

CRAFT BREW ALLIANCE, INC.  
Form 10-Q  
May 08, 2013

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

FORM 10-Q

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

For The Quarterly Period Ended March 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-26542

CRAFT BREW ALLIANCE, INC.  
(Exact name of registrant as specified in its charter)

Washington  
(State or other jurisdiction of incorporation or organization)

91-1141254  
(I.R.S. Employer Identification No.)

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

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

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

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

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

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Large Accelerated Filer   
Non-accelerated Filer  (Do not check if a smaller reporting company)

Accelerated Filer   
Smaller Reporting Company

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

The number of shares of the registrant's common stock outstanding as of April 30, 2013 was 18,911,081.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

CRAFT BREW ALLIANCE, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(Dollars in thousands, except per share amounts)

	March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash	\$ 1,725	\$ 5,013
Accounts receivable, net	10,948	10,512
Inventories	13,998	11,749
Deferred income tax asset, net	1,336	1,250
Other current assets	4,107	3,809
Total current assets	32,114	32,333
Property, equipment and leasehold improvements, net	103,272	102,852
Goodwill	12,917	12,917
Intangible and other assets, net	17,481	17,562
Total assets	\$ 165,784	\$ 165,664
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 16,120	\$ 12,255
Accrued salaries, wages and payroll taxes	4,095	5,267
Refundable deposits	8,203	7,896
Other accrued expenses	1,103	1,066
Current portion of long-term debt and capital lease obligations	645	642
Total current liabilities	30,166	27,126
Long-term debt and capital lease obligations, net of current portion	12,246	12,440
Fair value of derivative financial instruments	127	219
Deferred income tax liability, net	16,048	17,156
Other liabilities	538	528
Total liabilities	59,125	57,469
Commitments and contingencies		
Common shareholders' equity:		
Common stock, \$0.005 par value. Authorized 50,000,000 shares; issued and outstanding 18,911,081 and 18,874,256	95	94
Additional paid-in capital	136,210	136,030
Accumulated other comprehensive loss	(78 )	(135 )
Accumulated deficit	(29,568 )	(27,794 )

Total common shareholders' equity	106,659	108,195
Total liabilities and common shareholders' equity	\$165,784	\$ 165,664

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

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

	Three Months Ended	
	March 31, 2013	2012
Sales	\$39,381	\$41,612
Less excise taxes	2,772	3,113
Net sales	36,609	38,499
Cost of sales	27,666	26,792
Gross profit	8,943	11,707
Selling, general and administrative expenses	11,760	10,373
Operating income (loss)	(2,817 )	1,334
Interest expense	(156 )	(166 )
Interest and other income (expense), net	(23 )	5
Income (loss) before income taxes	(2,996 )	1,173
Income tax provision (benefit)	(1,222 )	475
Net income (loss)	\$(1,774 )	\$698
Basic and diluted net income (loss) per share	\$(0.09 )	\$0.04
Shares used in basic per share calculations	18,884	18,845
Shares used in diluted per share calculations	18,884	18,911

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

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

	For the Three Months Ended March	
	31,	
	2013	2012
Net income (loss)	\$ (1,774 )	\$ 698
Unrealized gains on derivative hedge transactions, net of tax	57	46
Comprehensive income (loss)	\$ (1,717 )	\$ 744

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

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

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$(1,774 )	\$698
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,953	1,845
Deferred income taxes	(1,230 )	411
Stock-based compensation	102	134
Other	144	(235 )
Changes in operating assets and liabilities:		
Accounts receivable, net	(436 )	2,317
Inventories	(2,368 )	(2,737 )
Other current assets	(297 )	(300 )
Accounts payable and other accrued expenses	3,352	3,135
Accrued salaries, wages and payroll taxes	(1,172 )	(527 )
Refundable deposits	409	(134 )
Net cash (used in) provided by operating activities	(1,317 )	4,607
Cash flows from investing activities:		
Expenditures for property, equipment and leasehold improvements	(1,902 )	(1,798 )
Proceeds from sale of property, equipment and leasehold improvements	-	29
Net cash used in investing activities	(1,902 )	(1,769 )
Cash flows from financing activities:		
Principal payments on debt and capital lease obligations	(163 )	(148 )
Proceeds from issuances of common stock	94	-
Net cash used in financing activities	(69 )	(148 )
Increase (decrease) in cash	(3,288 )	2,690
Cash:		
Beginning of period	5,013	795
End of period	\$1,725	\$3,485
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$182	\$193
Cash paid for income taxes, net	2	374
Supplemental disclosure of non-cash information:		
Purchases of Property, equipment and leasehold improvements included in Accounts payable	\$540	\$-



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

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

Note 1. Basis of Presentation

The accompanying consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012 (“2012 Annual Report”). These consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements are unaudited but, in the opinion of management, reflect all material adjustments necessary to present fairly our consolidated financial position, results of operations and cash flows for the periods presented. All such adjustments were of a normal, recurring nature. The results of operations for such interim periods are not necessarily indicative of the results of operations for the full year.

Note 2. Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. (“ASU”) 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income (“AOCI”) by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. The adoption of ASU 2013-02 effective January 1, 2013 did not have any effect on our financial position, results of operations or cash flows.

In July 2012, the FASB issued ASU 2012-02, “Intangibles – Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment,” which permits an entity to make a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. Entities are required to test indefinite-lived intangible assets for impairment at least annually and more frequently if indicators of impairment exist. If an entity concludes, based on an evaluation of all relevant qualitative factors, that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it is not required to perform the quantitative impairment test for that asset. Because the qualitative assessment is optional, an entity is permitted to bypass it for any indefinite-lived intangible asset in any period and apply the quantitative test. ASU 2012-02 also permits the entity to resume performing the qualitative assessment in any subsequent period. ASU 2012-02 was effective for impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption was permitted. The adoption of ASU 2012-02 in January 2013 did not have any effect on our financial position, results of operations or cash flows.

Note 3. Cash

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 March 31, 2013, and December 31, 2012, bank overdrafts of \$2.1 million and \$1.1

million, respectively, were included in Accounts payable on our Consolidated Balance Sheets. Changes in book overdrafts from period to period are reported in the Consolidated Statement of Cash Flows as a component of operating activities within Accounts payable and other accrued expenses.

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## Note 4. Inventories

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

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

Inventories consisted of the following (in thousands):

	March 31, 2013	December 31, 2012
Raw materials	\$ 3,437	\$ 2,497
Work in process	3,412	3,552
Finished goods	4,650	3,263
Packaging materials	477	544
Promotional merchandise	1,731	1,552
Pub food, beverages and supplies	291	341
	\$ 13,998	\$ 11,749

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

## Note 5. Related Party Transactions

## Note Payable

In connection with our merger with Kona Brewing Company in 2010 (the "KBC Merger"), we assumed an obligation for a promissory note payable ("Related Party Note") to a counterparty that was a significant KBC shareholder and remains a shareholder of Craft Brew Alliance, Inc. The Related Party Note is secured by the equipment comprising a photovoltaic cell generation system ("photovoltaic system") installed at our brewery located in Kailua-Kona, Hawaii. Accrued interest on the Related Party Note is due and payable monthly at a fixed interest rate of 4.75%, with monthly loan payments of \$16,129. Any unpaid principal balance and unpaid accrued interest under the Related Party Note will be due and payable on November 15, 2014. The balance on the Related Party Note was \$302,000 and \$346,000 as of March 31, 2013 and December 31, 2012, respectively.

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

Transactions with A-B consisted of the following (in thousands):

	Three Months Ended March 31,	
	2013	2012
Gross sales to A-B	\$32,266	\$33,606
Margin fee paid to A-B, classified as a reduction of Sales	404	453
Sales to Fulton Street Brewery, LLC ("FSB"), through a contract brewing arrangement, classified in Sales(1)	-	1,378
Handling, inventory management, royalty and other fees paid to A-B, classified in Cost of sales	100	114
	-	4

Amounts received from A-B for lost keg fees and forfeited deposits, included as a reduction of Property, equipment and leasehold improvements, net

(1)FSB is a wholly-owned subsidiary of A-B.

Effective September 1, 2012, in the best interest of both parties, we mutually agreed with FSB to end our contract brewing arrangement. Under the termination agreement, we phased out production of FSB branded beers through November 2012 utilizing remaining inventory on-hand. In consideration, FSB is paying us \$70,000 per month through September 2013.

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

	March 31, 2013	December 31, 2012
Amounts due from A-B related to beer sales pursuant to the A-B distributor agreement	\$ 6,847	\$ 6,369
Amounts due from FSB related to beer sales pursuant to a contract brewing arrangement	140	260
Amounts due from FSB related to termination agreement	420	630
Refundable deposits due to A-B	(2,627 )	(2,472 )
Amounts due to A-B for services rendered	(2,008 )	(1,974 )
Net amount due from A-B	\$ 2,772	\$ 2,813

## Operating Leases

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

Three Months Ended	
March 31,	
2013	2012
\$	\$