with respect to which the restrictions have lapsed shall be delivered, free of any restrictions except those that may be imposed by law, the terms of the Plan or the terms of a Restricted Award, to the Participant or the Participant's estate, as the case may be. The Company shall not be required to deliver any fractional share of Common Stock but will pay, in lieu thereof, the Fair Market Value of such fractional share in cash to the Participant or the Participant's estate, as the case may be.

7.1.8 Code Section 409A Compliance. Award Agreements relating to the grant of Restricted Awards in the form of restricted stock units shall include provisions necessary to cause the Award to comply with or be exempt from Code Section 409A.

7.2 Performance Awards.

7.2.1 Nature of Performance Awards. A Performance Award is an Award entitling the recipient to acquire cash, actual shares of Common Stock or hypothetical Common Stock units having a value equal to the Fair Market Value of an identical number of shares of Common Stock upon the attainment of specified performance goals. The Administrator may make Performance Awards independent of or in connection with the granting of any other Award under the Plan. Performance Awards may be granted under the Plan to any Participant, including those who qualify for awards under other performance plans of the Company. The Administrator in its sole discretion shall determine whether and to whom Performance Awards shall be made, the performance goals applicable under each Award, the periods during which performance is to be measured, and all other limitations and conditions applicable to the awarded cash or shares. Performance goals shall be based on a pre-established objective formula or standard that specifies the manner of determining the amount of cash or the number of shares under the Performance Award that will be granted or will vest if the performance goal is attained. Performance goals will be determined by the Administrator prior to the time 25% of the service period has elapsed and may be based on one or more business criteria that apply to a Participant, a business unit or the Company and its Affiliates. Such business criteria may include revenue, earnings before interest, taxes, depreciation and amortization (EBITDA), funds from operations, funds from operations per share, operating income, pre-tax or after-tax income, cash available for distribution, cash available for

distribution per share, net earnings, earnings per share, return on equity, return on assets, return on capital, economic value added, share price performance, improvements in the Company's attainment of expense levels, and implementing or completion of critical projects, or improvement in cash-flow (before or after tax). A performance goal may be measured over a performance period on a periodic, annual, cumulative or average basis and may be established on a corporate-wide basis or established with respect to one or more operating units, divisions, subsidiaries, acquired businesses, minority investments, partnerships or joint ventures. More than one performance goal may be incorporated in a performance objective, in which case achievement with respect to each performance goal may be assessed individually or in combination with each other. The Administrator may, in connection with the establishment of performance goals for a performance period, establish a matrix setting forth the relationship between performance on two or more performance goals and the amount of the Performance Award payable for that performance period. The level or levels of performance specified with respect to a performance goal may be established in absolute terms, as objectives relative to performance in prior periods, as an objective compared to the performance of one or more comparable companies or an index covering multiple companies, or otherwise as the Administrator may determine. Performance goals shall be objective and, if the Company is publicly traded, shall otherwise meet the requirements of Section 162(m) of the Code. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants. A Performance Award to a Participant who is a Covered Employee shall (unless the Administrator determines otherwise) provide that, if the Participant's Continuous Service terminates prior to the end of the performance period for any reason, such Award will be payable only (i) if the applicable performance objectives are achieved and (ii) to the extent, if any, that the Administrator shall determine. Such objective performance goals are not required to be based on increases in a specific business criteria, but may be based on maintaining the status quo or limiting economic losses.

7.2.2 Restrictions on Transfer. Performance Awards and all rights with respect to such Performance Awards may not be sold, assigned, transferred, pledged or otherwise encumbered.

7.2.3 Rights as a Shareholder. A Participant receiving a Performance Award that is denominated in shares of Common Stock or hypothetical Common Stock units shall have the rights of a shareholder only as to shares actually received by the Participant under the Plan and not with respect to shares subject to the Award but not actually received by the Participant. A Participant shall be entitled to receive a stock certificate evidencing the acquisition of shares of Common Stock under a Performance Award only upon satisfaction of all conditions specified in the written instrument evidencing the Performance Award (or in a performance plan adopted by the Administrator).

7.2.4 Termination. Except as may otherwise be provided by the Administrator at any time, a Participant's rights in all Performance Awards shall automatically terminate upon the Participant's termination of employment (or business relationship) with the Company and its Affiliates for any reason.

7.2.5 Certification. Following the completion of each performance period, the Administrator shall certify in writing, in accordance with the requirements of Section 162(m) of the Code, whether the performance objectives and other material terms of a Performance Award have been achieved or met. Unless the Administrator determines otherwise, Performance Awards shall not be settled until the Administrator has made the certification specified under this Section 7.2.5.

7.2.6 Code Section 409A Compliance. Award Agreements relating to the grant of Performance Awards shall include provisions necessary to cause the Award to comply with or be exempt from Code Section 409A.

7.3 Stock Appreciation Rights.

7.3.1 General. A Stock Appreciation Right is an Award entitling the recipient to receive an amount equal to the excess of the Fair Market Value of one share of Common Stock on the date of exercise of the Stock Appreciation Right over the SAR Exercise Price on the Date of Grant. The "SAR Exercise Price" will be designated by the Committee in the Award Agreement for the Stock Appreciation Right and may be the Fair Market Value of one share of Common Stock on the Date of Grant of the Stock Appreciation Right or such other higher price as the Committee determines. The SAR Exercise Price may not be less than the Fair Market Value of one share of Common Stock on the Date of Grant.

7.3.2 Exercise and Payment. Upon exercise thereof, the holder of a Stock Appreciation Right shall be entitled to receive from the Company, an amount equal to the product of (i) the excess of the Fair Market Value, on the date of such written request, of one share of Common Stock over the SAR Exercise Price per share specified in such Stock Appreciation Right, multiplied by (ii) the number of shares for which such Stock Appreciation Right shall be exercised. Payment with respect to the exercise of a Stock Appreciation Right shall be made in cash or shares of Common Stock as specified in the Award Agreement.

7.3.3 Other Provisions. The Administrator, in its sole discretion, may place other limitations or restrictions on Awards of Stock Appreciation Rights. These limitations and restrictions shall be included in each Award Agreement, and may include, without limitation, vesting provisions, a term of exercise, and restrictions on transferability.

8. COVENANTS OF THE COMPANY.

8.1 Availability of Shares. During the terms of the Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Awards.

8.2 Securities Law Compliance. Each Award Agreement shall be subject to the condition, whether or not expressly stated therein, that no shares of Common Stock shall be issued or sold thereunder unless and until (a) any then applicable requirements of state and federal laws and regulatory agencies shall have been fully complied with to the satisfaction of the Company and its counsel and (b) if required to do so by the Company, the Participant shall have executed and delivered to the Company a letter of investment intent in such form and containing such provisions as the Administrator may require. The Company shall use reasonable efforts to seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Awards and to issue and sell shares of Common Stock pursuant to the Awards; provided, however, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Award or any Common Stock issued or issuable pursuant to any such Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock pursuant to Awards unless and until such authority is obtained.

9. MISCELLANEOUS.

9.1 Acceleration of Exercisability and Vesting. Subject to restrictions included in an Award Agreement to establish compliance with Code Section 409A, the Administrator shall have the power to

accelerate the time at which an Award may first be exercised or the time during which an Award or any part thereof will vest in accordance with the Plan.

9.2 Shareholder Rights. No Participant shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Award unless and until such Participant has satisfied all requirements for exercise of the Award pursuant to its terms and no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions of other rights for which the record date is prior to the date such Common Stock certificate is issued, except as provided in Section 10.1 hereof.

9.3 No Employment or Other Service Rights. Nothing in the Plan or any instrument executed or Award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or shall affect the right of the Company or an Affiliate to terminate (a) the employment of an Employee with or without notice and with or without Cause or (b) the service of a Director pursuant to the Bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

9.4 Transfer, Approved Leave of Absence. For purposes of the Plan, no termination of employment by an Employee shall be deemed to result from either (a) a transfer of employment to the Company from an Affiliate or from the Company to an Affiliate, or from one Affiliate to another; or (b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the Employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing.

9.5 Investment Assurances. The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Award, (a) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Award; and (b) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, shall be inoperative if (i) the issuance of the shares of Common Stock upon the exercise or acquisition of Common Stock under the Award has been registered under a then currently effective registration statement under the Securities Act or (ii) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

9.6 Withholding Obligations. Each Participant must satisfy all federal, state and local tax withholding obligations relating to the exercise of, or acquisition of Common Stock under, an Award. To the extent permitted by the terms of an Award Agreement or by the Administrator, in its discretion, the Participant may satisfy federal, state or local tax withholding obligations relating to the exercise or acquisition of Common Stock under an Award by any of the following means (in addition to the Company's right to withhold from any

compensation paid to the Participant by the Company) or by a combination of such means: (a) tendering a cash payment; (b) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock, provided, however, that no shares of Common Stock may be withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (c) delivering to the Company previously owned and unencumbered shares of Common Stock of the Company. Unless otherwise specified in an Award Agreement, payment of the tax withholding by a Participant who is an officer, director or other "insider" subject to Section 16(b) of the Exchange Act by delivering previously owned and unencumbered shares of Common Stock of the Company or in the form of share withholding is subject to pre-approval by the Administrator, in its sole discretion. Any such pre-approval shall be documented in a manner that complies with the specificity requirements of Rule 16b-3.

10. ADJUSTMENTS UPON CHANGES IN STOCK.

10.1 Capitalization Adjustments. If any change is made in the Common Stock subject to the Plan, or subject to any Award, without the receipt of consideration by the Company (through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by the Company), then (a) the aggregate number of shares of Common Stock or class of shares that may be purchased pursuant to Awards granted hereunder; (b) the aggregate number of shares of Common Stock or class of shares that may be purchased pursuant to Incentive Stock Options granted hereunder; (c) the aggregate number of shares of Common Stock or class of shares that may be issued pursuant to Restricted Awards granted hereunder; (d) the number and/or class of shares of Common Stock covered by outstanding Options and Awards; (e) the maximum number of shares of Common Stock with respect to which Awards may be granted to any single Optionholder during any calendar year; and (f) the exercise price of any Award in effect prior to such change shall be proportionately adjusted by the Administrator to reflect any increase or decrease in the number of issued shares of Common Stock or change in the Fair Market Value of such Common Stock resulting from such transaction; provided, however, that any fractional shares resulting from the adjustment shall be eliminated. The Administrator shall make such adjustments, and its determination shall be final, binding and conclusive. The conversion of any securities of the Company that are by their terms convertible shall not be treated as a transaction "without receipt of consideration" by the Company.

10.2 Dissolution or Liquidation. In the event of a dissolution or liquidation of the Company, then all outstanding Awards shall terminate immediately prior to such event.

10.3 Change in Control - Asset Sale, Merger, Consolidation or Reverse Merger.

(a) In the event of a Change in Control or any other corporate separation or division (including, but not limited to, a split-up, a split-off or a spin-off), merger or consolidation in which the Company is not the Surviving Entity, or a reverse merger in which the Company is the Surviving Entity, but the shares of Common Stock outstanding immediately preceding the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, then the Company, to the extent permitted by applicable law, but otherwise in the sole discretion of the Administrator, may provide for: (i) the continuation of outstanding Awards by the Company (if the Company is the Surviving Entity); (ii) the assumption of the Plan and such outstanding Awards by the Surviving Entity or its parent; (iii) the substitution by the Surviving Entity or its parent of Awards with substantially the same terms (including an award to acquire the same consideration paid to the shareholders in the transaction described in this Section 10.3) for such

outstanding Awards and, if appropriate, subject to the equitable adjustment provisions of Section 10.1 hereof (Awards continued, assumed or granted in substitution for outstanding Awards under any of the preceding clauses (i) through (iii) will be referred to as "Continuing Awards"); (iv) the cancellation of such outstanding Awards in consideration for a payment equal in value to the fair market value of vested Awards, or in the case of an Option, the difference between the Fair Market Value and the exercise price for all shares of Common Stock subject to exercise (i.e., to the extent vested) under any outstanding Option; or (v) the cancellation of such outstanding Awards without payment of any consideration. If vested Awards will be canceled without consideration, the Participant shall have the right, exercisable during the 10-day period ending on the fifth day prior to such Change in Control, other corporate separation or division, merger or consolidation or 10 days after the Administrator provides the Award holder a notice of cancellation, whichever is later, to exercise such Awards in whole or in part without regard to any installment exercise provisions in the Award Agreement.

(b) If there are one or more Continuing Awards following a Change in Control, and the Continuous Service of a Participant holding one or more Continuing Awards is terminated without Cause within a period of one year following the consummation of the Change in Control, or if the Participant voluntarily terminates his or her Continuous Service for Good Reason during such period, then, unless otherwise provided in the Award Agreement (i) the vesting and exercisability of all outstanding Options held by the Participant shall accelerate in full; (ii) the end of the Restricted Period for all outstanding Restricted Awards held by the Participant shall accelerate, and all restrictions and conditions of the Restricted Awards shall lapse or be deemed satisfied, as the case may be; (iii) the vesting of all outstanding Performance Awards held by the Participant shall accelerate in full; and (iv) all outstanding Stock Appreciation Rights held by the Participant shall become exercisable in full.

11. AMENDMENT OF THE PLAN AND AWARDS.

11.1 Amendment of Plan. The Board at any time, and from time to time, may amend or terminate the Plan. However, except as provided in Section 10.1, no amendment shall be effective unless approved by the shareholders of the Company to the extent shareholder approval is necessary to satisfy any applicable law or any Nasdaq or other securities exchange listing requirements. At the time of such amendment, the Board shall determine, upon advice from counsel, whether such amendment will be contingent on shareholder approval.

11.2 Shareholder Approval. The Board may, in its sole discretion, submit any other amendment to the Plan for shareholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of Section 162(m) of the Code and the regulations thereunder regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to certain executive officers.

11.3 Contemplated Amendments. It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options or to the nonqualified deferred compensation provisions of Code Section 409A or to bring the Plan or Awards granted under it into compliance therewith.

11.4 No Impairment of Rights. Rights under any Award granted before amendment of the Plan shall not be impaired by any amendment of the Plan unless (a) the Company requests the consent of the Participant and (b) the Participant consents in writing. However, an amendment of the Plan that results in a cancellation of an Award where the Participant receives a payment equal in value to the fair market value of the

vested Award or, in the case of an Option, the difference between the Fair Market Value and the exercise price for all shares of Common Stock subject to the Option, shall not be an impairment of the Participant's rights that requires consent of the Participant.

11.5 Amendment of Awards. The Administrator at any time, and from time to time, may amend the terms of any one or more Awards; provided, however, that (a) if any such amendment impairs a Participant's rights or increases a Participant's obligations under his or her Award or creates or increases a Participant's federal income tax liability with respect to an Award, such amendment shall also be subject to the Participant's consent (provided, however, a cancellation of an Award where the Participant receives a payment equal in value to the fair market value of the vested Award or, in the case of vested Options, the difference between the Fair Market Value of the Common Stock subject to an Option and the exercise price, shall not constitute an impairment of the Participant's rights that requires consent); and (b) except for adjustments made pursuant to Section 10, no such amendment shall, unless approved by the shareholders of the Company (i) reduce the exercise price of any outstanding Option, or (ii) cancel or amend any outstanding Option for the purpose of repricing, replacing or regranting such Option with an exercise price that is less than the original exercise price thereof (as adjusted pursuant to Section 10). An amendment to the Plan described in the last sentence of Section 11.4 shall not be an impairment of the Participant's rights under the Participant's Award that requires consent of the Participant.

12. GENERAL PROVISIONS.

12.1 Other Compensation Arrangements. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

12.2 Recapitalizations. Each Award Agreement shall contain provisions required to reflect the provisions of Section 10.1.

12.3 Delivery. Upon exercise of, lapse of restrictions on, or satisfaction of conditions of a right granted under this Plan, the Company shall issue Common Stock or pay any amounts due within a reasonable period of time thereafter. Subject to any statutory or regulatory obligations the Company may otherwise have, for purposes of this Plan, 30 days shall be considered a reasonable period of time.

12.4 Other Provisions. The Award Agreements authorized under the Plan may contain such other provisions not inconsistent with this Plan, including, without limitation, restrictions upon the exercise of the Awards, as the Administrator may deem advisable.

12.5 Disqualifying Dispositions. Any Participant who shall make a "disposition" (as defined in Section 424 of the Code) of all or any portion of shares of Common Stock acquired upon exercise of an Incentive Stock Option within two years from the Date of Grant of such Incentive Stock Option or within one year after the issuance of the shares of Common Stock acquired upon exercise of such Incentive Stock Option shall be required to immediately advise the Company in writing as to the occurrence of the sale and the price realized upon the sale of such shares of Common Stock.

12.6 Market Stand-Off. Each Award Agreement shall be subject to the condition, whether or not expressly stated therein, that, in connection with any underwritten public offering by the Company of its equity securities pursuant to an effective registration statement filed under the Securities Act, the Participant shall agree not to sell, make any short sale of, loan, hypothecate, pledge, grant any option for the repurchase of,

transfer the economic consequences of ownership or otherwise dispose or transfer for value or otherwise agree to engage in any of the foregoing transactions with respect to any Common Stock without the prior written consent of the Company or its underwriters, for such period of time from and after the effective date of such registration statement as may be requested by the Company or such underwriters (the "Market Stand-Off"). In order to enforce the Market Stand-Off, the Company may impose stop-transfer instructions with respect to the shares of Common Stock acquired under this Plan until the end of the applicable stand-off period. If there is any change in the number of outstanding shares of Common Stock by reason of a stock split, reverse stock split, stock dividend, recapitalization, combination, reclassification, dissolution or liquidation of the Company, any corporate separation or division (including, but not limited to, a split-up, a split-off or a spin-off), a merger or consolidation; a reverse merger or similar transaction, then any new, substituted or additional securities that are by reason of such transaction distributed with respect to any shares of Common Stock subject to the Market Stand-Off, or into which such shares of Common Stock thereby become convertible, shall immediately be subject to the Market Stand-Off.

12.7 Effective Date of Plan. The Plan was adopted by the Board on March 17, 2010, and shall become effective as of the date it is approved by a majority of the total votes cast at a meeting of the Company's shareholders duly held in accordance with the requirements of the Washington Business Corporation Act and the Company's Bylaws. If the shareholders fail to approve the Plan by December 31, 2010, the Plan will terminate without having become effective. No Awards shall be made under the Plan prior to the Effective Date.

12.8 Termination or Suspension of the Plan. The Plan shall terminate automatically on the day before the 10th anniversary of the Effective Date. No Award shall be granted pursuant to the Plan after such date, but Awards theretofore granted may extend beyond that date. The Board may suspend or terminate the Plan at any earlier date pursuant to Section 11.1 hereof. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

12.9 Choice of Law. The law of the State of Washington shall govern all questions concerning the construction, validity and interpretation of this Plan, without regard to such state's conflict of law rules.

SUBLEASE

BETWEEN

PEASE DEVELOPMENT AUTHORITY
AS
SUBLESSOR

AND
REDHOOK ALE BREWERY, INC.

AS
SUBLESSEE

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SUBLEASE

THIS SUBLEASE ("Sublease") is made by and between the PEASE DEVELOPMENT AUTHORITY as Sublessor ("PDA") and REDHOOK ALE BREWERY, INC. as Sublessee ("Redhook"). (PDA and Redhook may be referred to jointly as the "Parties.")

RECITALS

A. PDA is an agency of the State of New Hampshire established pursuant to RSA ch. 12-G, "Pease Development Authority," and is authorized to enter into this Sublease pursuant to the provisions contained therein.

B. PDA anticipates acquiring fee title to the portion of the former Pease Air Force Base comprising the Airport District (the "Airport") from the United States of America ("Government or Air Force") by public benefit transfer (i.e. transfer without consideration) pursuant to Section 13(g) of the Federal Surplus Property Act of 1944, 50 App. U.S.C. § 1622(g). The terms of such acquisition are set forth in an Amended Application for Public Benefit Transfer executed by PDA ("Application") and accepted by the Air Force on April 14, 1992 (the "Acceptance"). Pending final disposition of the Airport in accordance with the terms of the Application and Acceptance, PDA and Air Force have entered into a Lease as of April 14, 1992 for the Airport District, a Supplement No. 1 thereto dated August 4, 1992 and a Supplement No. 2 thereto dated July 15, 1993 (collectively the "Master Lease"). The Subleased Premises are within the Airport District. The Parties acknowledge that the Application, Acceptance and Master Lease impose certain requirements on PDA with respect to subleases which are addressed in the terms and conditions of this Sublease. Copies of the Application, Acceptance and Master Lease are attached to this Sublease as Exhibits 1 and 2. Unless the context refers specifically to the documents constituting Exhibits 1 and 2, the terms Application, Acceptance and Master Lease shall include any amendments to said documents.

C. The Parties acknowledge that a Federal Facilities Agreement ("FFA'") required under Section 120 of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. § 9601 et seq., has been entered into by the Air Force, the New Hampshire Department of Environmental Services ("NHDES") and the United States Environmental Protection Agency ("EPA") regarding certain contamination at Pease and that this FFA also imposes certain requirements upon PDA and Redhook which are addressed in the terms and conditions of this Sublease. A copy of the FFA is attached to this Sublease as Exhibit 3. Unless the context refers specifically to the document constituting Exhibit 3, the term FFA shall include any amendments to said document. (The Application, Acceptance, Master Lease and FFA may be referred to collectively as the "Airport Transfer Documents.")

D. Redhook is a Washington corporation. Redhook is registered to do business in the State of Washington, and New Hampshire with a principal place of business at Seattle, Washington.

NOW, THEREFORE, in consideration of the covenants herein contained and other valuable consideration, the receipt of which is hereby acknowledged, PDA and Redhook hereby agree as follows:

ARTICLE 1

PREMISES

1.1 Description of Subleased Premises.

PDA, for and in consideration of the rents and covenants herein specified to be paid and performed by Redhook, hereby leases to Redhook and Redhook hereby leases from FDA, the land area consisting of 1,012,226 square feet which land area is described more particularly on the plans attached as Exhibit A (the "Subleased Premises" or the "Premises").

1.2 Utility Easements - Rights-of-Way.

This Sublease is subject to existing easements and rights-of-way of record and to the Utility Sublease and License Agreement dated July 31, 1992 by and between FDA and Public Service Company of New Hampshire ("PSNH") and to the Utility Sublease and License Agreement dated May 10, 1995 by and between PDA and New England Telephone and Telegraph Company ("NETEL"). It is anticipated that PDA and Redhook will grant further underground utility easements on the Premises to utility suppliers for the purpose of bringing electricity, gas, water and other utility services to the buildings to be constructed by Redhook on the Premises. FDA agrees to cooperate with Redhook (without obligation on the part of PDA to incur any expenses) in Redhook's efforts to obtain the approval of PSNH to place underground the power lines that presently cross the Premises and to complete the underground placement of such powerlines within twelve (12) months of the Term Commencement Date. The Parties acknowledge that utility lines and other property rights currently owned by utility suppliers, or subsequently constructed by or granted to a utility supplier, shall not be part of the Premises.

1.3 Option Area - Right of First Refusal.

PDA grants to Redhook certain rights of first refusal to lease an additional ten (10) acre area designated as the "Option Area" in Exhibit A (the "Option Area"). Redhook's rights of first refusal shall commence upon the receipt by PDA of a bona fide offer from a third party to lease or purchase the Option Area upon terms and conditions acceptable to PDA ("Third Party Offer"). PDA shall provide Redhook with a copy of any Third Party Offer and Redhook shall have thirty (30) days from its receipt of the copy of the Third Party Offer to deliver to PDA written notice of Redhook's intent to lease or purchase the Option Area on the same terms and conditions as set forth in the Third Party Offer ("Option Exercise Notice"), provided, however, that Redhook's use of the Option Area shall be limited to the uses permitted under Article 9 of this Sublease. In order to be valid Redhook's Option Exercise Notice must not be limited to financial terms and conditions but must also include all other terms and conditions of the Third Party Offer, including without limitation, a schedule and description of jobs to be created, if included in the Third Party Offer. Alternately, Redhook's Option Exercise Notice may include other non-financial terms that provide PDA with

the same or greater (as determined solely by FDA) benefits than the non-financial terms set out in the Third Party Offer. At the same time Redhook provides PDA with its Option Exercise Notice, Redhook shall provide FDA with a schedule reasonably acceptable to PDA establishing deadlines for completing any necessary improvements to the Option Area and for initiating and maintaining active use of the Option Area. A schedule for design, construction, commencement of Redhook's use, and job creation shall be reflected in any sublease agreement covering the Option Area with appropriate sanctions in event of Redhook's breach of its scheduled commitments. PDA and Redhook shall exercise best efforts and cooperate in good faith to conclude a lease, sublease or purchase agreement for the Option Area within sixty (60) days following receipt by PDA of the Option Exercise Notice. Notwithstanding any other provision of this Sublease, any purchase of the Option Area shall be conditioned upon the occurrence of the following: (i) Redhook's purchase of the Subleased Premises in accordance with the provisions of Article 27 of this Sublease; and (ii) PDA's determination, in its sole discretion, to make the Option Area available for sale to a third party.

The development of the Option Area shall be at Redhook's sole expense and sole risk and PDA makes no warranty or representation in respect to the Option Area and undertakes no obligations to make any repairs or improvements to the Option Area. Any warranty, representation or commitment made by PDA to a third party that is a condition of the Third Party Offer, shall also be made to Redhook in connection with the exercise by Redhook of its rights of first refusal under this Section 1.3. Any agreement of the Parties regarding the lease, sublease or purchase of the Option Area shall include, without limitation, provisions applicable to Alterations, as set forth in Articles 15 and 25 of this Sublease, and any applicable provisions of the Airport Transfer Documents.

Notwithstanding any other provisions of this Sublease, Redhook shall have no right of first refusal, option or other right to the Option Area (and PDA shall be free to use, lease or otherwise transfer such area as it deems appropriate) upon the occurrence of any of the following events: (i) the failure of Redhook to exercise its right in accordance with the terms of this Section 1.3; (ii) the expiration or termination of this Sublease; or (iii) the failure of the Parties to reach an appropriate agreement concerning the development of the Option Area within the required period (or any extension thereof mutually acceptable to the Parties) after exercising best efforts in good faith to conclude such agreement.

Notwithstanding any other provision of this Sublease, Redhook shall have no rights with respect to the Option Area if a Default (as that term is defined in Section 18.1) by Redhook occurs.

1.4 General Rights of Access.

Redhook shall have the right of access to and from the Premises to the nearest public road or public way along airport roadways designated by PDA as open to public use in common with other airport tenants and Authorized Airport Users of the Airport. The term Authorized Airport Users shall include Sublessee, its customers, employees, contractors, invitees, vendors and other trade suppliers regularly associated with or necessary to Sublessee's use of the Subleased Premises.

The rights of Redhook under this Section 1.4 shall be subordinate to PDA' s rights, to manage the common areas and roadways which rights shall include, without limitation, the right to impose

reasonable rules and regulations relating to use of the common areas and roadways and the right to add, delete, alter or otherwise modify the designation and use of all parking areas, entrances, exits, roadways and other areas of the Airport, provided, however, that during the term of this Sublease, Redhook shall have reasonable access to the Premises.

1.5 License Area.

Pursuant to a License Agreement by and between the Parties dated May 30, 1995 (the "License"), PDA has granted to Redhook certain rights in the Licensed Area, as more particularly described in the License. It is the intent of the Parties that the provisions of Articles 7, 13, 15 and 25 of this Sublease, shall be applicable with equal force and effect to the Licensed Area.

END OF ARTICLE 1

ARTICLE 2

CONDITION OF SUBLEASED PREMISES

2.1 Redhook acknowledges that it has inspected the Subleased Premises, including all improvements thereon, as of the date of execution of this Sublease and that, subject to the completion of improvements to the Pease WWTF as set forth in Section 14.6 of this Sublease, it has determined that the said Subleased Premises are in good condition and fit for the uses intended by Redhook. Redhook accepts said Subleased Premises in their present condition and without any representation or warranty by PDA as to the condition of said Subleased Premises or as to the use or occupancy which may be made thereof and without obligation on the part of PDA to make any alterations, repairs or additions to said Subleased Premises that has not been fully set forth in this Sublease. Further, PDA shall not be responsible for any latent or other defect or change of condition in said Subleased Premises, and the rent hereunder shall in no event be withheld or diminished on account of any such defect in said Subleased Premises nor any such change in its condition, nor, except as provided herein, for any damage occurring thereto.

END OF ARTICLE 2

ARTICLE 2A

IMPROVEMENTS TO SUBLEASED PREMISES

2A.1. Improvements by PDA.

PDA agrees to demolish the existing military housing units in the area adjacent to the south and southwest boundary lines of the Subleased Premises, as designated on Exhibit B (the "Demolition Area"). This work by PDA shall be conducted during the period that Redhook is undertaking construction of Redhook Improvements (as defined in Section 2A.2) and shall be completed by June 1, 1996 (with demolition debris cleared from the Demolition Area) or such later date as may be applicable to allow Redhook to complete construction of Redhook Improvements.

2A.2. Conceptual Plan for Redhook Development - Redhook Improvements.

The exterior layout, conceptual design and preliminary location of all buildings and/or contemplated infrastructure improvements to be constructed by Redhook in connection with Redhook's development of the Subleased Premises (but not the Option Area) are set out in the Conceptual Plan attached as Exhibit C (the "Conceptual Plan"). Redhook shall also advise PDA as soon as possible following execution of this Sublease of the precise location of all such buildings and/or contemplated infrastructure improvements. Without limiting the foregoing, Redhook agrees that the initial improvements to the Subleased Premises to be made by Redhook ("Redhook Improvements") shall include construction on and under the Subleased Premises (and the inclusion of necessary equipment) of:

(1) a building with footprint of approximately 93,500 square feet on a parcel approximately 23.2375 acres in size, with paved areas of approximately 244,114 square feet (the "Facility") for purposes allowed under Article 9. The total impervious surface of the project is approximately 7.8 acres. The structure will be approximately 71 feet tall at its tallest point as measured above the ground floor slab which is at 65 feet above sea level;

(2) outside structures accessory to the brewery production including outdoor fermentation cellars, spent grain structure, CO2 vessels, future sewer pretreatment areas, and a possible above grade oil tank for emergency generators or alternative power;

(3) all appropriate lines, pipes, mains, cables, manholes, wires, conduits and other facilities so as to bring utilities from the locations where brought by PDA pursuant to Section 14.1 to the Facility and other improvements made by Redhook requiring utility service;

(4) a surface, paved parking area for use by Redhook's employees and business invitees at the Facility;

(5) all necessary roadways and pedestrian circulation areas within the Subleased Premises, including curb cuts as approved by PDA to the Airport Roadway(s) contiguous to the Subleased Premises; and

(6) landscaping and exterior lighting.

PDA agrees to use its best efforts (without obligation on the part of PDA to incur any expenses) to obtain any required approval to name internal roadways within the Subleased Premises as Redhook deems appropriate (e.g., "Redhook Drive").

2A.3. Design and Construction of Redhook Improvements - Project Manager - Risk of Loss and Indemnification.

Redhook at its sole cost and expense shall design and construct Redhook Improvements in a good and workmanlike manner consistent with the Conceptual Plan (and any approved amendments thereto) and approved design documents (plans and specifications) and shall exercise best efforts to maintain the following schedule:

Event	Completion Date
Preliminary Design Submission to PDA	December 1, 1994
Final Design Submission to PDA	December 15, 1994
Commencement of Construction	Later of sixty (60) days following issuance of Building Permit or May 5, 1995
Completion of Construction	September 30, 1996

The Parties shall confer as soon as practicable after the execution of this Sublease in order to develop a construction phasing plan for coordinating PDA and Redhook construction activities under this Article 2A. Redhook shall keep the Conceptual Plan and construction schedule and phasing plan up to date and shall submit to PDA for its approval, which shall not be withheld or delayed unreasonably, any amendment, revision or modification thereof.

The provisions of Article 15 and Article 25 applicable to construction work shall apply with equal force to the construction of any Redhook Improvements.

Any approvals or agreement by PDA with respect to any element(s) of the Conceptual Plan shall not affect in any way any other approval or other process involving PDA in its governmental capacity, including, without limitation, requirements under PDA Land Use Controls.

Redhook agrees to be solely responsible for any plans and specifications used by it and for any loss or damages resulting from the use thereof, notwithstanding the same have been approved by PDA and notwithstanding the incorporation therein of PDA recommendations or requirements. Notwithstanding the requirement for approval by PDA or the incorporation therein of PDA requirements or recommendations, and notwithstanding any rights PDA may have reserved to itself under this Sublease, PDA shall have no liabilities or obligations of any kind to any contractors engaged by Redhook or for any other matter in connection therewith and Redhook hereby releases and discharges PDA, its board members, officers, representatives and employees of and from any and all liability, claims for damages or losses of any kind, or from any action or cause of action arising or alleged to arise out of the performance of any construction work pursuant to the contracts between Redhook and its contractors.

Redhook shall appoint a project manager (the "Project Manager") to administer Redhook's construction and other related activities at the Subleased Premises. The Project Manager shall be responsible for coordinating with PDA concerning PDA's construction activities under Section 2A.1 and keeping PDA generally up to date on major construction and construction related activities of Redhook and shall be available at the Airport at all reasonable times and during on-site emergencies or situations requiring immediate or expeditious response or consultation with PDA.

At the completion of construction, Redhook shall provide PDA with reproducible as-built drawings of buildings and building support systems (i.e.. electrical, HVAC, plumbing) comprising of Redhook Improvements (but not including proprietary equipment used in the brewing process) when completed.

2A.4. Risk of Loss - Indemnification.

In addition to its obligations under Article 7, Article 13 and Article 15, Redhook hereby assumes the risk of loss or damage to all of the construction work for or relating to Redhook Improvements prior to the completion thereof and arising out of or in connection with the performance of Redhook's construction work. In the event of such loss or damage, Redhook shall forthwith repair and replace such property of PDA affected by such loss or damage and make good the construction work without cost or expense to PDA. Redhook shall require each of its contractors to indemnify and hold harmless PDA, its board members, officers, agents and employees from and against all claims and demands, of third persons arising or alleged to arise out of the performance of Redhook's construction work by such contractor and for all expenses incurred by it and by them in the defense, settlement or satisfaction thereof, including without limitation thereto, claims and demands for death, for personal injury or for property damage, arising from the acts or omissions of such contractors, excepting only claims and demands which result solely from the negligence of PDA and its employees, officers, agents and contractors.

END OF ARTICLE 2A.

ARTICLE 3

TERM

3.1 This Sublease shad be for a base term equal to the period of the remaining term of the Master Lease ("Base Term") which term shall commence upon the date of execution by both Parties ("Term Commencement Date") and shall expire at Noon on April 13, 2047, unless terminated earlier or extended in accordance with the provisions of this Sublease. Subject to PDA's having renewed the Master Lease or acquired fee title to the Subleased Premises, Redhook may, at its option, extend the Base Term for two (2) additional periods of seven (7) years each (the "Extension Term(s)"). In no event shall the Base Term and all Extension Terms extend beyond Noon on April 13, 2061. Any extension of the term through exercise of an option shall be upon the same terms and conditions applicable to the Base Term, provided that rental rates shall escalate as provided in Article 4 (and any other applicable provision addressing rental rates).

It is anticipated that PDA will acquire fee title to the Airport, including the Subleased Premises, during the term of this Sublease and that such acquisition will result in the termination of the Master Lease. In the event of such acquisition and termination of the Master Lease, this Sublease shall convert automatically into a direct lease between PDA and Redhook and PDA and Redhook will in good faith negotiate and execute such amendment or amendments as may be appropriate in their mutual judgement to delete any obligations between Redhook and the United States or the Air Force or any other provisions of this Sublease that the Parties determine should be deleted or otherwise amended because of the termination of the Master Lease, provided, however, that such amendment or amendments shall not delete or otherwise affect any obligations of Redhook to the United States or the Air Force or any other provisions of the Sublease that are required to survive the Master Lease.

3.2 As a condition precedent to the exercise by Redhook of any of its options to extend the term of this Sublease, Redhook shall give a written notice ("Option Notice") to PDA of its exercise of each such option at least twelve (12) months prior to the end of the Base Term or any applicable Extension Term. The failure of Redhook to exercise any option shall result in a termination of any remaining option.

3.3 The options to extend the term hereby granted may not be exercised at any time during which Redhook is in Default (as defined in Section 18.1) and, at the election of PDA, shall not be effective if any Default (as defined in Section 18.1) occurs after the exercise of such option and before the expiration of the applicable term, it being the intent of the Parties that the options granted hereby may not be exercised or become effective at a time when a Default (as defined in Section 18.1) by Redhook exists under this Sublease.

3.4 Unless the context clearly indicates otherwise when used in this Sublease the phrase "term of this Sublease" shall mean the Base Term plus any duly exercised allowable extensions thereof.

END OF ARTICLE 3

ARTICLE 4

AREA RENT - MUNICIPAL SERVICES FEE

4.1 Redhook shall pay to PDA area rent ("Area Rent") at the following initial annual rates for the land areas of the Subleased Premises described in Section 1.1:

(a) Thirty cents ($0.30) per square foot of developed area, as indicated on Exhibit C, for the 348,480 square feet of developed area. (As of the Term Commencement Date, the developed area rent is One Hundred Four Thousand Five Hundred Forty-Four Dollars ($104,544.00).)

(b) Twenty-two cents ($0.22) per square foot for the open space area, as indicated on Exhibit C, for the 663,746 square feet of open space area. (As of the Term Commencement Date, the open space area rent is One Hundred Forty-Six Thousand Twenty Four Dollars and Twelve Cents ($146,024.12).)

In the event Redhook utilizes any of the open space area for development, including any landscaping or open space required to meet requirements under the PDA Land Use Controls, the open space area so utilized shall convert to developed area and the then annual per square foot rental rate applicable to developed area (including any previous escalation under Section 4.4.) shall apply to such converted open space area (including any further escalation under Section 4.4). It is not intended by the Parties that the term "developed area" as used in this Sublease be limited to the calculation of impervious surface area.

4.2 In consideration of the construction of Redhook Improvements, as described in Article 2A, no Area Rent under Section 4.1 nor municipal services fee under Section 4.7 shall be payable until the earlier of commencement of occupancy of the Facility or September 30, 1996, provided, however, that in the event commencement of occupancy cannot occur by September 30, 1996 solely as the result of delay caused by judicial order preventing Redhook from proceeding with its construction activities or PDA from providing Redhook with any necessary PDA approvals, or by the failure of PDA to perform any of its obligations within the time specified for such performance, the commencement date for Area Rent and the municipal services fee shall be extended by a time period equal to the period of actual delay. The annual Area Rent shall be payable in each case in equal monthly installments of one twelfth thereof in advance on the first day of each month without offset in lawful money of the United States at the office of PDA at the Airport or at such other address as PDA may hereafter designate. In addition, Redhook agrees to pay when due, such other amounts that may be required to be paid as additional rent. Redhook's rent obligation for any fractional portion of a calendar month at the beginning or end of the term of this Sublease shall be a similar fraction of the rental due for an entire month.

4.3 As of each Adjustment Date (as hereinafter defined), the Area Rent shall be adjusted as provided in Section 4.4.

4.4 On the first day following expiration of the tenth year of the term of this Sublease and on the first day of each subsequent fifth year period (individually, the "Adjustment Date" and

collectively, the "Adjustment Dates") Area Rent shall be subject to adjustment for the remainder of the term of this Sublease as follows:

the rental rates in effect just prior to the then applicable Adjustment Date as set forth in Section 4.1(a) and (h) shall be increased by five percent (5%) so the new rates for the ensuing five-year period shall be one hundred five percent (105%) of each rate comprising Area Rent prior to adjustment.

4.5 [RESERVED]

4.6 The Area Rent and all other rent, additional rent, or other fees or payments payable hereunder shall be net to PDA, free and clear of any and all Impositions (as defined in Section 5.1), or expenses of any nature whatsoever in connection with the Premises. The Parties agree that, except as expressly provided herein, all costs, expenses and charges of every kind and nature relating to the Subleased Premises which may be attributed to, or become due during the initial or any extension term of this Sublease, shall constitute additional rent to be paid by Redhook and, upon failure of Redhook to pay any such costs, expenses or charges, PDA shall have the same rights and remedies as otherwise provided in this Sublease for the failure of Redhook to pay rent. It is the intention of the Parties that Redhook shall in no event be entitled to any abatement or reduction in rent payable hereunder, except as expressly provided herein. Any present or future law to the contrary shall not alter the agreement of the Parties.

4.7 In addition to the Area Rent required to be paid under this Article 4 Redhook shall also pay to PDA as additional rent a municipal services fee of $1.00 per square foot of building area per year (i.e. square feet of floor space within buildings measured from the outside edge of outside walls) within any building on the Subleased Premises, as the same may be adjusted through additions from time to time. This fee is for fire, police and roadway services provided by PDA at the Airport and will be subject to increases each year (beginning January 1, 1998) only to the extent the cost to PDA of providing such services increases. The municipal services fee shall be paid quarterly in advance at the times and in the fashion provided in Section 4.2 for the payment of Area Rent. To the extent the Subleased Premises are subject to municipal taxation, and provided such municipal taxes include the costs of the provision of fire, police and roadway services, Redhook may offset against any fee paid to PDA the portion of such municipal taxes as are attributable to fire, police and roadway services, and FDA shall have no further obligation to provide such services. For so long as municipal taxes are imposed against the Subleased Premises, or on Redhook as Sublessee, for all three of fire, police and roadway services and PDA either has no obligation to provide such services (or ceases to provide such services), the municipal services fee required to be paid under this Section 43 shall terminate.

Any municipal taxes imposed for tire, police, and/or roadway services shall be considered an Imposition under Article 5 of this Sublease.

END OF ARTICLE 4

ARTICLE 5

IMPOSITIONS

5.1 During the term of this Sublease, Redhook shall pay when due, all taxes, charges, excises, license and permit fees, assessments, and other governmental charges, general and special, ordinary and extraordinary, unforeseen, as well as foreseen, of any kind and nature whatsoever, which during the term of this Sublease are assessed or imposed upon or become due and payable or a lien upon: (i) the Subleased Premises or any part thereof or any personal property, equipment or other facility used in the operation thereof; or (ii) the rent or income received from subtenants or licensees; or (iii) any use or occupancy of the Subleased Premises; or (iv) this transaction or any document to which Redhook is a party creating or transferring an estate or interest in the Subleased Premises (all of which taxes, charges, excises, fees, assessments and other governmental charges are hereinafter collectively referred to as "Impositions"). If, by law, any such Imposition is payable, or may at the option of Redhook be paid in installments. Redhook may pay the same together with any accrued interest on the unpaid balance of such Imposition in installments as the same respectively become due and before any fine, penalty, interest or cost may be added thereto for the nonpayment of any such installment and interest_ Any Imposition relating to a fiscal period of the taxing authority a part of which period is included prior to the commencement of the term of this Sublease, shall be prorated as between PDA and Redhook so that Redhook shall pay only the portion thereof attributable to any period during the term of this Sublease.

5.2 Redhook covenants to furnish to PDA within fourteen (14) days of receipt of a written request from PDA, official receipts of the appropriate taxing authority, or other proof satisfactory to PDA, evidencing the payment thereof.

5.3 Redhook shall have the right before any delinquency occurs to contest or object to the amount or validity of any such Imposition by appropriate legal proceedings. This right shall not be deemed or construed in any way as relieving, modifying or extending Redhook's covenant to pay any such Imposition at the time and in the manner in this Article, unless Redhook shall have obtained a stay of such proceedings. PDA shall not be required to join in any such proceedings unless it shall be necessary for it to do so in order to prosecute such proceedings and PDA shall have been fully indemnified to its satisfaction against all costs and expenses in connection therewith_ PDA shall not be subjected to any liability for the payment of any costs or expenses (including attorneys' and expert witness fees) in connection with any such proceedings brought by Redhook, and Redhook covenants to indemnify and save PDA harmless from any such costs or expenses.

5.4 As between the Parties, Redhook alone shall have the duty of attending to, making or filing any declaration, statement or report which may be provided or required by law as the basis of or in connection with the determination, equalization, reduction or payment of any and every Imposition which is to be borne or paid or which may become payable by Redhook under the provisions of this Article, and PDA shall not be or become responsible to Redhook therefor, nor for the contents of any such declaration, statement or report.

END OF ARTICLE 5

ARTICLE 6

SURRENDER OF SUBLEASED PREMISES

6.1 Subject to the provisions of Sections 6.2 and 6.3, upon the expiration or termination of this Sublease Redhook shall surrender to ADA the Subleased Premises, including all buildings, improvements and alterations to the real property on the Subleased Premises whether leased to or otherwise owned by Redhook, broom clean and in good order, condition and repair, reasonable wear and tear excepted, together with all alterations, decorations, additions and improvements that may have been made in, to or on the Subleased Premises, except that Redhook shall be allowed to remove its equipment and other personal property or any improvements made by Redhook at its sole expense and shall repair or reimburse FDA for the cost of repairs for any damage to the Facility or Subleased Premises resulting from the removal of such property, Redhook shall make any required reimbursement within thirty (30) days following receipt by Redhook of an invoice from PDA. Redhook shall comply with PDA' s reasonable requirements regarding the appearance of the Subleased Premises after removal of any building improvement or other property. The Subleased Premises, including any remaining buildings and improvements thereon remaining at PDA's request, shall be delivered free and clear of all subtenancies, liens and encumbrances, other than those, if any, permitted hereby or otherwise created or consented to by PDA, and, if requested to do so. Redhook shall execute, acknowledge and deliver to PDA such instruments of further assurance as in the opinion of PDA are necessary or desirable to confirm or perfect PDA's right, title and interest in and to the Subleased Premises including said buildings and improvements. On or before the end of the expiration or termination of the Sublease, Redhook shall remove all of Redhook's personal and other property allowed to be removed hereunder, and all such property not removed shall be deemed abandoned by Redhook and may be utilized or disposed of by PDA without any liability to Redhook. Redhook's obligation under this Article 6 shall survive the expiration or termination of this Sublease.

6.2 Redhook shall have the right to remove all buildings and related improvements (e.g., holding tanks) on the Subleased Premises constructed by Redhook at its sole expense. subject to the following conditions: (i) in the event of the expiration of the Term, including any applicable extensions, Redhook shall have provided PDA with written notice, six (6) months prior to the Term expiration date, of Redhook's intent to remove the buildings and related improvements and shall complete the removal on or prior to the Term expiration date; (ii) in the event of a termination by Redhook of the Sublease as a result of a default by PDA, Redhook shall have provided PDA with notice of Redhook's intent to remove the buildings and related improvements within twenty-one (21) days of the date of exercise by Redhook of the right to terminate and shall complete the removal within ninety (90) days following its termination of the Sublease; (iii) in the event of a termination by PDA as a result of a Default (as defined in Section 18.1) by Redhook, PDA provides its consent to the removal of the buildings and related improvements, which consent may be withheld by FDA in its sole discretion; (iv) Redhook returns the surface area upon which all such buildings and related improvements were sited to grade, which obligation shall include, without limitation, the obligation to fill all excavations with appropriate material and in an appropriate manner to provide such area

with a level of support at least equal to the level of support provided by soil conditions as of the Term Commencement Date; (v) Redhook leaves the Subleased Premises in a clean and safe condition, free of all debris and hazardous or other materials and complies with the provision of Section 6.3.

6.3 The provisions of Articles 15 and 25 applicable to construction and demolition work, as the case may be, shall apply with equal force to all construction and demolition work undertaken by Redhook under this Article 6.

6.4 Notwithstanding any other provisions of this Sublease, in the event of a termination of this Sublease by PDA as a result of a Default (as defined in Section 18.1) by Redhook, Redhook shall remove any building and related improvements (e.g.,, holding tanks) on the Subleased Premises if PDA directs Redhook to take such action at or before the time of exercise by PDA of its termination rights. The removal shall be completed by Redhook within ninety (90) days following the termination of its rights under the Sublease. All such work shall conform to the provisions of items (iv) and (v) of Subsection 6.2 and Subsection 6.3. Redhook's obligation under this Section 6.4 shall survive the termination of the Sublease.

END OF ARTICLE 6

ARTICLE 7

INSURANCE

7.1

A. Risk of Loss. Redhook shall bear all risk of loss or damage to the Subleased Premises, including any building(s), improvements, fixtures or other property thereon, arising from any causes whatsoever.

B. Insurance. During the entire period this Sublease shall be in effect, Redhook at its expense will carry and maintain:

(1) Property insurance coverage against loss or damage by fire and lightning and against loss or damage or other risks embraced by coverage of the type now known as the broad form of extended coverage (including but not limited to riot and civil commotion, vandalism, and malicious mischief and earthquake) in an amount not less than 100% of the full replacement value of the buildings, building improvements, improvements to the land, and personal property on the Subleased Premises. The policies of insurance carried in accordance with this Section shall contain a "Replacement Cost Endorsement." Such full replacement cost shall be determined from time to time, upon the written request of PDA, but not more frequently than once in any twenty-four (24) consecutive calendar month period (except in the event of substantial changes or alterations to the Premises undertaken by Redhook as permitted under the provisions hereof) by written agreement of PDA and Redhook, or if they cannot agree within thirty (30) days of such request, by an insurance consultant, appraiser, architect or contractor who shall be mutually and reasonably acceptable to PDA and Redhook. Any such determination by a third party shall be subject to approval by PDA and Redhook, which approval shall not be unreasonably withheld. The insurance maintained in this Section shall be adjusted to one hundred percent (100%) of the new full replacement cost consistent with the approved determination.

(2) Comprehensive general liability insurance, including but not limited to liquor liability and products and completed operations liability insurance, on an "occurrence basis" against claims for "personal injury", including without limitation, bodily injury, death or property damage, occurring upon, in or about the Subleased Premises including any buildings thereon and the adjoining sidewalks, streets, and passageways, such insurance to afford immediate minimum protection at the time of the Term Commencement Date, and at all times during the term of this Sublease, to a limit of not less than five million dollars ($5,000,000.00) with respect to damage to property and five million dollars ($5,000,000.00) with respect to personal injury or death to any one or more persons and with no deductible or such deductible amount as may be approved by PDA. Such insurance shall also include coverage against liability for bodily injury or property damage arising out of the acts or omissions by or on behalf of Redhook. or any other person or organization, or involving

any owned, non-owned, leased or hired automotive equipment in connection with Redhook's activities.

(3) Workers' compensation and employer's liability insurance in an amount and form which meets all applicable requirements of the labor laws of the State of New Hampshire, as amended from time to time, and which specifically covers the persons and risks involved in this Sublease.

(4) Automobile liability insurance in amounts approved from time to time by PDA, but not less than one million dollars ($1,000,000) combined single limit for owned, hired and non-owned automobiles.

(5) Bailment insurance for customer and/or employee vehicles in the care, custody, and control of Redhook, in amounts approved from time to time by PDA to a limit of not less than One Million Five Hundred Thousand Dollars ($1,500,000.00).

7.2 All policies of insurance required to be carried under this Article shall be effected under valid and enforceable policies, in such forms and amounts as may, from time to time, be required under this Sublease, issued by insurers of recognized responsibility which are authorized to transact such insurance coverage in the State of New Hampshire, and which have been approved in writing by PDA, which approval shall not be withheld unreasonably. All such policies of insurance shall include PDA and the United States of America as additional insureds. Upon the execution of this Sublease (and thereafter not less than fifteen (15) days prior to the expiration date of each policy furnished pursuant to this Article) a copy of such policy and a certificate of the insurer, reasonably satisfactory to PDA shall be delivered by Redhook to FDA.

7.3 All policies of insurance shall provide for losses thereunder to be payable to PDA and Redhook and the Parties shall make allocation as may be required in accordance with the terms of this Sublease.

7.4 Each such policy or certificate therefor issued by the insurer shall to the extent obtainable contain (i) a provision that no act or omission of Redhook, or any employee, officer or agent of Redhook, which would otherwise result in forfeiture or reduction of the insurance therein provided shall affect or limit the obligation of the insurance company to pay the amount of any loss sustained, (ii) an agreement by the insurer that such policy shall not be canceled without at least thirty (30) days prior written notice by registered mail to PDA and to any Subleasehold Mortgagee.

7.5 All policies of insurance required to be maintained by Redhook shall have attached thereto the Lender's Loss Payable Endorsement, or its equivalent, or a loss payable clause acceptable to PDA, for the benefit of any Subleasehold Mortgagee, but the right of any Subleasehold Mortgagee to the payment of insurance proceeds shall at all times be subject to the provisions of this Sublease with respect to the application of the proceeds of such insurance.

7.6 Redhook shall observe and comply with the requirements of all policies of insurance at any time in force with respect to the Subleased Premises and Redhook shall also perform and satisfy the requirements of the companies writing such policies so that at all times companies of good

standing reasonably satisfactory to PDA shall be willing to write or to continue such insurance. Redhook shall, in the event of any violations or attempted violations of the provisions of this Section 7.6 by a subtenant, take steps, immediately upon knowledge of such violation or attempted violation, to remedy or prevent the same as the case may be.

7.7 Any insurance provided for in this Sublease may be effected by a policy or policies of blanket insurance or may be continued in such form until otherwise required by PDA; provided, however, that the amount of the total insurance allocated to the Subleased Premises shall be such as to furnish in protection the equivalent of separate policies in the amounts herein required, and provided further that in all other respects, any such policy or policies shall comply with the other provisions of this Sublease. In any such case Redhook shall deliver to PDA and to any Subleasehold Mortgagee a certificate in form and content reasonably acceptable to PDA.

7.8 The Parties acknowledge that Redhook's ability to obtain insurance coverage to the extent required under this Sublease and correlative provisions of the Master Lease, is dependent upon the availability of such insurance from insurance providers. In the event any insurance coverage required under this Sublease is commercially unreasonable the Parties will confer for the purpose of adjusting such coverage consistent with the prevailing insurance market conditions and will mutually cooperate to obtain the acknowledgement of the Air Force that affected provisions of the Master Lease cannot be complied with due to market conditions, thereby relieving FDA and Redhook of any obligation to comply with such requirements. Any such adjustment, however, shall be in effect only during the period when insurance market conditions dictate such change and shall not result in a permanent amendment of Redhook's obligations unless otherwise agreed in writing by the Parties, and, to the extent applicable, by the Air Force.

END OF ARTICLE 7

ARTICLE 8

PDA'S RIGHT TO PERFORM REDHOOK'S COVENANTS

8.1 If Redhook shall at any time fail to pay when due any Imposition or other charge or to pay for or maintain any of the insurance policies required under Article 7, or to make any other payment or perform any other act on Redhook's part required by this Sublease, then FDA, after ten (10) days written notice to Redhook (or, in case of any emergency, without notice, or with such notice as may be reasonable under the circumstances) and without waiving or releasing Redhook from any obligation of Redhook hereunder, may (but shall not be required to):

(i) pay such Imposition or other charge, or

(ii) pay for and maintain such insurance policies, or

(iii) make such other payment or perform such other act on Redhook's part to be made or performed as provided in this Sublease, and may enter upon the Subleased Premises for such purpose and take all such action as may be deemed or appropriate by PDA to correct such failure of Redhook.

8.2 All sums so paid by PDA and all costs and expenses incurred by FDA in connection with the performance of any such act (together with interest thereon at the rate specified in Section 26.1 from the respective date(s) of PDA's making of each such payment or incurring of each cost or expenses) shall constitute additional rent payable by Redhook under this Sublease and shall be paid by Redhook to PDA on demand.

END OF ARTICLE 8

ARTICLE 9

USE OF SUBLEASED PREMISES

9.1 The permitted purposes for which Redhook may use the Subleased Premises are construction, development and operation of: (i) a brewery and regional corporate headquarters with office, warehousing, and other customary accessory uses incidental to a brewery; and (ii) restaurant, pub, and other customary accessory uses to a restaurant and pub but only to the extent permitted under PDA Land Use Controls as defined in Section 9.3 and subject to the requirement that Redhook continue to operate the brewery as the primary use. Redhook shall not use, or permit to be used, the Subleased Premises for any other purpose without the prior express written consent of PDA. Redhook is prohibited from any use of the Subleased Premises not specifically granted in this Section 9.1.

9.2 Redhook recognizes that the uses authorized in Section 9.1 are not granted on an exclusive basis and that PDA may enter into subleases or other agreements with other tenants or users at areas of the Airport other than the Subleased Premises for similar, identical, or competing uses. No provision of this Sublease shall be construed as granting or authorizing the granting of an exclusive right within the meaning of Section 308 of the Federal Aviation Act as the same may be amended from time to time.

9.3 Redhook agrees that it will keep the Premises in a neat, clean and orderly condition and shall be responsible for trash removal in accordance the provisions of Chapters 300 through 500 of the Pease Development Authority Zoning Requirements, Site Plan Review Regulations and Subdivision Regulations (collectively the "Land Use Controls") and such other rules and regulations from time to time promulgated, provided that Redhook shall not be bound by any such rules and regulations until such time as it receives a copy thereof. Redhook agrees to cause trash receptacles to be emptied and trash removed at Redhook's sole cost and expense.

9.4 Redhook warrants that, prior to engaging in any permitted use, it will hold all certificates, permits, licenses or other entitlements required by federal, state or local laws in order to allow Redhook to conduct such permitted use, and that the same will then be and will thereafter be kept current, valid and complete. Redhook further warrants that it shall at all times abide by and conform with all terms of the same and that it shall give immediate notice to PDA of any additions, renewals, amendments, suspensions or revocations. In the use and occupation of the Subleased Premises and the conduct of such business thereon, Redhook, at its sole cost and expense, shall promptly comply with all present and future laws, ordinances, orders, rules, regulations and requirements of all federal, state and municipal governments, courts, departments, commissions and boards, any national, state or local Board of Fire Underwriters, or any other body exercising functions similar to those of any of the foregoing.

9.5 Redhook shall have the right to contest by appropriate proceedings diligently conducted in good faith. without cost or expense to PDA, the validity or application of any law, ordinance, order, rule, regulation or requirement of the nature referred to in this Article. If compliance with any such

law, ordinance, order, rule, regulation or requirement may be delayed on the basis of an order from a court of competent jurisdiction pending the prosecution of any such proceeding without the incurrence of any lien, charge or liability of any kind against the Subleased Premises or Redhook's interest therein and without subjecting PDA to any liability, civil or criminal, for failure so to comply therewith, Redhook may delay compliance therewith consistent with such court order. Even if such lien, charge or civil liability would be incurred by reason of any such delay, Redhook may, with the prior written consent of PDA, contest as aforesaid and delay as aforesaid, provided that such contest or delay does not subject PDA to criminal liability, damages or expense and provided that Redhook: (i) furnishes to PDA security, reasonably satisfactory to PDA, against any loss or injury by reason of such contest or delay; and (ii) prosecutes the contest with due diligence.

PDA shall not be required to join in any proceedings referred to in this Section unless the provisions of any applicable laws, rules or regulations at the time in effect shall require that such proceedings be brought by and/or in the name of PDA and PDA determines that such action is in its best interests, in which event PDA shall join in the proceedings, or permit the same to be brought in its name, if Redhook shall pay all expenses in connection therewith.

9.6 Nothing contained in this Article or any other provision of this Sublease, other than the indemnification obligations of PDA under Section 25.4 or any obligation of ?DA to pay costs under Section 26.4, shall be deemed to constitute a waiver of the sovereign immunity of the State of New Hampshire, which immunity is hereby reserved to PDA and to the State of New Hampshire.

9.7 Responsibility for compliance with all federal, state and local laws as required by this Article rests exclusively with Redhook. PDA assumes no enforcement or supervisory responsibility except with respect to matters committed to its jurisdiction and authority.

9.8 Redhook's use of the Subleased Premises shall be orderly and efficient and shall not cause any disruptions to other airport activities. Redhook shall not cause or maintain any nuisance on the Subleased Premises. Redhook shall conduct all of its activities hereunder in an environmentally responsible manner.

9.9 Redhook shall have the right to obtain supplies or services from suppliers, vendors or contractors of its own choice at the Subleased Premises, provided, however, that PDA reserves the right to prohibit such entities from engaging in the provision of passenger ground transportation services for hire (but not including the transport of beer or commodities used in the manufacture of beer or beer products) unless in accordance with an appropriate concession or other agreement with PDA.

9.10 Redhook acknowledges that PDA is subject to certain restrictions on the use of the Airport Property in accordance with Conditions 10, 17, 23 and 25 of the Master Lease. Notwithstanding any other provision of this Sublease, Redhook shall also comply with and be subject to the restrictions in Conditions 10, 17, 23 and 25 of the Master Lease to the extent applicable to the Subleased Premises or any rights granted to Redhook under Sublease in the same manner and to the same extent as PDA is obligated in its capacity as Lessee under the Master Lease.

9.11 Redhook acknowledges that PDA is a party to a sublease with Celltech Biologics, Inc. (the "Celltech Sublease") pursuant to which PDA shall not permit a brewery use within a defined area that includes the Subleased Premises. Notwithstanding this restriction, Celltech has consented to the construction and operation of a brewery by Redhook at the Subleased Premises based upon its review of the proposed brewery and execution of an agreement between Celltech and Redhook dated March 17, 1995 (the "Celltech/Redhook Agreement"). A copy of the Celltech/Redhook Agreement is attached hereto and incorporated herein as Exhibit "D-1". Redhook agrees that it will construct and operate its brewery facility in accordance with the terms and conditions set forth in the Celltech/Redhook Agreement.

END OF ARTICLE 9

ARTICLE 10

LIENS

10.1 During the term of this Sublease, Redhook shall not permit to remain, and shall promptly discharge, at its cost and expense, all liens, encumbrances and charges upon the Subleased Premises or any part thereof; provided, that the existence of any mechanics', laborers', materialmen's, suppliers' or vendors' liens or rights thereto shall not constitute a violation of this Article if payment is not yet due under the applicable contract. Redhook shall, however, have the right to contest with due diligence the validity or amount of any lien or claimed lien, if Redhook shall give to PDA such security as PDA may reasonably require to insure payment thereof and prevent any sale, foreclosure or forfeiture of Redhook's interest in the Subleased Premises or any portion thereof by reason of such nonpayment. On final determination of the lien or claim for lien, Redhook shall immediately pay any judgment rendered with all proper costs and charges and shall have the lien released or judgment satisfied at Redhook's own expense, and if Redhook shall fail to do so. PD,4 may at its option pay any such final judgment and clear the Subleased Premises therefrom. If Redhook shall fail to contest with due diligence the validity or amount of any such Hen or claimed lien, or to give PDA security as hereinabove provided, PDA may, but shall not be required to, contest the validity or amount of any such lien or claimed lien or settle or compromise the same without inquiring into the validity of the claim or the reasonableness of the amount thereof.

10.2 Should any lien be filed against the Subleased Premises or should any action of any character affecting the title thereto be commenced, Redhook shall give to PDA written notice thereof as soon as notice of such lien or action comes to the knowledge of Redhook.

END OF ARTICLE 10

ARTICLE 11

REPAIRS AND MAINTENANCE

Redhook covenants and agrees, throughout the term of this Sublease, without cost to PDA, to take good care of the Subleased Premises and related improvements, including sidewalks, curbs, parking areas designated for Redhook's exclusive use and fences, and to keep the same in good order and condition, and shall promptly at Redhook's own cost and expense, make all necessary repairs, internal and external, structural and nonstructural, ordinary as well as extraordinary, foreseen as well as unforeseen, to keep the Subleased Premises and related improvements in safe, clean and sanitary condition. Redhook's obligation hereunder shall also include grounds maintenance and restoration and snow removal from the Subleased Premises including any parking areas designated for Redhook's exclusive use. All such repairs made by Redhook shall be at least equal in quality to the original work and shall comply with the provisions of Article 15. Redhook shall keep and maintain all portions of the Subleased Premises and the parking areas and fences adjoining the same in a clean and orderly condition, free of accumulation of dirt and rubbish. When used in this Article, the terms "repairs" shall include replacements or renewals when necessary.

END OF ARTICLE 11

ARTICLE 12

RIGHT OF PDA TO INSPECT AND REPAIR

12.1 Redhook will permit PDA and its authorized agents and representatives to enter the Subleased Premises at all reasonable times and upon reasonable notice for the purpose of: (i) inspecting the same; and (ii) making any necessary repairs and performing any other work that may be necessary by reason of Redhook's failure to comply with the terms of this Sublease within ten (10) days after written notice from PDA, unless an emergency situation (as determined in FDA's sole discretion) requires earlier action by PDA. Nothing herein shall imply any duty upon the part of PDA to do any such work and performance thereof by PDA shall not constitute a waiver of Redhook's default in failing to perform the same. PDA may during the progress of such work keep and store in or on the Subleased Premises all necessary materials, tools, supplies and equipment. PDA shall not be liable for inconvenience, annoyance, disturbance, loss of business or other damage of Redhook by reason of making such repairs or the performance of any such work, on or account of bringing materials, tools, supplies or equipment into or through the Subleased Premises during the course thereof and the obligations of Redhook under this Sublease shall not be affected thereby. Nothing herein shall limit the provisions of Article 8.

12.2 Redhook shall allow any agency of the United States, its officers, agents, employees and contractors to enter upon the Subleased Premises for any purposes not inconsistent with Redhook's quiet use and enjoyment, including but not limited to the purpose of inspection. Notwithstanding the preceding sentence, in the event the Air Force as Lessor under the Master Lease (or any other agency having a right of entry under the Federal Facilities Agreement (FFA) as defined in Section 25.8) determines that immediate entry is required for safety, environmental, operations or security purposes it may effect such entry without prior notice. Redhook shall have no claim against PDA or against the United States or any officer, agent, employee or contractor thereof on account of any such entries.

12.3 Redhook acknowledges that from time to time PDA may undertake construction, repair or other activities outside of the Subleased Premises related to the operation, maintenance and repair of the Airport which will require temporary accommodation by Redhook. Redhook agrees to accommodate PDA in such matters, even though Redhook's own activities may be inconvenienced or partially impaired, and Redhook agrees that no liability shall attach to PDA, its members, employees or agents by reason of such inconvenience or impairment, unless such activities of PDA hereunder are performed in a negligent manner. PDA shall consult with Redhook in advance of undertaking any activities authorized under this Section 12.3 and shall undertake reasonable efforts to avoid or mitigate significant impacts to Redhook's permitted use of the Subleased Premises resulting from such activities by PDA.

END OF ARTICLE 12

ARTICLE 13

GENERAL INDEMNIFICATION BY REDFIOOK

13.1 In addition to any other obligation of Redhook under this Sublease to indemnify, defend and hold harmless FDA, Redhook agrees to indemnify, defend and hold harmless PDA against and from any and all claims, judgments, damages, penalties, fines, assessments, costs and expenses, liabilities and losses (including, without limitation, diminution in value of the Premises, damages for the loss or restriction on the use of the Premises, sums paid in settlement of claims, attorneys' fees, consultants' fees and experts' fees) resulting or arising during the term of this Sublease:

(1) from any condition of the Premises (except as otherwise set forth in Article 25 and except for any concealed condition of the Premises created by PDA prior to the Term Commencement Date and not capable of discovery by diligent inspection), including any building structure or improvement thereon;

(2) from any breach or default on the part of Redhook in the performance of any covenant or agreement on the part of Redhook to be performed pursuant to the terms of this Sublease, or from any act or omission of Redhook, or any of its agents, contractors, servants, employees, sublessees, licensees or invitees; or

(3) from any accident, injury, loss or damage whatsoever caused to any person or property occurring during the term of this Sublease, on or about the Subleased Premises (including ramp and parking areas), or upon the land, streets, curbs or parking areas adjacent thereto.

In the event that any action or proceeding is brought against PDA by reason of any matter for which Redhook has hereby agreed to indemnify, defend, or hold harmless FDA, Redhook, upon notice from FDA, covenants to resist or defend such action or proceeding with counsel acceptable to PDA.

13.2 The term "Person" as used in this Article and Article 25 shall include individuals, corporations, partnerships, governmental units and any other legal entity entitled to bring a claim, action or other demand or proceeding on its own behalf or on behalf of any other entity.

13.3 Redhook also expressly waives any claims against the United States of America (except as provided in Article 25), including the Air Force, and further agrees to indemnify, save, hold harmless and defend the Air Force to the same extent required of PDA under the Master Lease.

END OF ARTICLE 13

ARTICLE 14

UTILITIES

14.1 PDA shall bring or shall cause utility lines to be brought to the boundary of the Subleased Premises at the points existing as of the Term Commencement Date or such other points as may be designated by PDA (in consultation with Redhook). The utility lines shall have the capacities existing as of the Term Commencement Date which, except as otherwise set forth in Section 14.6 of this Sublease, Redhook acknowledges are sufficient to enable Redhook to obtain for the buildings at the Subleased Premises, as of the date of commencement of Redhook's activities, sufficient water, electricity, telephone and sewer service. Redhook shall not at any time overburden or exceed the capacity of the mains, feeders, ducts, conduits, or other facilities by which such utilities are supplied to, distributed in or serve the Subleased Premises_ If Redhook desires to install any equipment which shall require additional utility facilities or utility facilities of a greater capacity than the facilities provided by PDA, such installation shall be subject to PDA' s prior written approval of Redhook's plans and specifications therefor, which approval shall not be unreasonably withheld. If such installation is approved by PDA and if PDA agrees to provide any additional facilities to accommodate Redhook's installation, Redhook agrees to pay PDA, in advance and on demand, the cost for providing such additional utility facilities or utility facilities of greater capacity.

PDA, at its sole discretion, shall have the right from time to time to alter the method and source of supply of any or all of the above enumerated utilities to the Subleased Premises and Redhook agrees to execute and deliver to PDA such documentation as may be required to effect such alteration. Prior to undertaking any such alteration PDA shall consult with Redhook and shall exercise reasonable efforts to avoid or minimize any interruption to any affected service.

Redhook agrees to pay all periodic charges for any utility services supplied by FDA, public utility or public authority, or any other person, firm or corporation.

PDA shall have the option to supply any of the above enumerated utilities to the Subleased Premises. If PDA shall elect to supply any of such utilities to the Subleased Premises, Redhook will purchase its requirements for such services tendered by PDA, and Redhook will pay PDA, within ten (10) days after mailing by PDA to Redhook of statements therefor, at the applicable rates determined by PDA from time to time which PDA agrees shall not be in excess of the public utility rates for the same service, if applicable, to other aviation tenants at the Airport. If PDA so elects to supply any of such utilities, Redhook shall execute and deliver to PDA, within ten (10) days after request therefor, any documentation reasonably required by PDA to effect such change in the method of furnishing of such utilities.

14.2 PDA shall not be responsible for providing any meters or other devices for the measurement of utilities supplied to the Subleased Premises. Redhook shall install or make application and arrange for the installation of all such meters or other devices and shall also procure, or cause to be procured, without cost to PDA, any and all necessary permits, licenses or other authorizations required for the lawful and proper installation and maintenance upon the Subleased Premises of wires, pipes,

conduits, tubes and other equipment and appliances required to supply any such service upon the Subleased Premises, and Redhook shall be solely responsible for and promptly pay, as and when the same become due and payable, all charges for water, sewer, electricity, gas, telephone and any other utility used or consumed in the Subleased Premises and supplied by PDA, any public utility or authority or any other person, firm or corporation.

14.3 All work and construction under this Article shall comply with the provisions of Article 15 of this Sublease applicable to construction work.

14.4 Redhook (and any sublessee or assignee of Redhook) shall be solely responsible for obtaining at its sole cost and expense any sewage or stormwater discharge permits as may be required for its operations under this Sublease (or any sublease or assignment). Redhook (and any sublessee or assignee of Redhook) shall be required to comply with any and all land use control regulations promulgated by PDA and any and all federal, state and local requirements and standards concerning stormwater discharges and discharges to sewage treatment works, including, without limitation, any pre-treatment requirements.

14.5 Redhook acknowledges that PDA is a party to a Wastewater Disposal and Water Service Agreement, and a Wastewater Disposal and Water Service Facilities Sublease and License Agreement and a Wastewater Disposal and Water Facilities Transfer Agreement with the City of Portsmouth (collectively the "Water Agreements") pursuant to which PDA has agreed to convey to the City of Portsmouth all subsurface water rights transferred to FDA pursuant to the Master Lease. Subject to the provisions of the Water Agreements, Redhook shall have the right, further subject to obtaining all required governmental approvals and permits and complying with all applicable governmental permits, laws, ordinances, and regulations, to drill wells for irrigation purposes only on the Subleased Premises.

14.6 The Parties acknowledge that the existing Wastewater Treatment Facility at Pease (the "Pease WWTF") is inadequate to accommodate Redhook's contemplated development of the Subleased Premises and that, in satisfaction of the applicable condition of the Site Review approval issued under the PDA Land Use Controls, PDA and Redhook have entered into a Site Review Agreement (to which the City of Portsmouth is also a party), that requires substantial improvements to the Pease WWTF. The required improvements are set out in the Camp, Dresser, McKee Report dated March 15, 1995, (the "CDM Report"), a copy of which is attached as Exhibit C-1.

All improvements to the Pease WWTF required to comply with the Site Review Agreement, as specified in the CDM Report, shall be implemented as follows:

(i) PDA will provide initial financing to cover the costs of design and construction of said improvements over and above the One Million Dollars ($1,000,000) contribution of Redhook required to be made under Subsection (iii), below;

(ii) PDA shall undertake the design and construction of said improvements and shall exercise best efforts to complete such work on a schedule

that will allow Redhook to utilize the Pease WWTF at an average daily volume not to exceed the following levels of discharge as of the designed milestone date:

Milestone Date	Average Daily Discharge Volume
By June 1, 1996	40,000 gallons at 900 BOD/900 TSS
By January 1, 1997	96,000 gallons at 900 BOD/900 TSS
By January 1, 1998	160,000 gallons at 900 BOD/900 TSS (100% of discharge capacity)

In the event Redhook seeks to achieve 100% discharge capacity prior to January 1, 1998, it shall provide PDA with written notice of the requested target date for achieving 100% capacity. PDA shall review Redhook's request and the Parties shall attempt in good faith to reach agreement to accommodate Redhook's request if PDA determines such effort to be feasible and practical. If the parties agree to accelerate the schedule, Redhook shall be responsible for paying the costs of the improvements to the extent such costs are attributable to the acceleration of the completion of the improvements, but only to the extent the overall costs of the improvements are greater than PDA's cost for such improvements without taking into account such acceleration. Redhook shall provide PDA with sufficient funds in advance to meet all such estimated additional costs to achieve Redhook's request for acceleration and Redhook shall pay any further such additional costs as may be incurred by PDA (at the same time as such costs are due to be paid by PDA) in connection with the acceleration of the work over and above the Redhook advance payment PDA's agreement to perform the work on an accelerated basis may, if PDA so elects, be conditioned upon PDA receiving guarantees or security from Redhook acceptable to PDA to ensure that Redhook's payment obligations under this Subsection are fully satisfied. Redhook shall also reimburse PDA for any reasonable costs incurred by PDA, including, without limitation, engineering and other consultant fees, in connection with PDA's review of any request submitted by Redhook to accelerate the above milestone dates.

(iii) Prior to the closing on the terms of the financing of the improvements pursuant to Subsection (i), Redhook shall deposit the sum of One Million Dollars ($1,000,000) with First National Bank of Portsmouth, Newington Branch, in an interest bearing escrow trust account to be held for the joint benefit of Redhook and PDA and to provide a source for the payment of Redhook's share of the cost of said improvements (such account is referred to hereafter as the "Redhook Fund Account"). PDA shall have the right to draw on the Redhook Fund Account to pay the cost of improvements as incurred over the course of the project, provided that the funds to meet project costs when due shall be drawn from PDA available funds and from the Redhook Fund Account according to the following ratio: 2.5 (PDA funds) to 1.0 (Redhook Fund Account). This fund

utilization ratio shall continue until One Million Dollars ($1,000,000) has been withdrawn by PDA from the Redhook Fund Account The interest earned by the Redhook Fund Account shall remain in the Redhook Fund Account until One Million Dollars ($1,000,000) has been withdrawn by PDA, at which time First National Bank of Portsmouth shall distribute all remaining funds to Redhook and the Redhook Fund Account shall be closed. PDA shall provide Redhook with quarterly reports on its utilization of funds from the Redhook Fund Account, each of which reports shall provide Redhook with a summary indicating that PDA and Redhook funds have been drawn in accordance with the fund utilization ratio set forth herein. Notwithstanding any other provision of this Sublease, in the event of a default by Redhook of any of its obligations under this Section 14.6, in addition to any other remedies that the PDA may have under this Sublease or under law, PDA may utilize any remaining funds in the Redhook Fund Account toward the cure of Redhook's default.

Notwithstanding any other provision of this Sublease, in satisfying its financing obligation under Subsection (i) of this Section 14.6 PDA shall be free to utilize any grant moneys available to it, or any other moneys available to meet the costs of the improvements to the Pease WWTF made under this Section 14.6, including payments required to be made by the City of Portsmouth pursuant to applicable agreements.

END OF ARTICLE 14

ARTICLE 15

ALTERATIONS - SIGNS

15.1 Redhook shall not place or construct any improvements, changes, structures, alterations or additions beyond Redhook Improvements to be constructed under Article 2A (cumulatively referred to as "Alterations") in, to or upon the Subleased Premises without PDA's written consent, which consent shall not be unreasonably withheld or delayed. Unless Redhook is subject to an earlier notice requirement under PDA Land Use Controls or other applicable requirements with respect to the information required under this Section, any request for PDA's consent shall be made upon sixty (60) days written notice and shall be accompanied by preliminary engineering or architectural plans or, if consented to by PDA, working drawings. PDA shall be deemed to have granted its consent to Redhook's request if PDA fails to provide Redhook with PDA's response within sixty (60) days of receipt of Redhook's notice. If PDA grants or is deemed to have granted its consent, all such work shall be done at Redhook's sole cost and expense, subject, in all cases, to the following covenants:

(1) All work and Alterations or additions shall be done in compliance with all applicable governmental regulations, codes, standards or other requirements, including fire, safety and building codes and Land Use Regulations promulgated by FDA and with the provisions of Article 25 of this Sublease. This obligation shall include compliance with all applicable provisions of the FFA (as defined in Section 25.8), including obligations imposed upon PDA in respect to construction and construction related work.

(2) All work performed hereunder shall be performed in a good and workmanlike manner, shall conform to drawings and specifications approved by PDA, and shall not be disruptive of the overall operation of the Airport. All contractors engaged by Redhook to perform such work shall employ labor that can work in harmony with all elements of labor at the Airport.

(3) During the period of construction of any Alterations, Redhook or any contractor, subcontractor or sublessee of Redhook shall maintain or cause to be maintained the following insurance:

(i) The comprehensive general liability and property damage insurance provided for in paragraph (a) of Section 7.2 shall be maintained for the limits specified thereunder and shall provide coverage for the mutual benefit of PDA and Redhook as named insured in connection with any Alteration permitted pursuant to this Article 15;

(ii) Fire and any other applicable insurance provided for in Article 7 which if not then covered under the provisions of existing policies shall be covered by special endorsement hereto in respect to any Alteration, including all materials and equipment therefor incorporated in, on or about the Subleased Premises (including excavations, foundations, and footings) under a broad form all risks builder's risk completed value form or equivalent thereof; and

(iii) (iii) Workers' compensation insurance covering all persons employed in connection with the work and with respect to whom death or bodily injury claims could be asserted against PDA, Redhook or the Subleased Premises, with statutory limits as then required under the laws of the State of New Hampshire.

The provisions of all applicable Sections of Article 7 of this Sublease shall apply to all insurance provided for in this Section.

(4) Redhook shall provide PDA with MYLAR as-built drawings of any Alterations when any alteration authorized hereunder is completed. In the case of Alterations under $10,000 and not involving utility liens, as-built shop drawings may be maintained in lieu of MYLAR drawings.

15.2 Redhook may erect and maintain suitable signs only within the Subleased Premises and upon receiving the prior written approval of PDA. Redhook shall submit drawings of proposed signs and information on the number, size, type, and location, all of which PDA may review for harmony and conformity with the overall structure and architectural setting of the Subleased Premises and the Airport as well as with FDA's Land Use Control Regulations.

15.3 Notwithstanding any other provision of this Sublease, the right of Redhook to place or construct Alterations in, to or upon the Subleased Premises shall be subject to Condition 17 of the Master Lease.

15.4 In addition to the requirements to provide notice to PDA under this Article 15 in respect to any Alteration, Redhook shall also provide notice to Air Force, EPA and NHDES in the same manner and to the extent required of PDA under Condition 10.16 of the Master Lease. In undertaking any Alteration Redhook shall comply with Condition 10.17 of the Master Lease to the same extent required of FDA.

15.5 Notwithstanding the provisions of Section 15.1, PDA's consent shall not be required with respect to non-structural Alterations that in each instance do not require the independent consent of PDA under PDA Land Use Controls, cost less than One Hundred Thousand Dollars ($100,000) and do not detract from the value of the Subleased Premises.

END OF ARTICLE 15

ARTICLE 16

DESTRUCTION AND RESTORATION

16.1 Subject to the rights of a Subleasehold Mortgagee under Section 19.7, in the event any portion of the Subleased Premises, including any building(s), or other improvements or facilities located on the Subleased Premises, (but excluding movable trade fixtures, furniture and equipment), shall be damaged by fire or other casualty to the extent of fifty percent (50%) or less of the replacement value, as determined by agreement of the Parties, but if the Parties cannot agree, by arbitration under the Commercial Arbitration Rules of the American Arbitration Association (or such other arbitration process as the Parties may agree), such damage shall be repaired by Redhook as promptly as possible and at Redhook's expense so as to restore the same as nearly as possible to the condition prior to such damage. In discharging this obligation Redhook may utilize available insurance in accordance with the provisions of Section 16.5 and Section 16.6 and shall perform such work in accordance with Section 16.7.

16.2 Subject to the rights of a Subleasehold Mortgagee under Section 19.7, in the event of damage to or destruction of any portion or component of the Subleased Premises, including any building(s) or other improvements or facilities on the Subleased Premises (but excluding Redhook's equipment, production facilities, inventory, fixtures, and furniture) by fire or other casualty, to an extent greater than fifty percent (50%), as determined by agreement of the Parties, but if the Parties cannot agree, by arbitration under the Commercial Arbitration Rules of the American Arbitration Association (or such other arbitration process as the Parties may agree), Redhook shall have the election either to terminate this Sublease in accordance with Section 16.3 as it relates to the damaged portions or to repair and restore the damaged portions in accordance with Sections 16.4 and 16.5.

16.3 In the event Redhook elects to terminate this Sublease as allowed in Section 16.2, it shall provide written notice of such termination to PDA within thirty (30) days following the occurrence of such damage or destruction, which termination shall be effective on the third day following the date of receipt of such notice. In such event, the proceeds received from any applicable policy of insurance shall be applied first to removing any debris and restoring the site to a condition satisfactory to PDA, and second to any sums owed by Redhook to PDA. Any balance remaining from any insurance proceeds shall then be apportioned between PDA and Redhook as follows:

First, to PDA, an amount equal to the value of the leasehold improvements made at FDA's expense.

Second, to Redhook, an amount equal to that portion of the proceeds awarded for the buildings, improvements or facilities constructed at Redhook's expense multiplied by a fraction, the numerator of which is the number of months left in the lease term as of the date the damage occurred and the denominator of which is the remaining useful life, expressed in months, of such buildings, improvements or facilities.

Third, to PDA any remaining balance.

16.4 In the event Redhook shall elect to repair and restore the damaged premises in accordance with 16.3, it shall provide written notice of such election to FDA within thirty (30) days following the occurrence of such damage or destruction. In the event Redhook elects to repair the damage or destruction or fails to exercise its option to terminate herein, Redhook shall promptly repair and restore the damaged property to its condition immediately prior to the occurrence of the fire or other cause. All insurance proceeds shall be held by Redhook in a New Hampshire Bank in trust for the mutual benefit of PDA and Redhook, and shall be paid out from time to time as the repair/restoration work progresses. Redhook shall provide PDA with monthly reports of all expenditures from the insurance trust fund and, for any expenditure over seventy-five thousand dollars ($75,000), shall obtain the prior written approval of PDA. Any request for ?DA approval shall be submitted at least fourteen days in advance of the intended payment date and shall be accompanied by sufficient supporting material (including a statement from Redhook that the work subject to the payment request has been satisfactorily performed) to allow PDA to make an informed decision on the propriety of Redhook's payment request. If the total insurance proceeds exceed the amount required to pay the cost of all construction when completed, Redhook shall be entitled to retain such excess.

16.5 Subject to the rights of a Subleasehold Mortgagee under Section 19.7, all insurance money paid on account of any damage or destruction (less the actual cost, fees and expenses, if any, incurred by ?DA in connection with the adjustment of the loss, which costs, fees and expenses shall be paid to PDA) shall be applied, to the payment of the cost of the aforesaid restoration, repairs, replacement, rebuilding or alterations, including the cost of demolition and temporary repairs and for the protection of property pending the completion of permanent restoration, repairs, replacements, rebuilding or alterations (all of which temporary repairs, protection of property and permanent restoration, repairs, replacement, rebuilding or alterations are hereinafter collectively referred to as "restoration"). Such insurance money shall be held and applied in accordance with the terms of this Article.

16.6 All repair/restoration work under this Article shall comply with the provisions of Article 15 of this Sublease applicable to construction work.

16.7 Except as otherwise expressly provided in this Article, no destruction of, or damage to the Subleased Premises or any part thereof by fire or any other cause shall permit Redhook to surrender this Sublease or shall relieve Redhook from its obligations to pay the full ground rent, and additional rent payable under this Sublease or from any of its other obligations under this Sublease, and Redhook waives any rights now or hereafter conferred upon it by statute or otherwise to quit or surrender this Sublease or the Subleased Premises or any suspension, diminution, abatement or reduction of rent on account of any such destruction or damage other than as allowed under this Article.

16.8 Redhook is relieved of the obligation, but may elect, to repair and restore the Premises during the final three (3) years of the Base Term and the final two (2) years of any Extension Term in the event of damage to or destruction to any building(s) or other improvements or facilities on the Subleased Premises to an extent greater than twenty-five percent (25%) of the replacement value, as determined by agreement of the parties but if the parties cannot agree by arbitration under the Commercial Arbitration Rules of the American Arbitration Association (or such other arbitration

process as the Parties may agree), provided; (i) Redhook is not then in default under any provision of this Sublease; (ii) the remaining structures and improvements are made secure and complete by partial repairs to the extent required by applicable building codes, or otherwise by PDA for public safety purposes; (iii) all debris is removed; (iv) Redhook relinquishes to PDA all insurance proceeds attributable to the buildings and improvements (but not to Redhook's equipment and personal property) remaining after completion of such partial repairs and removal of debris; and (v) Redhook surrenders the Subleased Premises if requested by PDA.

END OF ARTICLE 16

ARTICLE 16A

EMINENT DOMAIN

16A.1. In the event that there is a taking by eminent domain of the whole of the Subleased Premises, this Sublease shall terminate and the entire damages attributable to the land area shall accrue to PDA, and that portion of the damages attributable to the capital improvements or buildings shall be divided between PDA and Redhook in the same priority and on the same basis as the allocation of damages under Section 16.3 relating to leasehold improvements. Any remaining balance from damages shall be payable to PDA.

16A.2. In the event that there is a taking by eminent domain of a portion of the Subleased Premises, then this Sublease shall terminate as to the portion taken and the amount of the damages attributable to the area taken shall be apportioned between PDA and Redhook in the same manner as set forth in Section 16/61.1. In the event that the taking shall not be of the entire Subleased Premises, but the part of the Subleased Premises remaining shall not be reasonably sufficient and suitable for Redhook's use and occupancy for the purposes permitted hereunder, then Redhook may terminate this Sublease forthwith. If Redhook so determines and terminates this Sublease, the damages shall be divided between PDA and Redhook as follows: (i) FDA shall receive that portion of the damages allocable to the land; (ii) Redhook shall receive a percentage of the remaining damages, after subtracting PDA's land value, that is equal to the ratio of the undepreciated balance of any improvements made by Redhook at its sole expense calculated over their useful life on a straight line basis as compared with the original basis of such improvements by Redhook for federal tax purposes; and (iii) any remaining balance to PDA.

In the event of such partial taking and an election by Redhook not to terminate this Sublease as herein provided, the total amount of damages shall accrue to PDA, and the rental paid by Redhook shall be reduced in the proportion which the area of the portion taken bears to the area demised under the provisions hereof.

16A.3. Notwithstanding any other provision of this Sublease, in the event of a temporary taking i.e., 2 years or less) this Sublease shall not terminate but shall resume at the expiration of the period within which the taking authority exercises dominion of the area subject to the temporary taking, provided, however, that in such event Redhook shall be under no obligation to pay rent for the portion of the Premises that Redhook is unable to use as a result of the taking and shall be allowed to share in any damages to the extent that the award reflects the fair rental value of the property taken and such value exceeds the established rental, including all applicable charges, required to be paid by Redhook to PDA under this Sublease.

END OF ARTICLE 16A

ARTICLE 17

DEFAULT BY PDA

The occurrence of the following events shall constitute a default and breach of this Sublease by PDA:

The failure by PDA to observe or perform any covenant required to be observed or performed by it where such failure continues for thirty (30) working days after written notice thereof by Redhook to PDA, provided that if the default is such that the same cannot reasonably be cured within such 30 day period, PDA shall not be deemed to be in default if it shall have commenced the cure and thereafter diligently prosecutes the same to completion.

17.1 In the event of any such default by PDA. Redhook may elect among any one or more of the following remedies:

(1) termination of this Sublease;

(2) a rental abatement based on the degree of uninhabitability (as determined by agreement of the Parties) of the Subleased Premises caused by PD A's default but only for the period that such default remains in effect;

(3) subject to available legal and factual defenses,

- a decree or order of a court of competent jurisdiction compelling specific performance by PDA of its obligations under the Sublease;
- a decree or order by a court of competent jurisdiction restraining or enjoining the breach by FDA of any of its obligations under the Sublease;

(4) to the extent allowed by law, the right to undertake to cure PDA's default, in which event PDA shall pay Redhook the reasonable costs incurred in such undertaking, provided that such cost does not exceed the value of the rental payments to FDA due under this Sublease for any one year period. Notwithstanding any other provision of this Sublease, this right to undertake to cure PDA's default shall not extend beyond the Subleased Premises and shall not be exercised in any way that causes disruption or interference with the overall operation of the Airport.

END OF ARTICLE 17

ARTICLE 18

DEFAULT BY REDHOOK

18.1 The occurrence of any of the following events shall constitute a default and breach of this Sublease by Redhook ("Default"):

A. The failure by Redhook to pay when due the ground rent or additional rent or to make any other payment required to be made by Redhook to RDA hereunder where such failure continues for seven (7) working days after written notice thereof by PDA to Redhook.

B. The abandonment or vacation of the Subleased Premises by Redhook while in breach or default of any provision of this Sublease or that lasts for 14 days or more.

C. The failure by Redhook to observe and perform any other provision of this Sublease (including without !imitation its obligations under this Sublease to comply with federal, state and local laws and regulations) to be observed or performed by Redhook, where such failure continues for thirty (30) working days after written notice thereof by PDA to Redhook; provided that if the nature of such default is such that the same cannot reasonably be cured within such thirty-day period, Redhook shall not be deemed to be in default if Redhook shall within such period commence such cure and thereafter diligently prosecutes the same to completion.

D. The making by Redhook of any general assignment for the benefit of creditors; the filing by or against a Redhook of a petition to have Redhook adjudged a bankrupt or of a petition for reorganization or arrangement under any law relating to bankruptcy where possession is not restored to Redhook within sixty (60) days; or the attachment, execution or other judicial seizure of substantially all of Redhook's assets located at the Subleased Premises or of Redhook's interest in this Sublease, where such seizure is not discharged within thirty (30) days, unless such seizure is by a Subleasehold Mortgagee exercising its rights under the Subleasehold Mortgage and said Subleasehold Mortgagee assumes the position of Redhook under the Sublease.

18.2 In the event of any Default by Redhook, PDA shall have the option to terminate this Sublease and all rights of Redhook hereunder by giving written notice of such intention to terminate in the manner specified herein, or PDA may elect among any one or more of the following remedies without limiting any other remedies available to FDA:

(1) subject to available legal and factual defenses,

- a decree or order of a court of competent jurisdiction compelling specific performance by Redhook of its obligations under the Sublease;

- a decree or order by a court of competent jurisdiction restraining or enjoining the breach by Redhook of any of its obligations under the Sublease; and

(2) to the extent allowed by law, the right to undertake to cure Redhook's default, in which event Redhook shall pay PDA the reasonable costs incurred in such undertaking, provided that such cost does not exceed the value of the rental payments to PDA due under this Sublease for the year in which such default occurs. Except for emergency conditions, PDA shall provide Redhook with two (2) business days prior written notice of its intent to exercise the right to undertake to cure Redhook's default. In the event Redhook commences to cure such default within this two (2) day period and diligently prosecutes the same to completion, PDA shall refrain from exercising the right to undertake its own cure of Redhook's default.

In the event that PDA shall elect to so terminate this Sublease, then FDA may recover from Redhook:

(i) any unpaid rent up to the effective date of termination; plus

(ii) any other amount necessary to compensate PDA for all the detriment proximately caused by Redhook's failure to perform its obligations under this Sublease or which in the ordinary course of things would be likely to result therefrom including the discounted value of the rental payments to PDA under the full term of this Sublease not otherwise offset by rentals realized from a subsequent sublease with a third party, including a sublessee provided by Redhook and reasonably acceptable to PDA; plus

(iii) such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable New Hampshire law.

18.3 In the event of any Default by Redhook, PDA shall also have the right, with or without terminating this Sublease, to reenter the Subleased Premises and remove all persons and property from the Subleased Premises to the extent allowed under New Hampshire law. Such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Redhook. Under no circumstances shall FDA be held liable in damages or otherwise by reason of any such reentry or eviction or by reason of the exercise by FDA of any other remedy provided in this Article. All property of Redhook which is stored by PDA may be redeemed by Redhook within thirty (30) days after PDA takes possession upon payment to PDA in full of all obligations then due from Redhook to PDA and of all costs incurred by FDA in providing such storage. If Redhook fails to redeem such property within this thirty (30) day period, PDA may sell the property in any reasonable manner, and shall apply the proceeds of such sale actually collected first against the costs of storage and sale and then against any other obligation due from Redhook.

18.4 In the event of the vacation or abandonment of the Subleased Premises by Redhook for seven (7) days or in the event that PDA shall elect to reenter as provided in Section 18.3 or shall take possession of the Subleased Premises pursuant to any provision of New Hampshire law or pursuant to any notice provided by law, then if PDA does not elect to terminate this Sublease as provided in Section 18.2, PDA may from time to time, without terminating this Sublease, either recover all rental as it becomes due or relet the Subleased Premises or any part thereof for such terms and conditions as PDA in its sole discretion may deem advisable, including the right to make

alterations and repairs to the Subleased Premises. In the event that PDA shall elect to relet, then rentals received by PDA from such reletting shall be applied: first, to the payment of any indebtedness other than rent due hereunder from Redhook to PDA; second, to the payment of any cost of such reletting; third, to the payment of the cost of any alterations and repairs to the Subleased Premises; fourth, to the payment of rent due and unpaid hereunder; and the residue, if any, shall be held by PDA and applied in payment of future rent as the same may become due and payable hereunder. Should the amount of rental received from such reletting during any month which is applied to the payment of rent be less than that required to be paid during that month by Redhook under this Sublease, then Redhook shall pay such deficiency to PDA immediately upon demand by PDA.

Such deficiency shall be calculated and paid monthly. Redhook shall also pay to FDA, as soon as ascertained, any costs and expenses incurred by PDA in such reletting or in making such alterations and repairs not covered by the rentals received from such reletting.

18.5 The various rights and remedies reserved to PDA, including those not specifically described under this Sublease, shall be cumulative, and, except as otherwise provided by New Hampshire statutory law in force and effect at the time of the execution of this Sublease, FDA may pursue any or all of such rights and remedies, whether at the same time or otherwise.

18.6 No delay or omission of PDA to exercise any right or remedy shall be construed as a waiver of any such right or remedy or of any default by Redhook.

18.7 Notwithstanding any other provision of this Lease in the event the breach by Redhook in the reasonable opinion of PDA affects or is likely to affect the efficient operation of the Airport or give rise to public safety concerns, in addition to any other remedy it may have under this Lease, PDA shall also be entitled (but shall not be obligated) to take whatever actions is deemed necessary by PDA to abate or cure such situation and Redhook shall reimburse PDA for all casts incurred by PDA in taking such action.

END OF ARTICLE 18

ARTICLE 19

DELEGATION - ASSIGNMENT - SUBLEASES - MORTGAGES

19.1 Delegation. Redhook shall not have the right to delegate any of its responsibilities or obligations under this Sublease, except as provided in this Article 19.

19.2 Assignment. Redhook may, subject to Condition 20 of the Master Lease, without the approval of PDA, assign its rights under this Sublease to a related entity for which Redhook retains at least fifty-one percent (51%) controlling interest in such entity ("Related Entity"). All other assignments shall be subject to approval of PDA, which approval shall not be withheld unreasonably.

19.3 Subleases. Redhook may not enter into any sublease of the Subleased Premises without PDA's prior written approval. Any request for PDA's approval shall be made at least thirty (30) days prior to the commencement of such tenancy and shall provide detailed information concerning the identity and financial condition of the proposed sublessee and the terms and conditions of the proposed sublease. PDA shall not unreasonably withhold its consent to such sublease if: (1) the use of the Subleased Premises associated with any sublease(s) is permitted under Article 9, (2) the sublease(s) are consistent with the terms and conditions of this Sublease; provided, however, that Redhook may rent the subleased area at rentals deemed appropriate by Redhook, (3) Redhook remains primarily liable to PDA to pay rent and to perform all other obligations to be performed by Redhook under this Sublease, and (4) the proposed sublessee is financially and operationally responsible. In the event the rent for the Subleased Premises exceeds the rental charged to Redhook under Article 4, Redhook shall remit sixty percent (60%) of said excess to PDA upon receipt by Redhook, provided, however, that any rental received by Redhook during a period in which no rental is due to PDA shall be paid in its entirety to PDA.

19.4 Continuing Liability of Redhook. No subletting, assignment or transfer, whether PDA's consent is required or otherwise given hereunder, shall release Redhook's obligations or alter the primary liability of Redhook to pay the rent and to perform all other obligations to be performed by Redhook hereunder. The acceptance of rent by PDA from any other person shall not be deemed to be a waiver by PDA of any provision hereof. Consent to one assignment or subletting shall not be deemed consent to any subsequent assignment or subletting. If any assignee of Redhook or any successor of Redhook defaults in the performance of any of the terms hereof, PDA may proceed directly against Redhook without the necessity of exhausting remedies against such assignee or successor. If Redhook assigns this Sublease, or sublets all or a portion of the Subleased Premises, or requests the consent of PDA to any assignment or subletting, or if Redhook requests the consent of PDA for any act that Redhook proposes to do, then Redhook shall pay PDA's reasonable processing fee and reimburse PDA for all reasonable attorneys' fees incurred in connection therewith. Any assignment or subletting of the Subleased Premises that is not in compliance with the provisions of this Article 19 shall be void and shall, at the option of PDA, terminate this Sublease.

19.5 Bankruptcy. If a petition is filed by or against Redhook for relief under Title 11 of the United States Code, as amended (the "Bankruptcy Code"), and Redhook (including for purposes of this

Section Redhook's successor in bankruptcy, whether a trustee or Redhook as debtor-in-possession) assumes and proposes to assign, or proposes to assume and assign, this Sublease pursuant to the provisions of the Bankruptcy Code to any person or entity who has made a bona fide offer to accept an assignment of this Sublease, then notice of the proposed assignment setting forth (a) the name and address of the proposed assignee, (b) all of the terms and conditions of the offer and proposed assignment, and (c) the adequate assurance to be furnished by the proposed assignee of its future performance under the Sublease, shall be given to PDA by Redhook no later than twenty (20) days after Redhook has made or received such offer, but in no event later than thirty (30) days prior to the date on which Redhook applies to a court of competent jurisdiction for authority and approval to enter into the proposed assignment. If this Sublease is assigned pursuant to the provisions of the Bankruptcy Code, PDA may request from the assignee a guarantee similar to that requested of Redhook under Article 29. Any person or entity to which this Sublease is assigned pursuant to the provisions of the Bankruptcy Code shall be deemed, without further act or documentation, to have assumed all of Redhook's obligations arising under this Sublease on and after the date of such assignment. Any such assignee shall, upon demand, execute and deliver to FDA an instrument confirming such assumption. No provision of this Sublease shall be deemed a waiver of PDA's rights or remedies under the Bankruptcy Code to oppose any assumption and/or assignment of this Sublease, to require a timely performance of Redhook's obligations under this Sublease, or to regain possession of the Premises if this Sublease has neither been assumed nor rejected within sixty (60) days after the date of the order for relief or within such additional time as a court of competent jurisdiction may have fixed. Notwithstanding anything in this Sublease to the contrary, all amounts payable by Redhook to or on behalf of PDA under this Sublease, whether or not expressly denominated as rent, shall constitute rent for the purposes of Section 502(b)(6) of the Bankruptcy Code.

19.6 Notwithstanding any other provision of this Sublease, any assignment, sublease or mortgage shall comply with the provision of Article 25 including the notice requirements of Condition 10.8 of the FFA (as that term is defined in Section 25.8).

19.7 Mortgages. Redhook shall have the right, at any time during the term of this Sublease, to encumber its estate in the Subleased Premises pursuant to one or more mortgages or deeds of trust ("Subleasehold Mortgage") only to provide financing for the cost of any authorized capital improvements with a useful life in excess of five years. No Subleasehold Mortgage shall extend to or affect the fee, the reversionary interest or the estate of PDA and/or the Air Force in or to any land, building or improvements existing or subsequently constructed on the Subleased Premises and all such mortgages shall be subordinate to any security interest in the Subleased Premises or any property of Redhook at the Subleased Premises granted to FDA or the State of New Hampshire in conjunction with any financing assistance under Section 4A.1. No Subleasehold Mortgage shall be binding upon PDA arid/or the Air Force in the enforcement of its rights and remedies herein and by law provided, unless, and until a copy thereof shall have been delivered to PDA and the Air Force and such mortgage is authorized under this Section 19.7. PDA and Redhook agree that so long as any authorized Subleasehold Mortgage is a lien on Redhook's estate in the Subleased Premises, the mortgagee or beneficiary thereunder ("Subleasehold Mortgagee") shall have all of the following rights:

(1) If Redhook shall have delivered to PDA prior written notice of the address of any Subleasehold Mortgagee, PDA will give to the Subleasehold Mortgagee a copy of any notice under this Sublease at the time of giving such notice to Redhook, and will give to the Subleasehold Mortgagee notice received by PDA of any rejection of this Sublease by the trustee in bankruptcy of Redhook or by Redhook as debtor-in-possession. In such case no termination of this Sublease or termination of Redhook's right of possession of the Subleased Premises or reletting of the Subleased Premises by PDA predicated on the giving of any notice shall be effective unless PDA gives to the Subleasehold Mortgagee written notice or a copy of its notice to Redhook of such default or termination, as the case may be. Notices, demands and requests from PDA to the Subleasehold Mortgagee shall be mailed to the address given to PDA by certified or registered mail and notices, demands and requests from the Subleasehold Mortgagee to PDA shall be delivered in the manner and to the address as specified in Article 23 hereof.

(2) In the event of any default by Redhook under the provisions of this Sublease, the Subleasehold Mortgagee will have the same concurrent grace periods as are given Redhook for remedying such default or causing it to be remedied, plus, in each case, an additional period of thirty (30) days after the expiration thereof or after FDA has served a notice or a copy of a notice of default upon the Subleasehold Mortgagee, whichever is later.

(3) In the event Redhook shall default under any of the provisions of this Sublease, the Subleasehold Mortgagee, without prejudice to its rights against Redhook, shall have the right to cure such default within the applicable grace periods provided for in the preceding paragraph of this Section whether the same consists of the failure to pay rent or the failure to perform any other matter or thing which Redhook is hereby required to do or perform, and PDA shall accept such performance on the part of the Subleasehold Mortgagee as though the same had been done or performed by Redhook. For such purpose PDA and Redhook hereby authorize the Subleasehold Mortgagee to enter upon the Subleased Premises and to exercise any of Redhook's rights and powers under this Sublease, and subject to the provisions of this Sublease, under the Subleasehold Mortgage.

(4) The term "incurable default" as used herein means any default which cannot be cured by a Subleasehold Mortgagee. The term "curable default" means any default under this Sublease which is not an incurable default. In the event of any curable default under this Sublease, and if prior to the expiration of the applicable grace period specified in subparagraph (2) of this Section, the Subleasehold Mortgagee shall give PDA written notice that it intends to undertake the curing of such default, or to cause the same to be cured, or to exercise its rights to acquire the leasehold interest of Redhook by foreclosure or otherwise, and shall immediately commence and then proceed with all due diligence to do so, whether by performance on behalf of Redhook of its obligations under this Sublease, or by entry on the Subleased Premises by foreclosure or otherwise, then PDA will not terminate or take any action to effect a termination of this Sublease or re-enter, take possession of or relet the Subleased Premises or similarly enforce performance of this Sublease so long as the Subleasehold Mortgagee is, with all due diligence and in good faith, engaged in the curing of such default, or effecting such foreclosure, provided, however, that the Subleasehold

Mortgagee shall not be required to continue such possession or continue such foreclosure proceedings if such default shall be cured. Nothing herein shall preclude PDA from terminating this Sublease with respect to any additional default which shall occur during the aforesaid period of forbearance and not be remedied within the period of grace, if any, applicable to any such additional default.

(5) In the event that this Sublease is terminated by FDA on account of any incurable default or in the event Redhook's interest under this Sublease shall be sold, assigned, or transferred pursuant to the exercise of any remedy of this Sublease or pursuant to judicial proceedings, and if (i) no rent or other charges shall then be due and payable by Redhook under this Sublease, and (ii) the Subleasehold Mortgagee shall have arranged to the reasonable satisfaction of FDA to cure any curable default of Redhook under this Sublease, then FDA, within thirty (30) days after receiving a written request therefor, which shall be given within sixty (60) days after such termination or transfer and upon payment to it of all expenses, including attorney's fees, incident thereto, PDA will execute and deliver a new lease of the Subleased Premises to the Subleasehold Mortgagee or its nominee or to the purchaser, assignee or transferee, as the case may be, for the remainder of the term of this Sublease, containing the same covenants, agreements, terms, provisions and limitations as are contained herein. Upon the execution and delivery of such new lease, the new tenant, in its own name or in the name of PDA may take all appropriate steps as shall be necessary to remove Redhook from the Subleased Premises, but PDA shall not be subject to any liability for the payment of fees, including reasonable attorney's fees, costs or expenses in connection therewith; and said new tenant shall pay all such fees, including attorney's fees, costs and expenses or, on demand, make reimbursements therefor to PDA.

(6) In the event a default under the Subleasehold Mortgage shall have occurred, the Subleasehold Mortgagee may exercise, with respect to the Subleased Premises, any right, power or remedy under the Subleasehold Mortgage, which is not in conflict with the provisions of this Sublease. Any Subleasehold Mortgagee shall be liable to perform the obligations herein imposed on Redhook only during the period it is in possession or ownership of the leasehold estate created hereby.

(7) This Sublease may be assigned, with the consent of PDA, to or by the Subleasehold Mortgagee or its nominee, pursuant to foreclosure or similar proceedings.

(8) No surrender (except a surrender upon the expiration of the term of this Sublease or upon termination by FDA pursuant and subject to the provisions of this Sublease) by Redhook to PDA of this Sublease, or of the Subleased Premises, or any part thereof, or of any interest therein, and no termination of this Sublease by Redhook shall be valid or effective, and neither this Sublease nor any of the terms hereof may be amended, modified, changed or canceled without prior written consent of the Subleasehold Mortgagee.

Notwithstanding any provision of this Sublease to the contrary, no refinancing of any existing mortgage shall be effective without the advance written approval of PDA.

END OF ARTICLE 19

ARTICLE 20

COMPLIANCE WITH ECONOMIC DEVELOPMENT ADMINISTRATION GRANT COVENANTS

20.1 The Parties acknowledge that the PDA has received a grant from the United States Department of Commerce Economic Development Administration ("EDA") the proceeds from which were used or will be used to make certain improvements to the Subleased Premises, or in the vicinity of the Subleased Premises, that benefit both the PDA and Redhook. (A copy of the EDA grant is attached as Exhibit G.) The Parties further acknowledge that certain covenants in the EDA grant require the inclusion of certain acknowledgements and agreements on the part of any tenant utilizing premises that were improved through use of the EDA grant. In compliance with these requirements and notwithstanding any other provision of this Sublease, Redhook hereby acknowledges and agrees that:

(a) the Subleased Premises were improved, in part, with funding from the EDA Project Number 01-49-03235;

(b) consistent with the requirements of 13 CFR 314.3(a)(1) it shall use the Subleased Premises in a manner consistent with the authorized general and special purposes of the EDA grant;

(c) it shall provide service at the Subleased Premises without discrimination to all persons without regard to their age, race, color, religion, sex, handicap or national origin. In confirmation of the foregoing provisions of this Subsection 20.1(c), Redhook shall execute the applicable EDA forms entitled "Current and Projected Employee Data" and "Assurances of Compliance with Civil Rights and Other Legal Requirements for Other Parties" in the form attached as Exhibit C1-1; and

(d) it shall comply with EDA's Nonrelocation Regulation as set forth in 13 CFR 309.3 until October 20, 1996, which date is 48 months from the date of approval by EDA of the EDA grant. Under this restriction Redhook further acknowledges and agrees that FDA financial assistance may not be used directly or indirectly to assist employers who transfer one or more jobs from one commuting area to another. (For purposes of the preceding sentence a "commuting area" is that area defined by the distance people travel to work in the locality of the project receiving EDA financial assistance.) In confirmation of the foregoing provisions of this Subsection 20.1(d), Redhook shall execute the applicable EDA form entitled "Employer's Certificate of Nonrelocation" in the form attached as Exhibit G-2.

END OF ARTICLE 20

ARTICLE 21

ESTOPPEL CERTIFICATES AND FINANCIAL STATEMENTS

21.1 PDA, on or before twenty (20) days following receipt of a written request from Redhook, and Redhook, on or before twenty (20) days following receipt of a written request from PDA, shall deliver to the Party making such request a statement in writing certifying that this Sublease is unmodified and in. full force and effect (or if there shall have been modifications that the same is in full force and effect as modified and stating the modifications) and the date to which the rent and any other deposits or charges have been paid and stating whether or not, to the best knowledge of the Party executing such certificate (based on reasonable investigation), the Party requesting such statement is in default in the performance of any covenant, agreement or condition contained in this Sublease and, if so, specifying each such default of which the executing Party may have knowledge.

21.2 Redhook, on or before twenty (20) days following receipt of a written request from PDA, shall deliver to PDA its most recently completed annual audited financial statements of Redhook and any parent, subsidiary, or affiliated entities as requested by PDA. If Redhook's stock is not then publicly traded, such statements will be presented for review only at Redhook's offices on the Subleased Premises, and PDA shall not copy or remove the statements nor disclose their contents to any third Party except to the extent Redhook may be obligated to make such disclosure under law.

END OF ARTICLE 21

ARTICLE 22

INVALIDITY OF PARTICULAR PROVISIONS

If any term or provision of this Sublease, or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Sublease, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Sublease shall be valid and be enforced to the fullest extent permitted by law.

END OF ARTICLE 22

ARTICLE 23

NOTICES

Whenever PDA or Redhook shall desire to give or serve upon the other any notice, demand, request or other communication with respect to this Sublease or with respect to the Subleased Premises each such notice, demand, request or other communication shall be in writing and shall not be effective for any purpose unless same shall be given or served by personal delivery to the Party or parties to whom such notice, demand, request or other communication is directed or by mailing the same, in duplicate, to such Party or parties by certified mail, postage prepaid, return receipt requested, addressed as follows:

If to PDA: Pease Development Authority
601 Spaulding Turnpike
Suite 1
Portsmouth, NH 03801-2833

Attention: Executive Director

If to Redhook: Redhook Ale Brewery, Inc.
3400 Phinney Avenue, North
Seattle, WA 98103

Attention: Bradley A. Berg, C.F.O.

or at such other address or addresses as PDA or Redhook may from time to time designate by notice given by certified mail.

Every notice, demand, request or communication hereunder sent by mail shall be deemed to have been given or served as of the second business day following the date of such mailing.

END OF ARTICLE 23

ARTICLE 24

QUIET ENJOYMENT

PDA covenants and agrees that Redhook, upon paying the rent and all other charges herein provided for and observing and keeping all covenants, agreements, and conditions of this Sublease on its part to be observed and kept, shall quietly have and enjoy the Subleased Premises during the term of this Sublease without hindrance or molestation by anyone claiming by or through PDA, subject, however, to the exceptions, reservations and conditions of this Sublease including, but not limited to the provisions of Article 25, Environmental Protection.

END OF ARTICLE 24

ARTICLE 25

ENVIRONMENTAL PROTECTION

25.1 Redhook and any sublessee or assignee of Redhook shall comply with all federal, state, and local laws, regulations, and standards that are or may become applicable to Redhook's or sublessee's or assignee's activities at the Subleased Premises, including but riot limited to, the applicable environmental laws and regulations identified in Exhibit "E", as amended from time to time.

25.2 Redhook and any sublessee or assignee of Redhook shall be solely responsible for obtaining at their cost and expense any environmental permits required for their operations under this Sublease or any sublease or assignment, independent of any existing Airport permits.

25.3 Redhook shall indemnify, defend and hold harmless PDA and the Air Force against and from all claims, judgments, damages, penalties, fines, costs and expenses, liabilities and losses (including, without limitation, diminution in value of the Premises, damages for the loss or restriction on the use of the Premises, and sums paid in settlement of claims, attorneys' fees, consultants' fees and experts' fees), resulting or arising from discharges, emissions, spills, releases, storage, or disposal of any Hazardous Substances, or any other action by Redhook, or any sublessee or assignee of Redhook, giving rise to PDA or Air Force liability, civil or criminal, or responsibility under federal, state or local environmental laws.

This indemnification of PDA and Air Force by Redhook includes, without limitation, any and all claims, judgment, damages, penalties, fines, costs and expenses, liabilities and losses incurred by PDA or Air Force in connection with any investigation of site conditions, or any remedial or removal action or other site restoration work required by any federal, state or local governmental unit or other person for or pertaining to any discharges, emissions, spills, releases, storage or disposal of Hazardous Substances arising or resulting from any act or omission of Redhook or any sublessee or assignee of Redhook at the Subleased Premises after the Occupancy Date. "Occupancy Date" as used herein shall mean the earlier of the first day of Redhook's occupancy or use of the Subleased Premises or the date of execution of this Sublease. "Occupancy" or "Use" shall mean any activity or presence including preparation and construction in or upon the Subleased Premises.

The provisions of this Section shall survive the expiration or termination of the Sublease, and Redhook's obligations hereunder shall apply whenever PDA or the Air Force incurs costs or liabilities for Redhook's actions of the types described in this Article.

25.4 Notwithstanding any other provision of this Sublease, Redhook and its sublessees and assignees do not assume any liability or responsibility for environmental impacts and damage caused by the use by the Air Force of Hazardous Substances on any portion of the Airport, including the Subleased Premises. Redhook and its sublessees and assignees have no obligation to undertake the defense, remediation and cleanup, including the liability and responsibility for the costs of damages, penalties, legal and investigative services solely arising out of any claim or action in existence now, or which may be brought in the future by any person, including governmental units against the Air Force, because of any use of, or release from, any portion of the Airport (including the Subleased

Premises) of any Hazardous Substances prior to the Occupancy Date. Furthermore, the parties recognize and acknowledge the obligation of the Air Force to indemnify PDA and Redhook to the extent required by the provisions of Public Law No. 101-511, Section 8056.

In addition, PDA shall indemnify, defend and hold harmless Redhook against and from any and all claims, judgments, damages, penalties, fines, costs and expenses, liabilities and losses (including, without limitation, diminution in value of the Premises, damages for the loss or restriction on the use of the Premises, and sums paid in settlement of claims, attorneys' fees, consultants' fees and experts' fees), resulting or arising from discharges, emissions, spills, releases, storage or disposal of Hazardous Substances, or any other action by PDA giving rise to Redhook liability or responsibility under federal, state or local environmental laws. This provision shall survive the expiration or termination of the Sublease, and PDA's obligations hereunder shall apply whenever Redhook incurs costs or liabilities for FDA's actions of the types described in this Article.

25.5 As used in this Sublease, the term "Hazardous Substances" means any hazardous or toxic substance, material or waste, oil or petroleum product, which is or becomes regulated by any local governmental authority, the State of New Hampshire or the United States Government. The term "Hazardous Substances" includes, without limitation, any material or substance which is (i) defined as a "hazardous waste," under New Hampshire RSA ch.147-A, (ii) defined as a "hazardous substance" under New Hampshire RSA ch.147-B, (iii) oil, gasoline or other petroleum product, (iv) asbestos, (v) listed under or defined as hazardous substance pursuant to Part He. P 1905 ("Hazardous Waste Rules") of the New Hampshire Code of Administrative Rules, (vi) designated as a "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. § 1317, (vii) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. § 6901 et seq. (42 U.S.C. § 6903), or (viii) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 et seq. (42 U.S.C.§ 9601) and (ix) so defined in the regulations adopted and publications promulgated pursuant to any of such laws, or as such laws or regulations may be further amended, modified or supplemented (collectively "Hazardous Substance Laws").

As used in this Sublease, the terms "release" and "storage" shall have the meanings provided in RSA 147-B:2, as amended, and the term "disposal" shall have the meaning provided in RSA 147-A:2.

25.6 PDA's rights under this Sublease specifically include the right for PDA to inspect the Subleased Premises and any buildings or other facilities thereon for compliance with environmental, safety, and occupational health laws and regulations, whether or not PDA is responsible for enforcing them. Such inspections are without prejudice to the right of duly constituted enforcement officials to make such inspections.

25.7 Notwithstanding any other provision of this Sublease, PDA is not responsible for any removal or containment of asbestos. If Redhook and any sublessee or assignee intend to make any improvements or repairs that require the removal of asbestos, an appropriate asbestos disposal plan must be incorporated in the plans and specifications. The asbestos disposal plan shall identify the proposed disposal site for the asbestos. In addition, non-friable asbestos which becomes friable

through or as a consequence of the activities of Redhook will be abated by Redhook at its sole cost and expense.

25.8 PDA and Redhook acknowledge that the Airport has been identified as a National Priority List (NPL) Site under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) of 1980, as amended. Redhook acknowledges that PDA has provided it with a copy of the Pease Federal Facility Agreement ("FFA") entered into by EPA, and the Air Force on April 24, 1991, and Modification No. 1 thereto, effective March 18, 1993, agrees that it will comply with the terms of the FFA to the extent the same may be applicable to the Subleased Premises and that should any conflict arise between the terms of the FFA and the provisions of this Sublease, the terms of the FFA will take precedence. Redhook further agrees that PDA assumes no liability to Redhook or any sublessee or assignee of Redhook should implementation of the FFA interfere with their use of the Subleased Premises. Redhook and its sublessee(s) and assignee(s) shall have no claim on account of any such interference against PDA or any officer, agent, employee or contractor thereof, other than for abatement of rent.

25.9 The Air Force, EPA, and NIIDES and their officers, agents, employees, contractors, and subcontractors have the right, upon reasonable notice to Redhook and any sublessee or assignee, to enter upon the Subleased Premises for the purposes enumerated in this subparagraph and for such other purposes consistent with the FFA:

(1) to conduct investigations and surveys, including, where necessary, drilling, testpitting, borings and other activities related to the Pease Installation Restoration Program ("IRP") or the FFA;

(2) to inspect field activities of the Air Force and its contractors and subcontractors in implementing the IRP or the FFA;

(3) to conduct any test or survey required by the EPA or NHDES relating to the implementation of the FFA or environmental conditions at the Subleased Premises or to verify any data submitted to the EPA or NI-DES by the Air Force relating to such conditions;

(4) to construct, operate, maintain or undertake any other response or remedial action as required or necessary under the IRP or the FFA, including, but not limited to monitoring wells, pumping wells and treatment facilities.

25.10 Redhook and its sublessees and assignees agree to comply with the provisions of any health or safety plan in effect under the IRP or the FFA during the course of any of the above described response or remedial actions. Any inspection, survey, investigation, or other response or remedial action will, to the extent practicable, be coordinated with representatives designated by Redhook and any sublessee or assignee. Redhook and any sublessee or assignee shall have no claim on account of such entries against the State as defined in FFA or any officer, agent, employee, contractor, or subcontractor thereof.

25.11 Redhook further agrees that in the event of any authorized sublease or assignment of the Subleased Premises, it shall provide to the Air Force, EPA and NHDES by certified mail a copy of

the agreement of sublease or assignment of the Subleased Premises within fourteen (14) days after the effective date of such transaction. Redhook may delete the financial terms and any other proprietary information from any sublease or assignment submitted to the above mentioned entities.

25.12 The Airport air emissions offsets and Air Force accumulation points for hazardous and other wastes will not be made available to Redhook. Redhook shall be responsible for obtaining from some other source(s) any air pollution credits that may be required to offset emissions resulting from its activities under the Sublease.

25.13 Any permit required under Hazardous Substance Laws for the management of Hazardous Substances stored or generated by Redhook or any sublessee or assignee of Redhook shall be obtained by Redhook or its sublessees or assignee and shall be limited to generation and transportation. Any violation of this requirement shall be deemed a material breach of this Sublease. Redhook shall provide at its own expense such hazardous waste storage facilities, complying with all laws and regulations, as it needs for management of its hazardous waste.

25.14 Redhook, and any sublessee or assignee of Redhook whose operations utilize Hazardous Substances, shall have a completed and approved plan for responding to Hazardous Substances spills prior to commencement of operations on the Subleased Premises. Such plan shall be independent of, but not inconsistent with, any plan or other standard of FDA applicable to the Airport and except for initial fire response and/or spill containment, shall not rely on use of the Airport or PDA personnel or equipment. Should PDA provide any personnel or equipment, whether for initial fire response and/or spill containment or otherwise, on request of Redhook. or because Redhook was not, in the opinion of PDA, conducting timely cleanup actions, Redhook agrees to reimburse PDA for its costs.

END OF ARTICLE 25

ARTICLE 26

MISCELLANEOUS

26.1 All rent and all other sums which may from time to time become due and payable by Redhook to PDA under any of the provisions of this Sublease shall be made payable to the "Pease Development Authority" and forwarded by Redhook direct to PDA's Executive Director at the address specified in Article 23. All such rent and other sums if not paid on the due date shall bear interest from and after the due date thereof at the higher of the then current rate applied to legal judgments by the courts of the State of New Hampshire or the rate of eighteen percent (18%) per annum; provided, however, that such interest shall in no event exceed the maximum rate permitted by law.

26.2 In all cases the language in all parts of this Sublease shall be construed simply, according to its fair meaning and not strictly for or against PDA or Redhook.

26.3 The word titles underlying the Article designations contained herein are inserted solely for convenience and under no circumstances are they or any of them to be treated or construed as any part of this instrument.

26.4 In any action or proceeding which either Party may take to enforce such Party's rights hereunder, whether prior to or after breach or termination, or to which such Party may be made a Party because of any matters arising or growing out of this Sublease, and due to the act or default of the other, the Party whose act or default caused the other Party, without fault to become involved in such litigation, or who shall be defeated in such litigation, agrees to pay all costs incurred by the winning or other Party therein, including reasonable attorneys' fees.

26.5 If Redhook should remain in possession of the Subleased Premises after the expiration of the term of this Sublease and without executing a new lease, then such holding over shall be construed as a tenancy from month to month, subject to all the conditions, provisions and obligations of this Sublease insofar as the same are applicable to a month to month tenancy.

26.6 The individual executing this Sublease on behalf of Redhook represents and warrants that he or she is duly authorized to execute and deliver this Sublease on behalf of said entity, and that this Sublease is binding upon said entity in accordance with its terms. A Certificate of Corporate Good Standing issued by the New Hampshire Secretary of State is attached to this Sublease as Exhibit F.

26.7 This Sublease covers in full each and every agreement of every kind or nature whatsoever between the Parties hereto concerning the Subleased Premises and all preliminary negotiations and agreements of every kind or nature whatsoever with respect to the Subleased Premises; and no other person, firm or corporation has at any time had any authority from PDA to make any representations or promises on behalf of PDA, and Redhook expressly agrees that if any such representations or promises have been made by PDA or others, Redhook hereby waives all right to rely thereon. No verbal agreement or implied covenant shall be held to vary the provisions hereof. any statute, law, or custom to the contrary notwithstanding. No provision of this Sublease may be amended or added

to except by an agreement in writing signed by the parties hereto or their respective successors in interest. Redhook acknowledges that it has read this Section and understands it to be a waiver of any right to rely on any representations or agreements not expressly set forth in this Sublease.

26.8 Subject to the provisions hereof, this Sublease shall be binding upon and shall inure to the benefit of the Parties hereto and their respective successors and assigns, and wherever a reference in this Sublease is made to either of the Parties hereto such reference shall be deemed to include., wherever applicable, also a reference to the successors and assigns of such Party, as if in every case so expressed.

26.9 Nothing contained in this Sublease shall be deemed or construed by the Parties hereto or by any third person to create the relationship of principal and agent or of partnership or of joint venture or of any association between PDA and Redhook, and neither the method of computation of rent nor any other provision contained in this Sublease nor any acts of the Parties hereto shall be deemed to create any relationship between PDA and Redhook other than the relationship of landlord and tenant.

26.10 Redhook hereby acknowledges that late payment by Redhook to PDA of rent and other sums due under this Sublease will cause PDA to incur additional costs not contemplated by this Sublease, the exact amount of which will be extremely difficult to ascertain. Such additional costs include, without limitation, processing and accounting charges, and late charges which may be imposed upon PDA by the terms of the mortgage or deed of trust covering the Premises. Therefore, if any installment of rent or any other sum due from Redhook shall not be received on the date that such amount shall be due, Redhook agrees to pay, and shall pay, to PDA a late charge equal to ten percent (10%) of the overdue amount. The Parties hereby agree that such late charge represents a fair and reasonable estimate of the costs PDA will incur by reason of late payment by Redhook. Acceptance of such late charge by PDA shall in no event constitute a waiver of Redhook's default with respect to such overdue amount or prevent PDA from exercising any or all of the other rights and remedies granted under this Sublease.

26.11 Except for Monks & Co., Inc. who has acted for Redhook and whose compensation shall be PDA's sole responsibility in accordance with the authorization of the PDA Board of Directors on November 16, 1994 and February 2, 1995, each Party hereto warrants to the other that it has no dealings with any real estate broker or agent in connection with the negotiation of this Sublease.

26.12 This Sublease shall be construed and enforced in accordance with the laws of the State of New Hampshire.

26.13 Any actions or proceedings with respect to any matters arising under or growing out of this Sublease shall be instituted and prosecuted only in courts located in the State of New Hampshire. Nothing contained in any provision of this Sublease is intended or shall be deemed to constitute a waiver of the sovereign immunity of the State of New Hampshire, which immunity is hereby reserved to PDA and to the State of New Hampshire.

26.14 This instrument may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

26.15 Redhook shall faithfully observe and comply with such rules and regulations as PDA may adopt for the operation of the Airport, which rules and regulations are reasonable and nondiscriminatory as well as all modifications thereof and additions thereto. PDA shall not be responsible to Redhook for the violation or nonperformance by any other tenant of PDA of any of such Rules and Regulations.

26.16 To the extent such rules may apply to the Subleased Premises, Redhook agrees to conform to such additional provisions required, from time to time, by the FAA ("FAA Requirements") or its successor with respect to the operation of the Airport, or a portion thereof. The current FAA Requirements are attached hereto as Exhibit "D" and incorporated herein by reference.

26.17 This Sublease is subject and subordinate to any agreements heretofore or hereafter made between PDA and the United States or the Air Force, the execution of which is required to enable or permit transfer of rights or property to FDA for airport purposes or expenditure of federal grant funds for airport improvement, maintenance or development, including, without limitation, the Application and Acceptance, Master Lease and FFA. Redhook shall abide by requirements of any agreement between FDA and the United States or the Air Force applicable to the Subleased Premises or Redhook's activities at the Airport and shall consent to amendments and modifications of this Sublease if required by such agreements or as a condition of PDA's entry into such agreements.

26.18 PDA, in its sole discretion, shall determine and may from time to time change the routes of surface ingress and egress connecting the Subleased Premises to the Airport roadway system. PDA also reserves the right to further develop the Airport, or such portion of the Airport as is owned or controlled by FDA, as it sees fit, regardless of the desires or views of Redhook and without interference or hindrance, except as otherwise provided in this Sublease.

26.19 Redhook herein covenants by and for itself, its successors and assigns, and all persons claiming under or through it, that this Sublease is made and accepted upon and subject to the following conditions:

That there shall be no discrimination against or segregation of any person or group of persons, on account of race, color, creed, national origin, or ancestry, in the leasing, subleasing, transferring, use, occupancy, tenure, or enjoyment of the Premises herein leased nor shall Redhook, or any person claiming under or through it, establish or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use, or occupancy, of tenants, lessees, sublessees, subtenants, or vendees in the Subleased Premises herein leased.

26.20 All obligations of Redhook to indemnify, defend and hold harmless PDA and to make any monetary payment to PDA, shall survive the termination or expiration of this Sublease.

END OF ARTICLE 26

ARTICLE 27

RIGHT OF FIRST REFUSAL TO PURCHASE SUBLEASED PREMISES

During the term of this Sublease, before it may accept any bona fide offer from a third party to purchase all or any portion of the Subleased Premises upon terms acceptable to it, PDA shall first offer in writing (the "Offer") the Subleased Premises or any portion thereof, for purchase to Redhook upon the same terms and conditions set forth in such third party offer. The Parties acknowledge that any such purchase must include the terms and conditions required by the Airport Transfer Documents or any other agreements to which FDA may be subject in connection with its authorization to sell or dispose of the Subleased Premises.

Redhook shall have the right to accept such Offer in its entirety ("Right to Purchase") by notifying PDA in writing of its acceptance (the "Purchase Acceptance") within thirty (30) days following receipt of such Offer. As soon as practicable following the receipt of the Purchase Acceptance, the Parties shall commence negotiations in good faith for the purpose of finalizing within thirty (30) days of the date of the receipt by FDA of the Purchase Acceptance any additional terms and conditions upon which Redhook shall acquire the Subleased Premises. In the event Redhook shall fail to deliver to PDA the Purchase Acceptance within thirty (30) days of the receipt by Redhook of the Offer, or in the event Redhook shall fail to complete the sale of the Subleased Premises or any portion thereof, within sixty (60) days following PDA's receipt of the Purchase Acceptance, Redhook's Right to Purchase shall terminate and PDA shall be free to sell all or any portion of the Subleased Premises upon such terms and conditions as it deems fit.

Notwithstanding any other provision of this Sublease, Redhook shall have no right to exercise the Right to Purchase at any time during which Redhook is in Default (as defined in Section 18.1) or if FDA determines, in its sole discretion, that the Subleased Premises should not be offered for sale.

If PDA does not transfer the Subleased Premises or any portion thereof, to a third party within one (1) year of the termination of Redhook's Right to Purchase, the Subleased Premises or any portion thereof, shall again become subject to Redhook's rights of first refusal under this Article 27.

In the event Redhook duly exercises its Right to Purchase under this Article 27, Redhook shall receive a credit against the purchase price equal to ten percent (10%) of the Area Rent paid by Redhook and received by PDA following the expiration of the tenth (10th) year from which Area Rent commenced in accordance with Article 4, provided, however, that (i) in the event the purchase is of a portion of the Subleased Premises the amount of the credit shall be the product obtained by multiplying the allowed ten percent (10%) Area Rent credit by a fraction the numerator of which is the total land area (in square feet) comprising the portion of the Subleased Premises to be sold and the denominator of which is the total land area (in square feet) comprising the Subleased Premises at the time of exercise of Redhook's Right to Purchase; and (ii) in no event shall the credit exceed ten percent (10%) of the purchase price.

END OF ARTICLE 27

EXECUTION

IN WITNESS WHEREOF, PDA and Redhook have executed this Sublease effective as of this 30th day of May, 1995.

PEASE DEVELOPMENT AUTHORITY

By: /s/L. Eugene Schneider

Its: Executive Director

REDHOOK ALE BREWERY, INC.

By: /s/Paul Shipman

Its: President

STATE OF NEW HAMPSHIRE)
)ss.
COUNTY OF Rockingham)

On this 2ND day of June 1995, before me, Susan MacDonald, a Notary Public in and for said County and State, personally appeared L. Eugene Schneider, personally known to me (or proved to me on the basis of satisfactory evidence) to be the Executive Director of Pease Development Authority, a state agency corporation, the corporation that executed the within instrument and acknowledged to me that said corporation executed it.

/s/ Susan MacDonald
Notary Public in and for said County and State

SUSAN A. MACDONALD, Notary Public
My Commission Expires March 25, 1997

STATE OF WASHINGTON)
)ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that Paul Shipman is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the President of Redhook Ale Brewery, Inc., to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

DATED: May 30, 1995.

(Seal or stamp) Douglas Raff
Notary Signature

Douglas A. Raff
Print/Type Name
Notary Public in and for the State of
Washington, residing at Seattle
My appointment expires 6/9/97

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 333-219638, and Form S-8 Nos. 333-90524, 333-18945, 333-197251, and 333-171372) of our reports dated March 7, 2018, relating to the consolidated financial statements of Craft Brew Alliance, Inc., and the effectiveness of internal control over financial reporting of Craft Brew Alliance, Inc., appearing in this Annual Report (Form 10-K) for the year ended December 31, 2017.

/s/ Moss Adams LLP

Portland, Oregon
March 7, 2018

EXHIBIT 24.1

POWER OF ATTORNEY

Each person below designates and appoints ANDREW J. THOMAS and JOSEPH K. VANDERSTELT his true and lawful attorney-in-fact and agent, with full power of substitution, to sign the Annual Report on Form 10-K for the year ended December 31, 2017, of Craft Brew Alliance, Inc., a Washington corporation, and any amendments thereto, and to file said report and amendments, with all exhibits thereto, in such form as they or either of them may approve with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Each of such attorneys-in-fact is appointed with full power to act without the other.

IN WITNESS WHEREOF, this power of attorney has been executed by each of the undersigned as of March 7, 2018.

Signature	**Title**
/s/ David R. Lord David R. Lord	Chairman of the Board and Director
/s/ Timothy P. Boyle Timothy P. Boyle	Director
/s/ Marc J. Cramer Marc J. Cramer	Director
/s/ Paul D. Davis Paul D. Davis	Director
/s/ Kevin R. Kelly Kevin R. Kelly	Director
/s/ Nickolas A. Mills Nickolas A. Mills	Director
/s/ Michael R. Taylor Michael R. Taylor	Director
/s/Jacqueline S. Woodward Jacqueline S. Woodward	Director

EXHIBIT 31.1

CERTIFICATION

I, Andrew J. Thomas, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 7, 2018

By: /s/ Andrew J. Thomas

Andrew J. Thomas

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Joseph K. Vanderstelt, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 7, 2018

By: /s/ Joseph K. Vanderstelt

Joseph K. Vanderstelt

Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Annual Report of Craft Brew Alliance, Inc. (the "Registrant") on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission on March 7, 2018 (the "Report"), Andrew J. Thomas, the Chief Executive Officer of the Registrant, and Joseph K. Vanderstelt, the Chief Financial Officer of the Registrant, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

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

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

Date: March 7, 2018

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

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

FOR IMMEDIATE RELEASE

CRAFT BREW ALLIANCE REPORTS RECORD PERFORMANCE IN 2017 AND EXPECTS CONTINUED IMPROVEMENTS IN 2018

- *2017 delivered against CBA's long-term strategy to strengthen the topline and improve core business health, led by 10% depletions growth for Kona, record gross margin expansion, and robust EPS gains*
- *2018 outlook reflects growing confidence and increasing momentum in leveraging our enhanced AB partnership as we continue to harness Kona's potential, sharpen the role of our strategic local brands, strengthen revenue management, and drive value through operational improvements*

Portland, Ore. (Mar 7, 2018) - Craft Brew Alliance, Inc. ("CBA") (Nasdaq: BREW), a leading craft brewing company, today announced final financial results for the fourth quarter and year ended December 31, 2017 in line with preliminary results reported Feb. 1, 2018. CBA's strong full-year results reflect significant and anticipated progress against our long-term strategy to strengthen our topline and improve the core health of our business. Highlights from the year include continued double-digit depletion growth for Kona amidst unprecedented market dynamics that challenged our industry, record gross margin expansion driven by net revenue per barrel growth and ongoing operational improvements, and robust GAAP earnings per diluted share ("EPS") performance of $0.49. On a non-GAAP basis, EPS was $0.14, excluding the effect of a favorable one-time, non-cash tax benefit of $0.35 per share related to 2017 U.S. tax reform.

Delivering 10% growth for Kona in 2017

CBA maintained double-digit growth for Kona in 2017, delivering a 10% increase in Kona depletions, which includes 23% depletions growth for Kona flagship Big Wave Golden Ale and 45% shipment growth for Kona internationally. Hanalei Island IPA, which Kona debuted nationally in 2017, ended the year in the top five of all new craft brands in the U.S. as measured in grocery sales by Nielsen. For the first eight weeks of 2018, Kona depletions have increased 10% over the same period in 2017.

Driving incremental value through AB partnership

We achieved several strategic objectives as part of our enhanced agreements with Anheuser-Busch ("AB") in 2017, including aligning our brands in AB's wholesaler planning processes, starting up brewing operations in AB's Fort Collins brewery to drive incremental cost savings, and continuing to seed Kona's international expansion in a deliberate and thoughtful way.

Achieving record improvement in core business fundamentals

CBA delivered net sales growth of 2%, gross profit improvement of 9%, and record gross margin of 31.5%, including beer gross margin of 35.3%, in 2017. These improvements were achieved while simultaneously shutting down brewing operations in Memphis and Woodinville, starting up brewing operations in Fort Collins, and reducing wholesaler inventories by 10 days, which impacted shipment growth. The inventory reduction effort represented approximately 25,000 barrels, which equates to 3% of shipments. In 2018, we will continue to leverage our headway in cost reduction and operating efficiencies to reinvest in our sales and marketing infrastructure.

Select financial results for the full year 2017:

- Depletions decreased 1% compared to 2016, in line with updated guidance.
  - Kona depletions grew 10%, which includes strong 5% growth in its home market of Hawaii.
  - Through ongoing efforts to focus and strengthen our regional brands in their home markets, Widmer Brothers grew share in Oregon despite depletions being down 7%, and our partner brands each grew share

in their respective markets. Over the prior year, our partner brands, Appalachian Mountain Brewery, Cisco Brewers, and Wynwood Brewing grew depletions 41%.
    - While Omission depletions decreased by 2% compared to 2016, the launch of Omission Ultimate Light, a new 99-calorie, 5-carb, gluten-removed golden ale, in the second half of 2017 drove a 10% depletions increase in the fourth quarter. For the first eight weeks of 2018, Omission depletions increased 19% compared to the same period in 2017.
- Shipments decreased 3.5% compared to 2016, which is in line with updated guidance and reflects the significant 2017 wholesaler inventory reduction of 10 days, which equated to a 3% decrease in shipments as described above.
- Net sales were $207.5 million, a 2% increase over 2016, primarily due to increases in average unit pricing, alternating proprietorship sales, international distribution fees earned from AB, and Pabst contract shortfall fees.
- Total gross margin expanded 210 basis points to 31.5%, compared to 29.4% in 2016, in line with guidance.
    - CBA's beer gross margin expanded 320 basis points to 35.3%, underscoring record achievements in improving our operating performance.
    - Pub gross margin decreased 690 basis points to 6.7%, primarily reflecting the impact of the closure of our Woodinville brewery as we put the facility and pub up for sale, as well as the temporary closure of our Portland pub for a remodel.
- Selling, general and administrative expense ("SG&A") increased by $1.2 million to $60.5 million and was 29.1% of net sales. The total reflects a favorable $1.0 million Pabst contract settlement fee, partially offset by an impairment charge of $0.5 million related to the sale of our Woodinville brewery.
- EPS was $0.49, compared to a loss of $0.02 per share in 2016.
    - Due to the change in federal tax law, we adjusted our deferred tax liabilities, resulting in a favorable non-cash income tax adjustment of $6.9 million, or $0.35 per share.
    - CBA's adjusted EPS improvement to $0.14 per share for the year also reflects 9% growth in gross profit driven by 2% growth in net sales and 210-basis-point gross margin expansion.
- Capital expenditures were $18.3 million, compared to $15.7 million in 2016, and primarily represent investments in Kona's new brewery, Redhook's new Seattle brewpub, and our Portland brewery to support our footprint optimization.

Select financial results for the fourth quarter 2017:
- Depletions decreased 3% from the fourth quarter of 2016, partially offset by Kona, which increased by 6%.
- Shipments decreased 5.6% over the same period last year.
- Net sales were $46.0 million and flat compared to the fourth quarter in 2016.
- Total gross margin increased by 310 basis points to 32.4% over the fourth quarter last year. Beer gross margin for the fourth quarter was 37.6%, or 540 basis points higher than the same period in 2016.
- SG&A increased by $0.2 million to $13.1 million, and was 28.5% of net sales. Fourth quarter SG&A reflects a favorable $1.0 million Pabst contract settlement fee to CBA, partially offset by an impairment charge of $0.5 million related to the sale of our Woodinville brewery.
- Diluted EPS for the quarter was $0.40, compared to zero earnings per share in the fourth quarter of 2016.
    - Due to the change in federal tax law, we adjusted our deferred tax liabilities, resulting in a favorable income tax adjustment of $6.9 million, or $0.35 per share.
    - Our adjusted EPS improvement to $0.05 for the fourth quarter was also driven by 11% growth in gross profit related to a 300-basis-point increase in gross margin.

"2017 was a very good year for CBA. We combined strong progress in our strategic initiatives with record results operationally to deliver the best financial year in our company's history…all within the most competitive beer market in recent memory," said CBA CEO Andy Thomas.

Confirming financial guidance for 2018:

Our outlook for 2018 reflects growing confidence and increasing momentum in leveraging our enhanced AB partnership as we harness Kona's growth potential, sharpen the role of our strategic local brands, and strengthen revenue management, while continuing to drive operational improvements.

We are confirming our previously reported guidance for 2018 as follows:
- Depletions are expected to range between a decline of 2% and an increase of 3%. As evidence of our continued progress harmonizing our supply chain, we also expect shipments to range between a decline of 2% and an increase of 3%.

- Average price increases of 1% to 3%, reflecting improved revenue management capabilities and lower federal excise taxes.
- Gross margin rate of 32.0% to 35.0%, reflecting increases in net revenue per barrel, continued improvements in brewery operations, lower fixed overhead, and ongoing efforts to stabilize our pub operations.
- SG&A expense ranging from $59 million to $61 million, primarily reflecting reinvestment of cost savings into our sales and marketing infrastructure, as well as expanded consumer and trade programming.
- Capital expenditures of approximately $16 million to $19 million, including our new Kona brewery and the addition of a new can line in our Portland brewery to address consumer demand.
- Effective tax rate of 27%.

“CBA’s 2017 financial results demonstrate continued traction in delivering on our strategy to strengthen the topline while improving the core health of our business,” said CBA CFO Joe Vanderstelt. “In 2018, we are focused on leveraging our advancements in operational efficiencies and revenue management capabilities to continue improving our financial fundamentals and ability to invest in our brands.”

Forward-Looking Statements

Statements made in this press release that state the Company’s or management’s intentions, hopes, beliefs, expectations or predictions of the future, including depletions and shipments, price increases, and gross margin rate improvement, the level and effect of SG&A expense and business development, anticipated capital spending, effective tax rate, and the benefits or improvements to be realized from strategic initiatives and capital projects, are forward-looking statements. It is important to note that the Company’s actual results may differ materially from those projected in such forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained from time to time in the Company’s SEC filings, including, but not limited to, the Company’s report on Form 10-K for the year ended December 31, 2017. Copies of these documents may be found on the Company’s website, www.craftbrew.com, or obtained by contacting the Company or the SEC.

About Craft Brew Alliance

Craft Brew Alliance (CBA) is an independent craft brewing company that brews, brands, and brings to market world-class American craft beers.

Our distinctive portfolio combines the power of Kona Brewing Company, a top national craft beer brand, with strong regional breweries and innovative lifestyle brands Appalachian Mountain Brewery, Cisco Brewers, Omission Brewing Co., Redhook Brewery, Square Mile Cider Co., Widmer Brothers Brewing, and Wynwood Brewing Co. CBA nurtures the growth and development of its brands in today’s increasingly competitive beer market through our state-of-the-art brewing and distribution capability, integrated sales and marketing infrastructure, and strong focus on partnerships, local community and sustainability.

Formed in 2008, CBA is headquartered in Portland, Oregon and operates breweries and brewpubs across the U.S. CBA beers are available in all 50 U.S. states and 30 different countries around the world. For more information about CBA and our brands, please visit www.craftbrew.com.

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	**2016**	**2017**	**2016**
Sales	$ 48,537	$ 48,880	$ 219,547	$ 215,627
Less excise taxes	2,571	3,076	12,091	13,120
Net sales	45,966	45,804	207,456	202,507
Cost of sales	31,090	32,394	142,198	142,908
Gross profit	14,876	13,410	65,258	59,599
As percentage of net sales	32.4 %	29.3 %	31.5 %	29.4%
Selling, general and administrative expenses	13,106	12,876	60,463	59,224
Operating income	1,770	534	4,795	375
Interest expense	(182)	(189)	(715)	(709)
Other income (expense), net	7	9	(39)	28
Income (loss) before income taxes	1,595	354	4,041	(306)
Income tax provision (benefit)	(6,240)	278	(5,482)	14
Net income (loss)	$ 7,835	$ 76	$ 9,523	$ (320)
Income (loss) per share:				
Basic	$ 0.41	$ —	$ 0.49	$ (0.02)
Diluted	$ 0.40	$ —	$ 0.49	$ (0.02)
Weighted average shares outstanding:				
Basic	19,302	19,259	19,284	19,225
Diluted	19,507	19,361	19,447	19,225
Total shipments (in barrels):				
Core Brands	158,000	165,400	730,600	748,900
Contract Brewing	4,000	6,200	17,700	26,700
Total shipments	162,000	171,600	748,300	775,600
Change in depletions [1]	(3)%	(3)%	(1)%	—%

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

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

	December 31,	
	2017	**2016**
Current assets:		
Cash and cash equivalents	$ 579	$ 442
Accounts receivable, net	27,784	24,008
Inventory, net	13,844	19,091
Assets held for sale	22,946	—
Other current assets	4,335	2,495
Total current assets	69,488	46,036
Property, equipment and leasehold improvements, net	106,283	121,970
Goodwill	12,917	12,917
Intangible, equity method investment and other assets, net	20,949	19,482
Total assets	$ 209,637	$ 200,405
Current liabilities:		
Accounts payable	$ 14,338	$ 16,076
Accrued salaries, wages and payroll taxes	5,877	4,967
Refundable deposits	4,816	6,486
Other accrued expenses	5,753	4,108
Current portion of long-term debt and capital lease obligations	699	1,317
Total current liabilities	31,483	32,954
Long-term debt and capital lease obligations, net of current portion	32,599	27,946
Other long-term liabilities	14,764	19,844
Total common shareholders' equity	130,791	119,661
Total liabilities and common shareholders' equity	$ 209,637	$ 200,405

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

	Twelve Months Ended December 31,	
	2017	**2016**
Cash flows from operating activities:		
Net income (loss)	$ 9,523	$ (320)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	10,457	10,862
Loss on sale or disposal of Property, equipment and leasehold improvements	428	96
Deferred income taxes	(5,400)	360
Other, including stock-based compensation and impairment of assets held for sale	2,348	1,741
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,776)	(5,082)
Inventories	5,500	(1,614)
Other current assets	(1,840)	(55)
Accounts payable and other accrued expenses	277	1,515
Accrued salaries, wages and payroll taxes	910	(501)
Refundable deposits	(1,649)	442
Net cash provided by operating activities	16,778	7,444
Cash flows from investing activities:		
Expenditures for Property, equipment and leasehold improvements	(18,342)	(15,722)
Proceeds from sale of Property, equipment and leasehold improvements	95	75
Expenditures for long-term deposits	—	(925)
Investment in Wynwood	(2,101)	—
Net cash used in investing activities	(20,348)	(16,572)
Cash Flows from Financing Activities:		
Principal payments on debt and capital lease obligations	(709)	(605)
Net borrowings under revolving line of credit	4,224	9,198
Proceeds from issuances of common stock	219	172
Tax payments related to stock-based awards	(27)	(106)
Net cash provided by financing activities	3,707	8,659
Increase (decrease) in Cash and cash equivalents	137	(469)
Cash and cash equivalents, beginning of period	442	911
Cash and cash equivalents, end of period	$ 579	$ 442

Supplemental Disclosures Regarding Non-GAAP Financial Information

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	2016	2017	2016
Net income (loss)	$ 7,835	$ 76	$ 9,523	$ (320)
Interest expense	182	189	715	709
Income tax provision (benefit)	(6,240)	278	(5,482)	14
Depreciation expense	2,488	2,737	10,197	10,663
Amortization expense	65	69	260	199
Stock-based compensation	371	446	1,316	1,087
Loss on impairment of assets	493	—	493	—
Loss on disposal of assets	264	80	428	96
Adjusted EBITDA	$ 5,458	$ 3,875	$ 17,450	$ 12,448

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

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