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Crimson Wine Group, Ltd  
Form 10-Q  
November 09, 2016  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from to

Commission File Number 000-54866

CRIMSON WINE GROUP, LTD.

(Exact name of registrant as specified in its Charter)

Delaware

13-3607383

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification Number)

2700 Napa Valley Corporate Drive, Suite B, Napa, California

94558

(Address of Principal Executive Offices)

(Zip Code)

(800) 486-0503

(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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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.

|                         |                           |
|-------------------------|---------------------------|
| Large accelerated filer | Accelerated filer         |
| Non-accelerated filer   | Smaller reporting company |

(Do not check if a 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

On November 4, 2016 there were 24,002,528 outstanding shares of the Registrant's Common Stock, par value \$.01 per share.

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CRIMSON WINE GROUP, LTD.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited).

## CRIMSON WINE GROUP, LTD.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts and par value)

(Unaudited)

|   | September<br>30, 2016 | December<br>31, 2015 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Current assets:   |                       |                      |
| Cash and cash equivalents   | \$ 8,418              | \$ 18,333            |
| Investments available for sale  | 24,338                | 25,423               |
| Accounts receivable, net  | 6,710                 | 6,121                |
| Inventory   | 65,574                | 55,636               |
| Other current assets  | 1,562                 | 1,851                |
| Total current assets  | 106,602               | 107,364              |
| Property and equipment, net   | 118,500               | 111,635              |
| Goodwill  | 1,196                 | 1,053                |
| Intangible assets and other non-current assets  | 15,174                | 15,894               |
| Total non-current assets  | 134,870               | 128,582              |
| Total assets  | \$ 241,472            | \$ 235,946           |
| Liabilities   |                       |                      |
| Current liabilities:  |                       |                      |
| Accounts payable  | \$ 8,750              | \$ 3,936             |
| Accrued compensation related expenses   | 2,175                 | 2,504                |
| Other accrued expenses  | 3,338                 | 2,584                |
| Customer deposits   | 1,572                 | 385                  |
| Current portion of long-term debt, net of unamortized loan fees   | 634                   | 633                  |
| Total current liabilities   | 16,469                | 10,042               |
| Long-term debt, net of current portion and unamortized loan fees  | 14,806                | 15,282               |
| Deferred rent, non-current  | 105                   | 120                  |
| Deferred tax liability  | 3,989                 | 3,642                |
| Total non-current liabilities   | 18,900                | 19,044               |
| Total liabilities   | 35,369                | 29,086               |
| Equity  |                       |                      |
| Common shares, par value \$0.01 per share, authorized 150,000,000 shares; 24,038,474 and 24,306,556 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively | 240                   | 243                  |
| Additional paid-in capital  | 277,520               | 277,520              |
| Accumulated other comprehensive income (loss)   | 54                    | (47)                 |
| Accumulated deficit   | (71,711)              | (70,856)             |
| Total equity  | 206,103               | 206,860              |
| Total liabilities and equity  | \$ 241,472            | \$ 235,946           |

See accompanying notes to unaudited interim condensed consolidated financial statements.



CRIMSON WINE GROUP, LTD.  
 CONDENSED CONSOLIDATED INCOME STATEMENTS  
 (In thousands, except per share amounts)  
 (Unaudited)

|   | Three Months Ended |           | Nine Months Ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September 30,      |           | September 30,     |           |
|   | 2016               | 2015      | 2016              | 2015      |
| Net sales   | \$ 15,838          | \$ 14,023 | \$ 46,627         | \$ 42,531 |
| Cost of sales   | 7,948              | 7,063     | 23,516            | 19,801    |
| Gross profit  | 7,890              | 6,960     | 23,111            | 22,730    |
| Operating expenses:   |                    |           |                   |           |
| Sales and marketing   | 4,169              | 3,570     | 12,004            | 10,143    |
| General and administrative                                  | 2,440              | 2,553     | 8,235             | 7,744     |
| Total operating expenses                                    | 6,609              | 6,123     | 20,239            | 17,887    |
| Net loss (gain) on disposal of property and equipment       | 146                | 7         | 168               | (93)      |
| Income from operations                                      | 1,135              | 830       | 2,704             | 4,936     |
| Other income (expense):                                     |                    |           |                   |           |
| Interest expense  | (233)              | (38)      | (679)             | (114)     |
| Other income, net   | 192                | 43        | 363               | 237       |
| Total other income (expense), net                           | (41)               | 5         | (316)             | 123       |
| Income before income taxes                                  | 1,094              | 835       | 2,388             | 5,059     |
| Income tax provision  | 437                | 359       | 986               | 1,967     |
| Net income  | \$ 657             | \$ 476    | \$ 1,402          | \$ 3,092  |
| Basic and fully diluted weighted-average shares outstanding | 24,085             | 24,452    | 24,165            | 24,456    |
| Basic and fully diluted earnings per share                  | \$ 0.03            | \$ 0.02   | \$ 0.06           | \$ 0.13   |

See accompanying notes to unaudited interim condensed consolidated financial statements.

CRIMSON WINE GROUP, LTD.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (In thousands)  
 (Unaudited)

|   | Three Months<br>Ended<br>September 30, |        | Nine Months<br>Ended<br>September 30, |          |
|---|--|--------|---------------------------------------|----------|
|   | 2016                                   | 2015   | 2016                                  | 2015     |
| Net income  | \$ 657                                 | \$ 476 | \$ 1,402                              | \$ 3,092 |
| Other comprehensive income (loss):  |  |        |                                       |          |
| Net unrealized holding (losses) gains on investments arising during the period,<br>net of tax | (21)                                   | (10)   | 101                                   | 43       |
| Comprehensive income  | \$ 636                                 | \$ 466 | \$ 1,503                              | \$ 3,135 |

See accompanying notes to unaudited interim condensed consolidated financial statements.

CRIMSON WINE GROUP, LTD.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)  
 (Unaudited)

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2016                               | 2015      |
| Net cash flows from operating activities:                               |                                    |           |
| Net income  | \$ 1,402                           | \$ 3,092  |
| Adjustments to reconcile net income to net cash provided by operations: | -                                  |           |
| Depreciation and amortization of property and equipment                 | 4,966                              | 4,379     |
| Amortization of intangible assets                                       | 1,166                              | 1,136     |
| Amortization of loan fees   | 5                                  | -         |
| Loss on write-down of inventory   | 149                                | 192       |
| Provision for doubtful accounts   | -                                  | 17        |
| Net loss (gain) on disposal of property and equipment                   | 168                                | (93)      |
| Deferred rent   | (13)                               | 2         |
| Provision for deferred income taxes                                     | 283                                | 1,678     |
| Net change in operating assets and liabilities:                         |                                    |           |
| Accounts receivable   | (357)                              | (232)     |
| Inventory   | (5,858)                            | (9,117)   |
| Other current assets  | 289                                | (651)     |
| Other non-current assets  | 154                                | 17        |
| Accounts payable and expense accruals                                   | 4,338                              | 5,388     |
| Customer deposits   | 1,187                              | 1,017     |
| Net cash provided by operating activities                               | 7,879                              | 6,825     |
| Net cash flows from investing activities:                               |                                    |           |
| Acquisition of Seven Hills Winery                                       | (7,320)                            | -         |
| Purchase of investments available for sale                              | (5,500)                            | (3,750)   |
| Redemptions of investments available for sale                           | 6,750                              | 3,500     |
| Acquisition of property and equipment                                   | (9,035)                            | (7,975)   |
| Proceeds from disposals of property and equipment                       | 51                                 | 128       |
| Net cash used in investing activities                                   | (15,054)                           | (8,097)   |
| Net cash flows from financing activities:                               |                                    |           |
| Principal payments on long-term debt                                    | (480)                              | -         |
| Repurchase of common stock  | (2,260)                            | (373)     |
| Net cash used in financing activities                                   | (2,740)                            | (373)     |
| Net decrease in cash and cash equivalents                               | (9,915)                            | (1,645)   |
| Cash and cash equivalents - beginning of period                         | 18,333                             | 13,274    |
| Cash and cash equivalents - end of period                               | \$ 8,418                           | \$ 11,629 |
| Supplemental disclosure of cash flow information:                       |                                    |           |
| Cash paid during the period for:  |                                    |           |
| Interest  | \$ 583                             | \$ 114    |
| Income taxes  | \$ -                               | \$ 569    |
| Non-cash investing activity:  |                                    |           |

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|  |        |        |
|--|--------|--------|
| Unrealized holding gains on investments, net of tax            | \$ 101 | \$ 43  |
| Acquisition of property and equipment accrued but not yet paid | \$ 430 | \$ 104 |

See accompanying notes to unaudited interim condensed consolidated financial statements.

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CRIMSON WINE GROUP, LTD.

Notes to Unaudited Interim Condensed Consolidated Financial Statements

1. Background and Basis of Presentation

Background

Crimson Wine Group, Ltd. and its subsidiaries (collectively, “Crimson” or the “Company”) is a Delaware corporation that has been conducting business since 1991. Crimson is in the business of producing and selling ultra-premium and luxury wines (i.e., wines that retail for \$14 to \$25 and over \$25 per 750ml bottle, respectively). Crimson is headquartered in Napa, California and through its subsidiaries owns six wineries: Pine Ridge Vineyards, Archery Summit, Chamisal Vineyards, Seghesio Family Vineyards, Double Canyon Vineyards and Seven Hills Winery.

Financial Statement Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information. The unaudited interim condensed consolidated financial statements, which reflect all adjustments (consisting of normal recurring items or items discussed herein) that management believes necessary to fairly state results of interim operations, should be read in conjunction with the Notes to Consolidated Financial Statements (including the Significant Accounting Policies and Recent Accounting Pronouncements) included in the Company’s audited consolidated financial statements for the year ended December 31, 2015, as filed with the SEC on Form 10-K (the “2015 Report”). Results of operations for interim periods are not necessarily indicative of annual results of operations. The unaudited condensed consolidated balance sheet at December 31, 2015 was extracted from the audited annual financial statements and does not include all disclosures required by GAAP for annual financial statements.

Significant Accounting Policies

There were no changes to the Company’s significant accounting policies during the nine months ended September 30, 2016. See Note 3 to the 2015 Report for a description of the Company’s significant accounting policies.

Recent Accounting Pronouncements

The following table provides a brief description of recent accounting pronouncements issued by the Financial Accounting Standards Board (“FASB”) subsequent to the filing of the 2015 Report that could have a material effect on Crimson’s consolidated financial statements. The following table also provides a brief description of recent accounting pronouncements adopted during the nine months ended September 30, 2016:

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| Standard  | Description   | Date of adoption   | Effect on the financial statements or other significant matters  |
|---|---|--|--|
| Standards that are not yet adopted  |   |  |  |
| Accounting Standard Update ("ASU") 2016-08, Revenue from Contracts with Customers (Topic 606) | In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that supersedes most current revenue recognition guidance. ASU 2016-08 amends the principal-versus-agent implementation guidance set forth in ASU 2014-09. Among other things, ASU 2016-08 clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. | January 1, 2018, early adoption is permitted for the Company beginning on January 1, 2017. | Management is currently evaluating the potential impact of this guidance on the Company's consolidated financial statements. |
| ASU 2016-10, Revenue from Contracts with Customers (Topic 606)                                | Amends certain aspects of ASU 2014-09 related to identifying performance obligations and licensing implementation.  | January 1, 2018, early adoption is permitted for the Company beginning on January 1, 2017. | Management is currently evaluating the potential impact of this guidance on the Company's consolidated financial statements. |
| ASU 2016-15, Statement of Cash Flows (Topic 230)  | Amends the guidance in Topic 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic.  | January 1, 2018, early adoption is permitted for the Company.                              | Management is currently evaluating the potential impact of this guidance on the Company's consolidated financial statements. |
| Standards that were adopted   |   |  |  |
| ASU 2015-16, Business Combinations (Topic 805)  | The standard eliminates the requirement for retrospective treatment of measurement-period adjustments in a business combination. Instead, a measurement-period adjustment will be recognized in the period in which the adjustment is determined.   | January 1, 2016.   | The adoption of this standard did not have a material impact on the Company's consolidated                                   |

ASU 2015-05,  
Intangibles- Goodwill  
and Other- Internal-Use  
Software (Subtopic  
350-40)

Cloud computing arrangements represent the delivery of hosted services over the internet which includes software, platforms, infrastructure and other hosting arrangements. The ASU provides criteria to determine whether the cloud computing arrangement includes a software license. A software license can include customized development, maintenance, hosting and other related costs. If the criteria are met, the customer will capitalize the fee attributable to the software license portion of the arrangement as internal-use software. If the arrangement does not include a software license, it should be treated as a service contract.

January 1,  
2016.

financial  
statements.  
The adoption  
of this  
standard did  
not have a  
material  
impact on the  
Company's  
consolidated  
financial  
statements.

## 2.Acquisition of Seven Hills Winery

On January 27, 2016, one of Crimson's wholly-owned subsidiaries entered into a purchase agreement pursuant to which Crimson's subsidiary acquired, or has rights in, substantially all of the assets and certain liabilities with respect to the Seven Hills Winery located in Walla Walla, Washington. The acquisition provides a strategic opportunity for Crimson to expand its portfolio.

The acquisition-date fair value of total consideration for the Seven Hills Winery acquisition was \$7.9 million, consisting of \$7.3 million in cash, which included a working capital adjustment of \$0.3 million, and \$0.6 million of non-cash contingent consideration. The contingent consideration arrangement requires the Company to pay up to \$0.8 million in future earn-out payments based on certain achievements of the acquired business over the 38 months following the closing of the acquisition. The Company estimated the fair value of the contingent consideration at January 27, 2016 (the acquisition date) to be \$0.6 million, using a probability-weighted discounted cash flow model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820, Fair Value Measurement. Changes to the estimated fair value of the contingent consideration at each reporting period shall be recorded in the Company's consolidated income statement under the line item entitled 'General and administrative expense' as an operating expense. The fair value of the contingent

consideration as of September 30, 2016 was \$0.6 million and during the three and nine months ended September 30, 2016 the amounts recognized in the unaudited condensed consolidated income statements related to the changes in the estimated fair value of the contingent liability were immaterial.

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The Seven Hills Winery acquisition was recorded during the first quarter of 2016 using the acquisition method of accounting as prescribed under ASC 805, Business Combinations. Accordingly, assets acquired and liabilities assumed were recorded at their fair values estimated by management as of January 27, 2016. The Company is in the process of finalizing fair value measurements of certain assets; thus, the measurements are subject to change.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date (in thousands):

|                               |          |
|-------------------------------|----------|
| Accounts receivable           | \$ 232   |
| Inventory                     | 4,229    |
| Property, plant and equipment | 2,927    |
| Intangible assets             | 600      |
| Total assets                  | 7,988    |
| Accounts payable and accruals | 201      |
| Net assets acquired           | 7,787    |
| Goodwill                      | 143      |
| Total purchase price          | \$ 7,930 |

The fair value of accounts receivable acquired of \$0.2 million was equal to the gross contractual amount due as of the acquisition date as the Company expected to collect, and has subsequently collected, on all amounts.

Adjustments to record the assets acquired and liabilities assumed at fair value include the recognition of \$0.6 million of intangible assets as follows (in thousands, except estimated life information):

|                           | Amount | Estimated Life |
|---------------------------|--------|----------------|
| Brand                     | \$ 500 | 15 years       |
| Distributor relationships | 100    | 10 years       |
| Total                     | \$ 600 |                |

As described in Note 11 "Business Segment Information," based on the nature of the Company's business, revenue generating assets are utilized across segments. Therefore, goodwill recognized has not been allocated to any particular segment of the Company.

The Company recognized \$0.2 million of acquisition related costs during the nine months ended September 30, 2016. These costs are included in the unaudited condensed consolidated income statements under the line item entitled 'General and administrative expense.' The Company's results for the three and nine months ended September 30, 2016 include the results of Seven Hills Winery for the period since the date of acquisition. The amount of revenue and net

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income included in the Company's unaudited condensed consolidated income statements for the three months ended September 30, 2016 were \$0.3 million and \$0.1 million, respectively, and revenue and net loss for the nine months ended September 30, 2016 were \$1.3 million and \$0.1 million, respectively.

In connection with the acquisition, the fair value in excess of book value for certain inventory on hand at the date of acquisition is referred to as inventory step-up. Seven Hills Winery's cost of goods sold for the three and nine months ended September 30, 2016 includes inventory step-up.

Pro forma financial statements are not presented as they are not material to the Company's overall condensed consolidated financial statements.

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### 3.Inventory

A summary of inventory at September 30, 2016 and December 31, 2015 is as follows (in thousands):

|                                 | September<br>30, 2016 | December<br>31, 2015 |
|---------------------------------|-----------------------|----------------------|
| Case wine                       | \$ 37,173             | \$ 30,997            |
| In-process wine                 | 28,023                | 24,306               |
| Packaging and bottling supplies | 378                   | 333                  |
| Total inventory                 | \$ 65,574             | \$ 55,636            |

### 4.Property and Equipment

A summary of property and equipment at September 30, 2016 and December 31, 2015, and depreciation expense for the nine months ended September 30, 2016 and 2015, is as follows (in thousands):

| Depreciable<br>Lives<br>(in years) | September<br>30, 2016 | December<br>31, 2015 |
|------------------------------------|-----------------------|----------------------|
|------------------------------------|-----------------------|----------------------|

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|   |       |            |            |
|---|-------|------------|------------|
| Land and improvements                     | N/A   | \$ 45,164  | \$ 41,573  |
| Buildings and improvements                | 20-40 | 50,729     | 48,770     |
| Vineyards and improvements                | 7-25  | 35,545     | 35,792     |
| Winery and vineyard equipment             | 3-25  | 30,902     | 29,766     |
| Caves                                     | 20-40 | 5,639      | 5,638      |
| Vineyards under development               | N/A   | 2,556      | 2,001      |
| Construction in progress                  | N/A   | 3,368      | 195        |
| Total                                     |       | 173,903    | 163,735    |
| Accumulated depreciation and amortization |       | (55,403)   | (52,100)   |
| Property and equipment, net               |       | \$ 118,500 | \$ 111,635 |

Nine Months Ended  
September 30,  
2016                      2015

|  |  |          |          |
|--|--|----------|----------|
| Depreciation expense                   |  |          |          |
| Capitalized into inventory             |  | 3,896    | 3,538    |
| Expensed to general and administrative |  | 1,070    | 841      |
| Total depreciation                     |  | \$ 4,966 | \$ 4,379 |

## 5. Financial Instruments

The Company's material financial instruments include cash and cash equivalents and investments classified as available for sale. Investments classified as available for sale are the only assets or liabilities that are measured at fair value on a recurring basis. All of the Company's investments mature within three years or less.

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The par value, amortized cost, gross unrealized gains and losses and estimated fair value of investments classified as available for sale as of September 30, 2016 and December 31, 2015 are as follows (in thousands):

| September 30, 2016      | Par Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Level 1   | Level 2   | Total Fair Value Measurements |
|-------------------------|-----------|----------------|------------------------|-------------------------|-----------|-----------|-------------------------------|
| U.S. Treasury Note      | \$ 10,000 | \$ 10,000      | \$ 20                  | \$ -                    | \$ 10,020 | \$ -      | \$ 10,020                     |
| Certificates of Deposit | 14,250    | 14,250         | 68                     | -                       | -         | 14,318    | 14,318                        |
| Total                   | \$ 24,250 | \$ 24,250      | \$ 88                  | \$ -                    | \$ 10,020 | \$ 14,318 | \$ 24,338                     |
| December 31, 2015       |           |                |                        |                         |           |           |                               |
| U.S. Treasury Note      | \$ 10,000 | \$ 10,000      | \$ -                   | \$ (45)                 | \$ 9,955  | \$ -      | \$ 9,955                      |
| Certificates of Deposit | 15,500    | 15,500         | 4                      | (36)                    | -         | 15,468    | 15,468                        |
| Total                   | \$ 25,500 | \$ 25,500      | \$ 4                   | \$ (81)                 | \$ 9,955  | \$ 15,468 | \$ 25,423                     |

As of September 30, 2016 and December 31, 2015, other than the assets and liabilities related to the Seven Hills Winery acquisition (see Note 2), the Company did not have any assets or liabilities measured at fair value on a nonrecurring basis. For cash and cash equivalents, the carrying amounts of such financial instruments approximate their fair values. For short-term and long-term debt, the carrying amounts of such financial instruments approximate their fair values. The Company has estimated the fair value of its short-term and long-term debt based upon Level 3 inputs, such as the terms that management believes would currently be available to the Company for similar issues of debt, taking into account the current credit risk of the Company and other factors.

The Company does not invest in any derivatives or engage in any hedging activities.

## 6.Intangible and Other Non-Current Assets

A summary of intangible and other non-current assets at September 30, 2016 and December 31, 2015, and amortization expense for the nine months ended September 30, 2016 and 2015, is as follows (in thousands):

|  | Amortizable<br>Lives<br>(in years) | September<br>30, 2016              | December<br>31, 2015 |
|--|------------------------------------|------------------------------------|----------------------|
| Brand, net of accumulated amortization of \$5,512 and \$4,717                              | 15 - 17                            | \$ 12,487                          | \$ 12,783            |
| Distributor and customer relationships, net of accumulated amortization of \$997 and \$851 | 10 - 14                            | 1,703                              | 1,749                |
| Customer relationships, net of accumulated amortization of \$1,448 and \$1,243             | 7                                  | 452                                | 657                  |
| Legacy permits, net of accumulated amortization of \$95 and \$82                           | 14                                 | 155                                | 168                  |
| Trademark, net of accumulated amortization of \$81 and \$74                                | 20                                 | 119                                | 126                  |
| Total intangible assets, net   |                                    | \$ 14,916                          | \$ 15,483            |
| Other non-current assets   |                                    | 258                                | 411                  |
| Total intangible and other non-current assets  |                                    | \$ 15,174                          | \$ 15,894            |
|  |                                    | Nine Months Ended<br>September 30, |                      |
| Amortization expense   |                                    | 2016                               | 2015                 |
| Total amortization expense   |                                    | \$ 1,166                           | \$ 1,136             |

The estimated aggregate future amortization as of September 30, 2016 is identified below (in thousands):

| Years Remaining | Amortization |
|-----------------|--------------|
| 2016            | \$ 389       |
| 2017            | 1,557        |
| 2018            | 1,402        |
| 2019            | 1,286        |
| 2020            | 1,286        |
| Thereafter      | 8,996        |
| Total           | \$ 14,916    |

7. Other Accrued Expenses

Other accrued expenses consisted of the following as of September 30, 2016 and December 31, 2015 (in thousands):

|  | September 30, 2016 | December 31, 2015 |
|--|--------------------|-------------------|
| Depletion allowance                                | \$ 636             | \$ 977            |
| Production and farming                             | 732                | 768               |
| Sales and marketing                                | 214                | 253               |
| Professional fees                                  | 100                | 83                |
| Contingent liability related to Seven Hills Winery | 647                | -                 |
| Accrued interest                                   | 203                | 114               |

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|                              |          |          |
|------------------------------|----------|----------|
| Other accrued expenses       | 806      | 389      |
| Total other accrued expenses | \$ 3,338 | \$ 2,584 |

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## 8. Debt

### Revolving Credit Facility

In March 2013, Crimson and its subsidiaries entered into a \$60.0 million revolving credit facility with American AgCredit, FLCA, as agent for the lenders identified in the revolving credit facility, comprised of a revolving loan facility and a term revolving loan facility, which together is secured by substantially all of Crimson's assets. The revolving credit facility is for up to \$10.0 million of availability in the aggregate for a five year term, and the term revolving credit facility is for up to \$50.0 million in the aggregate for a fifteen year term. All obligations of Crimson under the revolving credit facility are collateralized by certain real property, including vineyards and certain winery facilities of Crimson, accounts receivable, inventory and intangible assets. In addition to unused line fees ranging from 0.15% to 0.25%, rates for the borrowings are priced based on a performance grid tied to certain financial ratios and the London Interbank Offered Rate. The revolving credit facility can be used to fund acquisitions, capital projects and other general corporate purposes. Covenants include the maintenance of specified debt and equity ratios, limitations on the incurrence of additional indebtedness, limitations on dividends and other distributions to shareholders and restrictions on certain mergers, consolidations and sales of assets. No amounts have been borrowed under the revolving credit facility to date.

### Term Loan

On November 10, 2015, Pine Ridge Winery, LLC ("Borrower"), a wholly-owned subsidiary of Crimson, entered into a senior secured term loan agreement (the "term loan") with American AgCredit, FLCA ("Lender") for an aggregate principal amount of \$16.0 million. Amounts outstanding under the term loan will bear a fixed interest rate of 5.24% per annum.

The term loan will mature on October 1, 2040 (the "Maturity Date"). On the first day of each January, April, July and October, commencing January 1, 2016, a principal payment in the amount of \$160,000 and an interest payment equal to the amount of all interest accrued through the previous day shall be made. A final payment of all unpaid principal, interest and any other charges with respect to the term loan shall be due and payable on the Maturity Date.

The Company incurred debt issuance costs of approximately \$0.1 million related to this term loan. These costs are recorded as a reduction from short-term or long-term debt, based on the timeframe in which the fees will be expensed (i.e. – expensed within 12-months shall be classified against short-term debt). The costs are being amortized to interest expense using the effective interest method over the contractual term of the loan.

Borrower's obligations under the term loan are guaranteed by the Company. All obligations of Borrower under the term loan are collateralized by certain real property of the Company. Borrower's covenants include the maintenance of a specified debt service coverage ratio and certain customary affirmative and negative covenants, including limitations on the incurrence of additional indebtedness; limitations on distributions to shareholders; and

restrictions on certain investments, sale of assets and merging or consolidating with other persons.

The full \$16.0 million was drawn at closing and the term loan can be used to fund acquisitions, capital projects and other general corporate purposes. As of September 30, 2016, \$15.4 million in principal was outstanding, net of unamortized loan fees of less than \$0.1 million.

The Company was in compliance with all debt covenants as of September 30, 2016.

#### 9. Stockholders' Equity

In March 2014, the Board of Directors of the Company authorized a share repurchase program (the "2014 Repurchase Program") that provides for the repurchase of up to \$2.0 million of outstanding common stock. Under the 2014 Repurchase Program, any repurchased shares are constructively retired. During the nine months ended September 30, 2016, the Company repurchased 76,710 shares under the 2014 Repurchase Program which were constructively retired at an original repurchase cost of \$0.6 million, and on February 29, 2016 the 2014 Repurchase Program was completed. Under the total 2014 Repurchase Program the Company repurchased 228,522 shares which were constructively retired at an original repurchase cost of \$2.0 million.

In March 2016, the Board of Directors of the Company authorized a second share repurchase program (the "2016 Repurchase Program") that provides for the repurchase of up to \$2.0 million of outstanding common stock. Under the 2016 Repurchase Program, any repurchased shares are constructively retired. During the nine months ended and as of September 30, 2016, the Company repurchased 191,372 shares under the 2016 Repurchase Program which were constructively retired at an original repurchase cost of \$1.6 million. Through November 4, 2016, the Company had repurchased 227,318 shares under the 2016 Repurchase Program which were constructively retired at an original repurchase price of \$2.0 million.

## 10. Income Taxes

The Company's effective tax rates for the three months ended September 30, 2016 and 2015 were 39.9% and 43.0%, respectively. The Company's effective tax rates for the nine months ended September 30, 2016 and 2015 were 41.3% and 38.9%, respectively. The consolidated income tax expense for the three and nine months ended September 30, 2016 and 2015 was determined based upon estimates of the Company's consolidated effective income tax rates for the years ending December 31, 2016 and 2015, respectively. The difference between the consolidated effective income tax rate and the U.S. federal statutory rate is primarily attributable to state taxes and permanent items, which primarily consist of meals and entertainment and the domestic production activity deduction.

The Company does not have any amounts in its condensed consolidated balance sheet for unrecognized tax benefits related to uncertain tax positions at September 30, 2016 and December 31, 2015.

## 11. Business Segment Information

The Company has identified two operating segments which are reportable segments for financial statement reporting purposes, Wholesale Sales and Direct to Consumer Sales, based upon their different distribution channels, margins and selling strategies. Wholesale Sales includes all sales through a third party where prices are given at a wholesale rate whereas Direct to Consumer Sales includes retail sales in the tasting room, remote sites and on-site events, Wine Club sales and other sales made directly to the consumer without the use of an intermediary.

The two segments reflect how the Company's operations are evaluated by senior management and the structure of its internal financial reporting. The Company evaluates performance based on the gross profit of the respective business segments. Selling expenses that can be directly attributable to the segment are allocated accordingly. However, centralized selling expenses and general and administrative expenses are not allocated between operating segments. Therefore, net income information for the respective segments is not available. Based on the nature of the Company's business, revenue generating assets are utilized across segments. Therefore, discrete financial information related to segment assets and other balance sheet data is not available and that information continues to be aggregated.

The following table outlines the net sales, cost of sales including inventory step-up associated with the Seven Hills Winery acquisition, gross profit, directly attributable selling expenses and operating income for the Company's reportable segments for the three and nine months ended September 30, 2016 and 2015, and also includes a reconciliation of consolidated income (loss) from operations. Other/Non-allocable net sales and gross profit include bulk wine and grape sales, event fees and retail sales. Other/Non-allocable expenses include centralized corporate expenses not specific to an identified reporting segment. Sales figures are net of related excise taxes.

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| (in thousands)                                 | Three Months Ended September 30, |          |                    |          |                     |            |           |           |
|--|----------------------------------|----------|--------------------|----------|---------------------|------------|-----------|-----------|
|  | Wholesale                        |          | Direct to Consumer |          | Other/Non-Allocable |            | Total     |           |
|  | 2016                             | 2015     | 2016               | 2015     | 2016                | 2015       | 2016      | 2015      |
| Net sales                                      | \$ 8,698                         | \$ 8,464 | \$ 5,288           | \$ 4,301 | \$ 1,852            | \$ 1,258   | \$ 15,838 | \$ 14,023 |
| Cost of sales                                  | 4,585                            | 4,340    | 1,509              | 1,111    | 1,854               | 1,612      | 7,948     | 7,063     |
| Gross profit (loss)                            | 4,113                            | 4,124    | 3,779              | 3,190    | (2)                 | (354)      | 7,890     | 6,960     |
| Operating expenses:                            |                                  |          |                    |          |                     |            |           |           |
| Sales and marketing                            | 1,719                            | 1,442    | 1,602              | 1,583    | 848                 | 545        | 4,169     | 3,570     |
| General and administrative                     | -                                | -        | -                  | -        | 2,440               | 2,553      | 2,440     | 2,553     |
| Total operating expenses                       | 1,719                            | 1,442    | 1,602              | 1,583    | 3,288               | 3,098      | 6,609     | 6,123     |
| Net loss on disposal of property and equipment | -                                | -        | -                  | -        | 146                 | 7          | 146       | 7         |
| Income (loss) from operations                  | \$ 2,394                         | \$ 2,682 | \$ 2,177           | \$ 1,607 | \$ (3,436)          | \$ (3,459) | \$ 1,135  | \$ 830    |

| (in thousands)  | Nine Months Ended September 30, |           |                    |           |                     |            |           |           |
|---|---------------------------------|-----------|--------------------|-----------|---------------------|------------|-----------|-----------|
|   | Wholesale                       |           | Direct to Consumer |           | Other/Non-Allocable |            | Total     |           |
|   | 2016                            | 2015      | 2016               | 2015      | 2016                | 2015       | 2016      | 2015      |
| Net sales   | \$ 27,267                       | \$ 25,411 | \$ 15,495          | \$ 14,617 | \$ 3,865            | \$ 2,503   | \$ 46,627 | \$ 42,531 |
| Cost of sales   | 14,973                          | 12,946    | 4,621              | 3,989     | 3,922               | 2,866      | 23,516    | 19,801    |
| Gross profit (loss)                                   | 12,294                          | 12,465    | 10,874             | 10,628    | (57)                | (363)      | 23,111    | 22,730    |
| Operating expenses:                                   |                                 |           |                    |           |                     |            |           |           |
| Sales and marketing                                   | 4,914                           | 4,229     | 4,578              | 4,425     | 2,512               | 1,489      | 12,004    | 10,143    |
| General and administrative                            | -                               | -         | -                  | -         | 8,235               | 7,744      | 8,235     | 7,744     |
| Total operating expenses                              | 4,914                           | 4,229     | 4,578              | 4,425     | 10,747              | 9,233      | 20,239    | 17,887    |
| Net loss (gain) on disposal of property and equipment | -                               | -         | -                  | -         | 168                 | (93)       | 168       | (93)      |
| Income (loss) from operations                         | \$ 7,380                        | \$ 8,236  | \$ 6,296           | \$ 6,203  | \$ (10,972)         | \$ (9,503) | \$ 2,704  | \$ 4,936  |



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Interim Operations.

Statements included in this Report may contain forward-looking statements. See "Cautionary Statement for Forward-Looking Information" below. The following should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and the Company's audited consolidated financial statements for the year ended December 31, 2015 included in the Company's Annual Report on Form 10-K as filed with the SEC (the "2015 Report").

Quantities or results referred to as "current quarter" and "current nine-month period" refer to the three and nine months ended September 30, 2016, respectively.

Cautionary Statement for Forward-Looking Information

This MD&A and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The unaudited interim condensed consolidated financial statements, that include results of Crimson Wine Group, Ltd. and all its subsidiaries further collectively known as "we", "Crimson", "our", "us", or "the Company", have been prepared in accordance with GAAP for interim financial information and with the general instruction for quarterly reports filed on Form 10-Q and Article 8 of Regulation S-X. All statements, other than statements of historical fact, regarding our strategy, future operations, financial position, prospects, plans, opportunities, and objectives constitute "forward-looking statements." The words "may," "will," "expect," "plan," "anticipate," "believe," "estimate," "potential," or "continue" and similar types of expressions identify such statements, although not all forward-looking statements contain these identifying words. These statements are based upon information that is currently available to us and our management's current expectations, speak only as of the date hereof, and are subject to risks and uncertainties. We expressly disclaim any obligation, except as required by federal securities laws, or undertaking to update or revise any forward-looking statements contained herein to reflect any change or expectations with regard thereto or to reflect any change in events, conditions, or circumstances on which any such forward-looking statements are based, in whole or in part. Our actual results may differ materially from the results discussed in or implied by such forward-looking statements.

Factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted or that may materially and adversely affect our actual results include but are not limited to the following: worsening economic conditions causing a decline in estimated future cash flows; our dependence on certain key personnel; significant increases in operating costs and reduced profitability due to competition for skilled management and staff employees; various diseases, pests and weather conditions affecting the quality and quantity of grapes; our inability to grow or acquire enough fruit for our wines; significant competition adversely affecting our profitability; competition for shelf space in retail stores and for marketing focus by our independent distributors; the contamination of our wines; a reduction in consumer demand for our wines; a decrease in wine score rating by important rating organizations; climate change, or legal, regulatory or market measures to address climate change, negatively affecting our business, operations or financial performance, and water scarcity or poor quality negatively impacting our production costs and capacity, including the continuation or worsening of the drought in California; environmental

issues or hazardous substances on our properties resulting in us incurring significant liabilities; indebtedness we may incur materially affecting our financial health; changes in laws and government regulations or in the implementation and/or enforcement of government rules and regulations increasing our costs or restricting our ability to sell our products into certain markets; our inability to insure certain risks economically; being subject to litigation which may have a significant adverse effect on our consolidated financial condition or results of operations; not paying dividends currently or in the future; impairment of our intangible assets; the limited market for our common stock because our stock is not listed on any securities exchange; volatility in our common stock price; future sales of our common stock depressing the market price of our stock; public company compliance costs; loss of our status as an emerging growth company; restrictions on our ability to enter into certain transactions that could jeopardize our tax free spin-off from Leucadia National Corporation; and the significant influence of certain principal stockholders. For additional information see Part I, Item 1A. Risk Factors in the 2015 Report.

#### Overview of Business

The Company generates revenues from sales of wine to wholesalers and direct to consumers, sales of bulk wine and grapes, special event fees, tasting fees and retail sales.

Our wines are primarily sold to wholesale distributors, who then sell to retailers and restaurants. As permitted under federal and local regulations, we have also been placing increased emphasis on generating revenue from direct sales to consumers which occur through wine clubs, at the wineries' tasting rooms and through the internet and direct outreach to customers. Direct sales to consumers are more profitable for the Company as it is able to sell its products at a price closer to retail prices rather than the wholesale price sold to distributors. From time to time, we may sell grapes or bulk wine, because the wine does not

meet the quality standards for the Company's products, market conditions have changed resulting in reduced demand for certain products, or because the Company may have produced more of a particular varietal than it can use. When these sales occur, they may result in a loss.

Cost of sales includes grape and bulk wine costs, whether purchased or produced from the Company's controlled vineyards, crush costs, winemaking and processing costs, bottling and packaging, warehousing, shipping and handling costs and inventory step-up costs in connection with the acquisition of Seven Hills Winery. For the Company controlled vineyard produced grapes, grape costs include annual farming labor costs, harvest costs and depreciation of vineyard assets. For wines that age longer than one year, winemaking and processing costs continue to be incurred and capitalized to the cost of wine, which can range from 3 to 36 months. Reductions to the carrying value of inventories are also included in costs of sales.

At September 30, 2016, wine inventory includes approximately 1.0 million cases of bottled and bulk wine in various stages of the aging process. Cased wine is expected to be sold over the next 12 to 36 months and generally before the release date of the next vintage.

#### Seasonality

As discussed in the 2015 Report, the wine industry in general historically experiences seasonal fluctuations in revenues and net income. The Company typically has lower sales and net income during the first quarter and higher sales and net income during the fourth quarter due to seasonal holiday buying as well as wine club shipment timing. We anticipate similar trends in the future.

#### Items impacting comparability

In connection with the acquisition of Seven Hills Winery, the fair value in excess of book value for certain inventory on hand at the date of acquisition is referred to as inventory step-up. Inventory step-up represents an assumed manufacturing profit attributable to the acquired company prior to acquisition. The Company's cost of goods sold for the three and nine months ended September 30, 2016 includes the following inventory step-up related to Seven Hills Winery.

|                | Three Months<br>Ended<br>September 30, |      | Nine Months<br>Ended<br>September 30, |      |
|----------------|--|------|---------------------------------------|------|
| (in thousands) | 2016                                   | 2015 | 2016                                  | 2015 |
| Cost of sales: |  |      |                                       |      |

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|                          |          |          |           |           |
|--------------------------|----------|----------|-----------|-----------|
| Comparable cost of sales | \$ 7,885 | \$ 7,063 | \$ 23,336 | \$ 19,801 |
| Inventory step-up        | 63       | -        | 180       | -         |
| Total cost of sales      | \$ 7,948 | \$ 7,063 | \$ 23,516 | \$ 19,801 |

Results of Operations

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Net Sales

| (in thousands, except percentages) | Three Months Ended September 30, |           |          |          |
|------------------------------------|----------------------------------|-----------|----------|----------|
|                                    | 2016                             | 2015      | Increase | % change |
| Wholesale                          | \$ 8,698                         | \$ 8,464  | \$ 234   | 3%       |
| Direct to consumer                 | 5,288                            | 4,301     | 987      | 23%      |
| Other                              | 1,852                            | 1,258     | 594      | 47%      |
| Total net sales                    | \$ 15,838                        | \$ 14,023 | \$ 1,815 | 13%      |

Wholesale net sales increased \$0.2 million, or 3%, in the current quarter as compared to the same period in 2015. The increase in the current quarter was driven by domestic volume growth of 7%, partially offset by a decrease in export volume of 12%, increased price support and a temporary shift in product mix to lower priced products.

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Direct to consumer net sales increased \$1.0 million, or 23%, in the current quarter as compared to the same period in 2015. In the current quarter wine club net sales increased \$0.8 million and e-commerce, special events and tasting room combined net sales increased \$0.2 million.

Other net sales include bulk wine and grape sales, event fees and retail sales which had an overall increase of \$0.6 million, or 47%, in the current quarter as compared to the same period in 2015. The year over year increase was primarily driven by a higher volume of higher priced bulk wine and grape sales.

### Gross Profit

| (in thousands, except percentages)         | Three Months Ended September 30, |          |                     |          |
|--|----------------------------------|----------|---------------------|----------|
|  | 2016                             | 2015     | Increase (Decrease) | % change |
| Wholesale                                  | \$ 4,113                         | \$ 4,124 | \$ (11)             | 0%       |
| Wholesale gross margin percentage          | 47%                              | 49%      |                     |          |
| Direct to consumer                         | 3,779                            | 3,190    | 589                 | 18%      |
| Direct to consumer gross margin percentage | 71%                              | 74%      |                     |          |
| Other                                      | (2)                              | (354)    | 352                 | 99%      |
| Total gross profit                         | \$ 7,890                         | \$ 6,960 | \$ 930              | 13%      |

Wholesale gross profit remained relatively flat in the current quarter as compared to the same period in 2015. Gross margin percentage, which is defined as gross profit as a percentage of net sales, decreased approximately 144 basis points in the current quarter, which was driven primarily by a temporary shift in product mix to lower margin products and expected lower margins on the inventory purchased in the Seven Hills Winery acquisition due to fair value acquisition related accounting. Price increases through the remainder of the year on certain products, as well as improved mix of higher margin products, are expected to improve margins in the remainder of the year.

Direct to consumer gross profit increased \$0.6 million, or 18%, in the current quarter as compared to the same period in 2015. Gross margin percentage decreased approximately 271 basis points in the current period, which was driven primarily by an overall expected shift in product mix to lower margin products and expected lower margins on the inventory purchased in the Seven Hills Winery acquisition due to fair value acquisition related accounting. We anticipate higher margins for the remainder of the year as the mix of our wine clubs shifts to the higher value and margin items.

Other gross profit includes bulk wine and grape sales, event fees, non-wine retail sales and inventory write-downs which reflected an overall increase of \$0.4 million, or 99%, in the current quarter as compared to the same period in 2015. The overall increase was primarily driven by higher margins recognized on non-wine retail sales and improved margins on a higher volume of bulk wine and grape sales.

## Operating Expenses

| (in thousands, except percentages) | Three Months Ended September 30, |          |                     | % change |
|------------------------------------|----------------------------------|----------|---------------------|----------|
|                                    | 2016                             | 2015     | Increase (Decrease) |          |
| Sales and marketing                | \$ 4,169                         | \$ 3,570 | \$ 599              | 17%      |
| General and administrative         | 2,440                            | 2,553    | (113)               | -4%      |
| Total operating expenses           | \$ 6,609                         | \$ 6,123 | \$ 486              | 8%       |

Sales and marketing expenses increased \$0.6 million, or 17%, in the current quarter as compared to the same period in 2015. The increase was primarily to support growth, partially due to the addition of the Estates Wine Room in December 2015 and the acquisition of Seven Hills Winery in January 2016, which resulted in higher compensation costs and increased office related expenses and marketing costs.

General and administrative expenses decreased \$0.1 million, or 4%, in the current quarter as compared to the same period in 2015. The decrease was primarily driven by decreased contract services, legal fees, office related expenses and several other general and administrative items. These decreases were partially offset by increased compensation costs, licensing and permit fees and depreciation.

## Other Income (Expense)

| (in thousands, except percentages) | Three Months Ended September 30, |         |                     |          |
|------------------------------------|----------------------------------|---------|---------------------|----------|
|                                    | 2016                             | 2015    | Increase (Decrease) | % change |
| Interest expense                   | \$ (233)                         | \$ (38) | \$ 195              | 513%     |
| Other income, net                  | 192                              | 43      | 149                 | 347%     |
| Total                              | \$ (41)                          | \$ 5    | \$ (46)             | -920%    |

Interest expense increased \$0.2 million, or 513%, in the current quarter as compared to the same period in 2015. The increase primarily relates to interest expense incurred on the term loan entered into with American AG Credit during November 2015.

Other income increased \$0.1 million, or 347%, in the current quarter as compared to the same period in 2015.

The overall increase in other income primarily relates to increased interest income on our short-term investments and increased net rental property income.

## Income Tax Provision

The Company's effective tax rates for the three months ended September 30, 2016 and 2015 were 39.9% and 43.0%, respectively. The effective tax rate for the third quarter of 2016 decreased compared to the same period in 2015 primarily due to an increased domestic production activities deduction.

## Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

## Net Sales

| (in thousands, except percentages) | Nine Months Ended September 30, |           |          |          |
|------------------------------------|---------------------------------|-----------|----------|----------|
|                                    | 2016                            | 2015      | Increase | % change |
| Wholesale                          | \$ 27,267                       | \$ 25,411 | \$ 1,856 | 7%       |
| Direct to consumer                 | 15,495                          | 14,617    | 878      | 6%       |
| Other                              | 3,865                           | 2,503     | 1,362    | 54%      |
| Total net sales                    | \$ 46,627                       | \$ 42,531 | \$ 4,096 | 10%      |

Wholesale net sales increased \$1.9 million, or 7%, in the current nine-month period as compared to the same period in 2015. The increase in the current year was driven by domestic volume growth of 10%, export volume growth of 4% and decreased price support. These increases were partially offset by a temporary shift in product mix to lower priced products during the current period.

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Direct to consumer net sales increased \$0.9 million, or 6%, in the current nine-month period as compared to the same period in 2015. In the current period wine club, e-commerce and special events combined net sales increased \$0.5 million and tasting room net sales increased \$0.4 million.

Other net sales include bulk wine and grape sales, event fees and retail sales which had an overall increase of \$1.4 million, or 54%, in the current nine-month period as compared to the same period in 2015. The year over year increase was primarily driven by a higher volume of higher priced bulk wine and grape sales.

Gross Profit

| (in thousands, except percentages)         | Nine Months Ended September 30, |           |                     | % change |
|--|---------------------------------|-----------|---------------------|----------|
|  | 2016                            | 2015      | Increase (Decrease) |          |
| Wholesale                                  | \$ 12,294                       | \$ 12,465 | \$ (171)            | -1%      |
| Wholesale gross margin percentage          | 45%                             | 49%       |                     |          |
| Direct to consumer                         | 10,874                          | 10,628    | 246                 | 2%       |
| Direct to consumer gross margin percentage | 70%                             | 73%       |                     |          |
| Other                                      | (57)                            | (363)     | 306                 | 84%      |
| Total gross profit                         | \$ 23,111                       | \$ 22,730 | \$ 381              | 2%       |

Wholesale gross profit decreased \$0.2 million, or 1%, in the current nine-month period as compared to the same period in 2015. Gross margin percentage decreased approximately 397 basis points in the current period, which was driven primarily by a shift in product mix to lower margin products, including the close out of lower priced and lower margin wines, and expected lower margins on the inventory purchased in the Seven Hills Winery acquisition due to fair value acquisition related accounting. Price

increases through the remainder of the year on certain products, as well as improved mix of higher margin products, are expected to improve margins in the remainder of the year.

Direct to consumer gross profit increased \$0.2 million, or 2%, in the current nine-month period as compared to the same period in 2015. Gross margin percentage decreased approximately 253 basis points in the current period, which was driven primarily by an overall expected shift in product mix to lower margin products and expected lower margins on the inventory purchased in the Seven Hills Winery acquisition due to fair value acquisition related accounting. We anticipate higher margins in the remainder of the year when the mix of our wine clubs shifts to the higher value and margin items.

Other gross profit includes bulk wine and grape sales, event fees, non-wine retail sales and inventory write-downs which reflected an overall increase of \$0.3 million or 84%, in the current nine-month period as compared to the same period in 2015. The overall increase was primarily driven by higher margins recognized on non-wine retail sales and improved margins on a higher volume of bulk wine and grape sales.

#### Operating Expenses

| (in thousands, except percentages) | Nine Months Ended September 30, |           |          |          |
|------------------------------------|---------------------------------|-----------|----------|----------|
|                                    | 2016                            | 2015      | Increase | % change |
| Sales and marketing                | \$ 12,004                       | \$ 10,143 | \$ 1,861 | 18%      |
| General and administrative         | 8,235                           | 7,744     | 491      | 6%       |
| Total operating expenses           | \$ 20,239                       | \$ 17,887 | \$ 2,352 | 13%      |

Sales and marketing expenses increased \$1.9 million, or 18%, in the current nine-month period as compared to the same period in 2015. The increase was primarily to support growth, partially due to the addition of the Estates Wine Room in December 2015 and the acquisition of Seven Hills Winery in January 2016, which resulted in increased compensation costs, promotion and incentive related costs, office related expenses and professional fees. These increases were partially offset by a decrease in outside services and public relations special programs.

General and administrative expenses increased \$0.5 million, or 6%, in the current nine-month period as compared to the same period in 2015. The increase was primarily driven by operating expenses and one-time acquisition related professional fees associated with Seven Hills Winery, increased compensation, outside services and depreciation. These increases were partially offset by a decrease in office related expenses and several other general and administrative items.

#### Other Income (Expense)

| (in thousands, except percentages) | Nine Months Ended September 30, |          |                     |          |
|------------------------------------|---------------------------------|----------|---------------------|----------|
|                                    | 2016                            | 2015     | Increase (Decrease) | % change |
| Interest expense                   | \$ (679)                        | \$ (114) | \$ 565              | 496%     |
| Other income, net                  | 363                             | 237      | 126                 | 53%      |
| Total                              | \$ (316)                        | \$ 123   | \$ (439)            | -357%    |

Interest expense increased \$0.6 million, or 496%, in the current nine-month period as compared to the same period in 2015. The increase relates to interest expense incurred on the term loan entered into with American AG Credit during November 2015.

Other income, net increased \$0.1 million, or 53%, in the current nine-month period as compared to the same period in 2015. The increase primarily related to interest income on our short-term investments and increased net rental property income.

#### Income Tax Provision

The Company's effective annual tax rates for the nine months ended September 30, 2016 and 2015 were 41.3% and 38.9%, respectively. The effective tax rate increased in the current period as compared to same period in 2015 primarily due to a decrease in the domestic production activities deduction.

## Liquidity and Capital Resources

### General

The Company's principal sources of liquidity are its available cash, funds generated from operations and its revolving credit facility. The Company's primary cash needs are to fund working capital requirements and capital expenditures.

### Credit Facilities

In March 2013, Crimson entered into a \$60.0 million revolving credit facility with American AgCredit, FLCA, as agent for the lenders identified in the revolving credit facility, comprised of a revolving loan facility and a term revolving loan facility, which together is secured by substantially all of Crimson's assets. The revolving credit facility is for up to \$10.0 million of availability in the aggregate for a five year term, and the term revolving credit facility is for up to \$50.0 million in the aggregate for a fifteen year term. All obligations of Crimson under the revolving credit facility are collateralized by certain real property, including vineyards and certain winery facilities of Crimson, accounts receivable, inventory and intangible assets. In addition to unused line fees ranging from 0.15% to 0.25%, rates for the borrowings are priced based on a performance grid tied to certain financial ratios and the London Interbank Offered Rate. The revolving credit facility can be used to fund acquisitions, capital projects and other general corporate purposes. Covenants include the maintenance of specified debt and equity ratios, limitations on the incurrence of additional indebtedness, limitations on dividends and other distributions to shareholders and restrictions on certain mergers, consolidations and sales of assets. No amounts have been borrowed under the revolving credit facility to date.

On November 10, 2015, Pine Ridge Winery, LLC ("Borrower"), a wholly-owned subsidiary of Crimson entered into a senior secured term loan agreement (the "term loan") with American AgCredit, FLCA ("Lender") for an aggregate principal amount of \$16.0 million. Amounts outstanding under the term loan will bear a fixed interest rate of 5.24% per annum.

The term loan will mature on October 1, 2040 (the "Maturity Date"). On the first day of each January, April, July and October, commencing January 1, 2016, Borrower is required to make a principal payment in the amount of One Hundred Sixty Thousand Dollars (\$160,000) and an interest payment equal to the amount of all interest accrued through the previous day. A final payment of all unpaid principal, interest and any other charges with respect to the term loan shall be due and payable on the Maturity Date.

Borrower's obligations under the term loan are guaranteed by the Company. All obligations of Borrower under the term loan are collateralized by certain real property of the Company. Borrower's covenants include the maintenance of a specified debt service coverage ratio and certain customary affirmative and negative covenants, including limitations on the incurrence of additional indebtedness; limitations on distributions to shareholders; and restrictions on certain investments, sale of assets and merging or consolidating with other persons.

The full \$16.0 million was drawn at closing and the term loan can be used to fund acquisitions, capital projects and other general corporate purposes. As of September 30, 2016, \$15.4 million in principal was outstanding, net of unamortized loan fees of less than \$0.1 million.

## Consolidated Statements of Cash Flows

The following table summarizes our cash flow activities for the nine months ended September 30, 2016 and 2015 (in thousands):

|                             |          |          |
|-----------------------------|----------|----------|
| Cash provided by (used in): | 2016     | 2015     |
| Operating activities        | \$ 7,879 | \$ 6,825 |
| Investing activities        | (15,054) | (8,097)  |
| Financing activities        | (2,740)  | (373)    |

## Cash provided by operating activities

Net cash provided by operating activities was \$7.9 million for the nine months ended September 30, 2016, consisting primarily of \$1.4 million of net income adjusted for non-cash items such as \$6.1 million of depreciation and amortization, \$0.3 million of deferred income tax provision and \$0.2 million of loss related to disposals of property and equipment, partially offset by \$0.3 million of net cash outflow related to changes in operating assets and liabilities. The change in operating assets and liabilities was primarily due to an increase in inventory and accounts receivable, excluding inventory acquired in the Seven Hills Winery acquisition, partially offset by an increase in accounts payable and expense accruals and customer deposits.

Net cash provided by operating activities was \$6.8 million for the nine months ended September 30, 2015, consisting primarily of \$3.1 million of net income adjusted for non-cash items such as \$5.5 million of depreciation and amortization and \$1.7 million of deferred income tax provision, partially offset by \$3.6 million of net cash outflow related to changes in operating assets and liabilities. The change in operating assets and liabilities was primarily due to an increase in inventory and other current assets, partially offset by an increase in accounts payable and expense accruals and customer deposits.

## Cash used in investing activities

Net cash used in investing activities was \$15.1 million for the nine months ended September 30, 2016, consisting primarily of capital expenditures of \$9.0 million, \$7.3 million of cash paid in the acquisition of Seven Hills Winery, and net redemptions of available for sale investments of \$1.3 million. Capital expenditures of \$9.0 million includes \$3.2 million in strategic land acquisitions, \$0.6 million of costs related to the buildout of the recently announced winemaking facility in West Richland, Washington (the "Washington Winemaking Facility") and other planned purchases associated with ongoing business activities. The Company expects to spend approximately \$5.4 million in the remainder of 2016 for capital expenditures, including costs related to the Washington Winemaking Facility. We expect to use our available cash and cash flows generated from operating activities to fund capital expenditures.

Net cash used in investing activities was \$8.1 million for the nine months ended September 30, 2015, consisting primarily of capital expenditures of \$8.0 million.

#### Cash used in financing activities

Net cash used in financing activities for the nine months ended September 30, 2016 was \$2.7 million, which reflects the repurchase of shares of our common stock at a repurchase price totaling \$2.3 million and principal payments on our term loan of \$0.5 million.

Net cash used in financing activities for the nine months ended September 30, 2015 was \$0.4 million, which reflects the repurchase of shares of our common stock at a repurchase price totaling \$0.4 million.

#### Share Repurchases

In March 2014, the Board of Directors of the Company authorized a share repurchase program (the “2014 Repurchase Program”) that provides for the repurchase of up to \$2.0 million of outstanding common stock. Under the 2014 Repurchase Program, any repurchased shares are constructively retired. During the nine months ended September 30, 2016, the Company repurchased 76,710 shares under the 2014 Repurchase Program which were constructively retired at an original repurchase cost of \$0.6 million, and on February 29, 2016 the 2014 Repurchase Program was completed. Under the total 2014 Repurchase Program the Company repurchased 228,522 shares which were constructively retired at an original repurchase cost of \$2.0 million.

In March 2016, the Board of Directors of the Company authorized a second share repurchase program (the “2016 Repurchase Program”) that provides for the repurchase of up to \$2.0 million of outstanding common stock. Under the 2016 Repurchase Program, any repurchased shares are constructively retired. During the nine months ended and as of September 30, 2016, the

Company repurchased 191,372 shares under the 2016 Repurchase Program which were constructively retired at an original repurchase cost of \$1.6 million (See Part II, Item 2 in this Report). Through November 4, 2016, the Company had repurchased 227,318 shares under the 2016 Repurchase Program which were constructively retired at an original repurchase price of \$2.0 million.

#### Commitments & Contingencies

There have been no significant changes to our contractual obligations table as disclosed in the 2015 Report.

#### Critical Accounting Policies and Estimates

There have been no material changes to the critical accounting policies and estimates previously disclosed in the 2015 Report.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Crimson does not currently have any exposure to financial market risk. Sales to international customers are denominated in U.S. dollars; therefore, Crimson is not exposed to market risk related to changes in foreign currency exchange rates. As discussed above under Liquidity and Capital Resources, Crimson has a revolving credit facility and a term loan. The revolving credit facility had no outstanding balance as of September 30, 2016, and has interest at floating rates on borrowings. The term loan had \$15.5 million outstanding at September 30, 2016, and is a fixed-rate debt, and therefore is not subject to fluctuations in market interest rates.

#### Item 4. Controls and Procedures.

The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2016. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of September 30, 2016.

There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended September 30, 2016, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

## Item 1. Legal Proceedings.

From time to time, the Company may be involved in legal proceedings in the ordinary course of its business. The Company is not currently involved in any legal or administrative proceedings individually or together that it believes are likely to have a significant adverse effect on its business, results of operations or financial condition.

## Item 1A. Risk Factors.

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our 2015 Report, which could materially affect our business, results of operations or financial condition. The risks described in our 2015 Report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may eventually prove to materially adversely affect our business, results of operations or financial condition.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Share repurchase activity under the Company’s share repurchase program, on a trade date basis, for the three months ended September 30, 2016, was as follows:

| Fiscal Period     | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Plans (millions)(1) |
|-------------------|----------------------------------|------------------------------|--|---|
| July 1-31, 2016   | 18,625                           | 8.51                         | 132,664  | 0.9   |
| August 1-31, 2016 | 21,727                           | 8.56                         | 154,391  | 0.7   |

|                         |        |      |         |     |
|-------------------------|--------|------|---------|-----|
| September 1-30,<br>2016 | 36,981 | 8.62 | 191,372 | 0.4 |
| Total                   | 77,333 |      |         |     |

(1) In March 2016, the Board of Directors of the Company authorized the 2016 Repurchase Program that provides for the repurchase of up to \$2.0 million of outstanding common stock. The 2016 Repurchase Program expires on the earlier of March 1, 2017 or the date that the aggregate purchase price of all shares repurchased reaches \$2.0 million. Under the 2016 Repurchase Program, any repurchased shares are constructively retired.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

None

Item 5. Other Information.

None.

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Item 6. Exhibits.

- 2.1 Separation Agreement, dated February 1, 2013, between Crimson Wine Group, Ltd. and Leucadia National Corporation (incorporated by reference to Exhibit 2.1 to Form 8-K filed on February 25, 2013).
- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Form 8-K filed on February 25, 2013).
- 3.2 Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K filed on February 25, 2013).
- 31.1 Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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- 101 Financial statements from the Quarterly Report on Form 10-Q of Crimson Wine Group, Ltd. for the quarter ended September 30, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Income Statements; (iii) the Condensed Consolidated Statements of Comprehensive Income; (iv) the Condensed Consolidated Statements of Cash Flows; and (v) the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

SIGNATURES

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

CRIMSON WINE GROUP, LTD.  
(Registrant)

Date: November 8, 2016 By: /s/ Shannon McLaren  
Shannon McLaren  
Chief Financial Officer

EXHIBIT INDEX

| Exhibit Number | Description  |
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