

BOSTON BEER CO INC  
Form 10-Q  
May 04, 2011

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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 AND EXCHANGE ACT OF 1934**  
**For the quarterly period ended March 26, 2011**

**OR**

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

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

**Commission file number: 1-14092**

**THE BOSTON BEER COMPANY, INC.**

(Exact name of registrant as specified in its charter)

**MASSACHUSETTS**

(State or other jurisdiction of incorporation  
or organization)

**04-3284048**

(I.R.S. Employer  
Identification No.)

**One Design Center Place, Suite 850, Boston, Massachusetts**

(Address of principal executive offices)

**02210**

(Zip Code)

**(617) 368-5000**

(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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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

Number of shares outstanding of each of the issuer's classes of common stock, as of April 29, 2011:

**Class A Common Stock, \$.01 par value**

**9,289,775**

**Class B Common Stock, \$.01 par value**

**4,107,355**

(Title of each class)

(Number of shares)



**THE BOSTON BEER COMPANY, INC.**  
**FORM 10-Q**  
**QUARTERLY REPORT**  
**MARCH 26, 2011**  
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CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

|                                                                                                                                                                                     | <b>March 26,<br/>2011</b> | <b>December 25,<br/>2010</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------------|
|                                                                                                                                                                                     | (unaudited)               |                              |
| <b>Assets</b>                                                                                                                                                                       |                           |                              |
| Current Assets:                                                                                                                                                                     |                           |                              |
| Cash and cash equivalents                                                                                                                                                           | \$ 45,322                 | \$ 48,969                    |
| Accounts receivable, net of allowance for doubtful accounts of \$138 and \$121 as of March 26, 2011 and December 25, 2010, respectively                                             | 21,627                    | 20,017                       |
| Inventories                                                                                                                                                                         | 33,896                    | 26,614                       |
| Prepaid expenses and other assets                                                                                                                                                   | 14,329                    | 12,756                       |
| Deferred income taxes                                                                                                                                                               | 3,648                     | 3,648                        |
| Total current assets                                                                                                                                                                | 118,822                   | 112,004                      |
| Property, plant and equipment, net                                                                                                                                                  | 140,646                   | 142,889                      |
| Other assets                                                                                                                                                                        | 1,925                     | 2,260                        |
| Goodwill                                                                                                                                                                            | 1,377                     | 1,377                        |
| Total assets                                                                                                                                                                        | \$ 262,770                | \$ 258,530                   |
| <b>Liabilities and Stockholders Equity</b>                                                                                                                                          |                           |                              |
| Current Liabilities:                                                                                                                                                                |                           |                              |
| Accounts payable                                                                                                                                                                    | \$ 22,734                 | \$ 19,423                    |
| Accrued expenses and other current liabilities                                                                                                                                      | 47,313                    | 52,776                       |
| Total current liabilities                                                                                                                                                           | 70,047                    | 72,199                       |
| Deferred income taxes                                                                                                                                                               | 17,087                    | 17,087                       |
| Other liabilities                                                                                                                                                                   | 3,442                     | 3,656                        |
| Total liabilities                                                                                                                                                                   | 90,576                    | 92,942                       |
| Commitments and Contingencies                                                                                                                                                       |                           |                              |
| Stockholders Equity:                                                                                                                                                                |                           |                              |
| Class A Common Stock, \$.01 par value; 22,700,000 shares authorized; 9,319,519 and 9,288,015 shares issued and outstanding as of March 26, 2011 and December 25, 2010, respectively | 93                        | 93                           |
| Class B Common Stock, \$.01 par value; 4,200,000 shares authorized; 4,107,355 shares issued and outstanding                                                                         | 41                        | 41                           |
| Additional paid-in capital                                                                                                                                                          | 126,189                   | 122,016                      |
| Accumulated other comprehensive loss, net of tax                                                                                                                                    | (438)                     | (438)                        |
| Retained earnings                                                                                                                                                                   | 46,309                    | 43,876                       |
| Total stockholders equity                                                                                                                                                           | 172,194                   | 165,588                      |
| Total liabilities and stockholders equity                                                                                                                                           | \$ 262,770                | \$ 258,530                   |

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

**Table of Contents****THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

(unaudited)

|                                                  | <b>Three months ended</b> |                           |
|--------------------------------------------------|---------------------------|---------------------------|
|                                                  | <b>March 26,<br/>2011</b> | <b>March 27,<br/>2010</b> |
| Revenue                                          | \$ 111,409                | \$ 102,470                |
| Less excise taxes                                | 9,233                     | 8,440                     |
| Net revenue                                      | 102,176                   | 94,030                    |
| Cost of goods sold                               | 49,802                    | 46,136                    |
| Gross profit                                     | 52,374                    | 47,894                    |
| Operating expenses:                              |                           |                           |
| Advertising, promotional and selling expenses    | 35,512                    | 29,137                    |
| General and administrative expenses              | 10,273                    | 8,453                     |
| Total operating expenses                         | 45,785                    | 37,590                    |
| Operating income                                 | 6,589                     | 10,304                    |
| Other income (expense), net:                     |                           |                           |
| Interest income                                  | 1                         | 2                         |
| Other income (expense), net                      | 8                         | (1)                       |
| Total other income (expense), net                | 9                         | 1                         |
| Income before provision for income taxes         | 6,598                     | 10,305                    |
| Provision for income taxes                       | 2,639                     | 4,045                     |
| Net income                                       | \$ 3,959                  | \$ 6,260                  |
| Net income per common share basic                | \$ 0.30                   | \$ 0.45                   |
| Net income per common share diluted              | \$ 0.28                   | \$ 0.44                   |
| Weighted-average number of common shares basic   | 13,274                    | 13,959                    |
| Weighted-average number of common shares diluted | 14,007                    | 14,373                    |

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

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**THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

|                                                                                             | <b>Three months ended</b> |                           |
|---------------------------------------------------------------------------------------------|---------------------------|---------------------------|
|                                                                                             | <b>March 26,<br/>2011</b> | <b>March 27,<br/>2010</b> |
| <b>Cash flows provided by (used in) operating activities:</b>                               |                           |                           |
| Net income                                                                                  | \$ 3,959                  | \$ 6,260                  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                           |                           |
| Depreciation and amortization                                                               | 4,460                     | 4,205                     |
| Impairments of long-lived assets                                                            | 22                        | (2)                       |
| Loss on disposal of property, plant and equipment                                           | 41                        | 1                         |
| Bad debt expense                                                                            | 17                        | 57                        |
| Stock-based compensation                                                                    | 1,105                     | (121)                     |
| Excess tax benefit from stock-based compensation arrangements                               | (1,751)                   | (1,031)                   |
| Changes in operating assets and liabilities:                                                |                           |                           |
| Accounts receivable                                                                         | (1,558)                   | (6,672)                   |
| Inventories                                                                                 | (7,282)                   | (3,186)                   |
| Prepaid expenses and other assets                                                           | (719)                     | 70                        |
| Accounts payable                                                                            | 3,311                     | (6,038)                   |
| Accrued expenses and other current liabilities                                              | (3,705)                   | 2,181                     |
| Other liabilities                                                                           | (214)                     | 1,267                     |
| Net cash used in operating activities                                                       | (2,314)                   | (3,009)                   |
| <br><b>Cash flows used in investing activities:</b>                                         |                           |                           |
| Purchases of property, plant and equipment                                                  | (2,248)                   | (2,076)                   |
| Net cash used in investing activities                                                       | (2,248)                   | (2,076)                   |
| <br><b>Cash flows provided by (used in) financing activities:</b>                           |                           |                           |
| Repurchase of Class A Common Stock                                                          | (1,526)                   | (13,530)                  |
| Proceeds from exercise of stock options                                                     | 523                       | 638                       |
| Excess tax benefit from stock-based compensation arrangements                               | 1,751                     | 1,031                     |
| Net proceeds from sale of investment shares                                                 | 167                       | 129                       |
| Net cash provided by (used in) financing activities                                         | 915                       | (11,732)                  |
| <br>Change in cash and cash equivalents                                                     | (3,647)                   | (16,817)                  |
| Cash and cash equivalents at beginning of period                                            | 48,969                    | 55,481                    |

|                                            |    |        |    |        |
|--------------------------------------------|----|--------|----|--------|
| Cash and cash equivalents at end of period | \$ | 45,322 | \$ | 38,664 |
|--------------------------------------------|----|--------|----|--------|

**Supplemental disclosure of cash flow information:**

|                   |    |     |    |     |
|-------------------|----|-----|----|-----|
| Income taxes paid | \$ | 678 | \$ | 205 |
|-------------------|----|-----|----|-----|

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

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**THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**A. Organization and Basis of Presentation**

The Boston Beer Company, Inc. and its subsidiaries (the Company) are engaged in the business of selling low alcohol beverages throughout the United States and in selected international markets, under the trade names, The Boston Beer Company, Twisted Tea Brewing Company and HardCore Cider Company. The Company's Samuel Adams and Sam Adams Light® are produced and sold under the trade name, The Boston Beer Company. The accompanying consolidated balance sheet as of March 26, 2011 and the statements of consolidated operations and consolidated cash flows for the interim periods ended March 26, 2011 and March 27, 2010 have been prepared by the Company, without audit, in accordance with U.S. generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required for complete financial statements by generally accepted accounting principles and should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 25, 2010.

**Management's Opinion**

In the opinion of the Company's management, the Company's unaudited consolidated balance sheet as of March 26, 2011 and the results of its consolidated operations and consolidated cash flows for the interim periods ended March 26, 2011 and March 27, 2010, reflect all adjustments (consisting only of normal and recurring adjustments) necessary to present fairly the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

**Reclassification**

Certain prior year amounts have been reclassified to conform to current year presentation.

**B. Inventories**

Inventories consist of raw materials, work in process and finished goods. Raw materials, which principally consist of hops, other brewing materials and packaging, are stated at the lower of cost, determined on the first-in, first-out basis, or market. The cost elements of work in process and finished goods inventory consist of raw materials, direct labor and manufacturing overhead. Inventories consist of the following:

|                 | <b>March 26,<br/>2011</b> | <b>December 25,<br/>2010</b> |
|-----------------|---------------------------|------------------------------|
|                 | <b>(in thousands)</b>     |                              |
| Raw materials   | \$ 21,989                 | \$ 15,986                    |
| Work in process | 5,114                     | 5,048                        |
| Finished goods  | 6,793                     | 5,580                        |
|                 | <b>\$ 33,896</b>          | <b>\$ 26,614</b>             |

**Table of Contents****C. Net Income per Share**

The following table sets forth the computation of basic and diluted net income per share:

|                                                    | <b>Three months ended</b>                    |                           |
|----------------------------------------------------|----------------------------------------------|---------------------------|
|                                                    | <b>March 26,<br/>2011</b>                    | <b>March 27,<br/>2010</b> |
|                                                    | <b>(in thousands, except per share data)</b> |                           |
| Net income                                         | \$ 3,959                                     | \$ 6,260                  |
| Weighted average shares of Class A Common Stock    | 9,167                                        | 9,852                     |
| Weighted average shares of Class B Common Stock    | 4,107                                        | 4,107                     |
| Shares used in net income per common share basic   | 13,274                                       | 13,959                    |
| Effect of dilutive securities:                     |                                              |                           |
| Stock options                                      | 685                                          | 385                       |
| Non-vested investment shares and restricted stock  | 48                                           | 29                        |
| Dilutive potential common shares                   | 733                                          | 414                       |
| Shares used in net income per common share diluted | 14,007                                       | 14,373                    |
| Net income per common share basic                  | \$ 0.30                                      | \$ 0.45                   |
| Net income per common share diluted                | \$ 0.28                                      | \$ 0.44                   |

Basic net income per common share for each share of Class A Common Stock and Class B Common Stock is \$0.30 and \$0.45 for the three months ended March 26, 2011 and March 27, 2010, respectively, as each share of Class A and Class B participates equally in earnings. Shares of Class B are convertible at any time into shares of Class A on a one-for-one basis at the option of the stockholder.

Weighted-average options to purchase approximately 182,500 and 207,100 shares of Class A Common Stock were outstanding as of March 26, 2011 and March 27, 2010, respectively, but not included in computing diluted income per share because their effects were anti-dilutive. Additionally, performance-based stock options to purchase 113,200 and 315,100 shares of Class A Common Stock were outstanding as of March 26, 2011 and March 27, 2010, respectively, but not included in computing dilutive income per share because the Company was not able to estimate whether it was probable that the performance criteria of these stock options would be met as of March 26, 2011 and March 27, 2010, respectively. Furthermore, performance-based stock options to purchase 99,700 shares of Class A Common Stock were not included in computing dilutive income per share as of March 27, 2010 because the performance criteria of these stock options were not met and the options were cancelled during the three months ended March 27, 2010.

**D. Comprehensive Income or Loss**

Comprehensive income or loss represents net income or loss, plus defined benefit plans liability adjustments, net of tax effect. The defined benefit plans liability adjustments for the interim periods ended March 26, 2011 and March 27, 2010 were not material.

**E. Commitments and Contingencies***Purchase Commitments*

The Company had outstanding non-cancelable purchase commitments related to advertising contracts of approximately \$9.1 million at March 26, 2011. The Company has entered into contracts for the normal supply of a

portion of its hops requirements. These purchase contracts extend through crop year 2015 and specify both the quantities and prices, mostly denominated in euros, to which the Company is committed. Hops purchase commitments outstanding at March 26, 2011 totaled \$39.1 million, based on the exchange rates on that date.

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In January 2009, the Company began sourcing glass bottles pursuant to a Glass Bottle Supply Agreement with Anchor Glass Container Corporation ( Anchor ) under which Anchor became the exclusive supplier of certain glass bottles for the Company's breweries in Cincinnati, Ohio and Breinigsville, Pennsylvania. This agreement also establishes the terms on which Anchor may supply glass bottles to other breweries where the Company brews its beers. Under the agreement with Anchor, the Company has minimum and maximum purchase commitments that are based on Company-provided production estimates which, under normal business conditions, are expected to be fulfilled. Currently, the Company brews more than 95% of its volume at Company owned breweries. In the normal course of its business, the Company has historically entered into various production arrangements with other brewing companies. Pursuant to these arrangements, the Company purchases the liquid produced by those brewing companies, including the raw materials that are used in the liquid, at the time such liquid goes into fermentation. The Company is required to repurchase all unused raw materials purchased by the brewing company specifically for the Company's beers at the brewing company's cost upon termination of the production arrangement. The Company is also obligated to meet annual volume requirements in conjunction with certain production arrangements, which are not material to the Company's operations.

The Company had various other non-cancelable purchase commitments at March 26, 2011, which amounted to \$3.7 million.

### *Freetown Land*

The Company owns land in Freetown, Massachusetts that it had purchased for approximately \$6.0 million in 2007 and subsequently placed on the market in February 2008. In the fourth quarter of 2010, the Company reduced the carrying values of the land, primarily reflecting the effect of the general decline in economic conditions. While the Company has not classified this asset as held for sale in its accompanying balance sheet, the Company continues to actively market the land for amounts in excess of its carrying value. The future realization of the asset is dependent on the future cash flows associated with either the sale or use of this asset. The Company continues to monitor this asset for any potential additional impairment of value.

### *Litigation*

The Company is considering pursuing a claim against the manufacturer of the glass bottles that were subject to a product recall in 2008. If the matter is not settled and formal proceedings are initiated, substantial legal and related costs are possible which, if not recovered, could have a materially adverse impact on the Company's financial results. In addition, while the Company is not aware of any basis for a claim or counter-claim against it by the manufacturer in connection with this matter, such a possibility exists. In such event, there is a risk that the recovery by the manufacturer on its claims could exceed the Company's recovery on its claims. At this time, since no formal claim has been made, it is not possible to assess the risk of a successful counter-claim or the probable cost of such litigation. In 2009, the Company was informed that ownership of the High Falls brewery located in Rochester, New York (the Rochester Brewery ) changed and that the new owners would not assume the Company's existing contract for brewing services at the Rochester Brewery. Brewing of the Company's products at the Rochester Brewery ceased in April 2009. In February 2010, the Company filed a Demand for Arbitration with the American Arbitration Association (the arbitration ) which, as amended, asserted a breach of contract claim against the previous owner of the Rochester Brewery. In March 2010, the new and previous owners of the Rochester Brewery filed a complaint in federal court seeking a declaratory judgment and injunction to require certain of the Company's claims to proceed in court, rather than in the arbitration. In April 2010, the Company filed an answer to that complaint and asserted certain counterclaims, including a claim against the new owners of the Rochester Brewery for interference with contract. The court denied the new and previous owners' motion for a preliminary injunction in June 2010. A hearing in the arbitration was held in October 2010. In January 2011, the arbitrator issued an award of approximately \$1.3 million in damages and expenses to be paid by High Falls Brewery Company, LLC, although the likelihood of collection of such award is in doubt. A hearing was held on a pre-trial motion in the federal court action in April 2011, but no ruling has yet been received. The Company does not believe that its inability to avail itself of production capacity at the Rochester Brewery will, in the near future, have a material impact on its ability to meet demand for its products.



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The Company is not a party to any pending or threatened litigation, the outcome of which would be expected to have a material adverse effect upon its financial condition or the results of its operations. In general, while the Company believes it conducts its business appropriately in accordance with laws, regulations and industry guidelines, claims, whether or not meritorious, could be asserted against the Company that might adversely impact the Company's results.

**F. Income Taxes**

As of March 26, 2011 and December 25, 2010, the Company had approximately \$7.1 million of unrecognized income tax benefits. An increase of \$15,000 in unrecognized tax benefits was recorded for the three months ended March 26, 2011.

The Company's practice is to classify interest and penalties related to income tax matters in income tax expense. As of March 26, 2011 and December 25, 2010, the Company had \$3.9 million and \$3.7 million, respectively, accrued for interest and penalties.

The Company's state income tax returns remain subject to examination for three or four years depending on the state's statute of limitations. In addition, the Company is generally obligated to report changes in taxable income arising from federal income tax audits.

In August 2008, the Massachusetts Department of Revenue ( MA DOR ) commenced an examination of the Company's 2004, 2005 and 2006 corporate income tax returns. In addition, in October 2009, the MA DOR expanded the original examination to include the 2007 and 2008 corporate income tax returns. At March 26, 2011, the examination was in progress. The Company is also being audited by two other states as of March 26, 2011.

It is reasonably possible that the Company's unrecognized tax benefits may increase or decrease in 2011 if there is a commencement or completion of federal income tax audits or certain state income tax audits; however, the Company cannot estimate the range of such possible changes. The Company does not expect that any potential changes would have a material impact on the Company's financial position, results of operations, or cash flows.

**G. Product Recall**

On April 7, 2008, the Company announced a voluntary product recall of certain glass bottles of its Samuel Adams® products. The recall was a precautionary step and resulted from routine quality control inspections at the Cincinnati Brewery, which detected glass inclusions in certain bottles of beer. The bottles were from a single glass plant that supplied bottles to the Company. The glass plant in question supplied approximately 25% of the Company's glass bottles during the first quarter of 2008.

The recall process was substantially completed during the fourth quarter of 2008, and the Company made no material changes in its estimate of overall recall costs during the first quarter of 2011.

The following table summarizes the Company's reserves and reserve activities for the product recall for the three months ended March 26, 2011 (in thousands):

|                      | Reserves at<br>December 25,<br>2010 | Changes<br>in<br>Estimates | Reserves<br>Used | Reserves at<br>March 26,<br>2011 |
|----------------------|-------------------------------------|----------------------------|------------------|----------------------------------|
| Excise tax credit    | \$ (158)                            | \$                         | \$               | \$ (158)                         |
| Recall-related costs | 255                                 |                            |                  | 255                              |
| Inventory reserves   | 2,796                               |                            |                  | 2,796                            |
|                      | \$ 2,893                            | \$                         | \$               | \$ 2,893                         |

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The Company currently believes it may have claims against the supplier of these glass bottles for the impact of the recall, but it is impossible to predict the outcome of such potential claims. Consequently, no amounts have been recorded as receivable as of March 26, 2011 for any potential recoveries from third parties and there can be no assurance there will be any recoveries. The Company carries product liability insurance, but does not carry product recall insurance.

**H. Line of Credit**

The Company has a credit facility in place that provides for a \$50.0 million revolving line of credit which expires on March 31, 2013. As of March 26, 2011, there were no borrowings outstanding and the line of credit was fully available to the Company for borrowing. The Company was not in violation of any of its covenants to the lender under the credit facility.

**I. Fair Value of Financial Instruments**

The Company determines the fair value of its financial assets and liabilities in accordance with ASC Topic 820. The Company believes that the carrying amount of its cash, accounts receivable, accounts payable and accrued expenses approximates fair value due to the short-term nature of these assets and liabilities. The Company is not exposed to significant interest, currency or credit risks arising from these financial assets and liabilities.

**J. Stock-Based Option Grants**

On January 1, 2011, the Company granted options to purchase an aggregate of 188,200 shares of the Company's Class A Common Stock with a weighted average fair value of \$44.80 per share, of which 175,000 shares were special long-term retention stock options to certain members of management. All of the special long-term retention stock options are service-based options with 75% of the shares vesting on January 1, 2016 and the remaining shares vesting annually in equal tranches over the following four years.

On March 11, 2011, the Company granted an additional option to purchase 40,000 shares of the Company's Class A Common Stock with a weighted average fair value of \$40.39 per share. The option is a service-based stock option and vests annually at approximately 33% per year starting on the third anniversary of the grant date.

**K. Subsequent Events**

The Company evaluated subsequent events occurring after the balance sheet date, March 26, 2011, and, concluded that there were no other events of which management was aware that occurred after the balance sheet date that would require any adjustment to the accompanying consolidated financial statements.

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**PART I. Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following is a discussion of the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of The Boston Beer Company, Inc. (the Company or Boston Beer) for the three-month period ended March 26, 2011, as compared to the three-month period ended March 27, 2010. This discussion should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements of the Company and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2010.

**RESULTS OF OPERATIONS**

Boston Beer's flagship product is Samuel Adams Boston Lager®. For purposes of this discussion, Boston Beer's core brands include all products sold under the Samuel Adams®, Sam Adams®, Twisted Tea® and HardCore® trademarks.

Core brands do not include the products brewed or packaged at the Company's breweries in Cincinnati, Ohio (the Cincinnati Brewery) under contract arrangements for third parties that are not significant to the Company's total sales in 2011 and 2010.

**Three Months Ended March 26, 2011 compared to Three Months Ended March 27, 2010**

**Net revenue.** Net revenue increased by \$8.2 million, or 8.7%, to \$102.2 million for the three months ended March 26, 2011, as compared to \$94.0 million for the three months ended March 27, 2010. This increase was primarily due to an increase in core brand shipment volume and minor pricing gains, partially offset by increased allowance for stale beer returns.

**Volume.** Total shipment volume increased by 9.8% to 502,000 barrels for the three months ended March 26, 2011, as compared to 457,000 barrels for the three months ended March 27, 2010. Shipment volume for the core brands increased by 9.7% to 498,000 barrels, due primarily to increases in Twisted Tea®, Samuel Adams Boston Lager®, Samuel Adams® Brewmaster's Collection and Samuel Adams® Seasonals, partially offset by declines in Sam Adams Light®.

Depletions, or sales by the wholesalers to retailers, of the Company's core brands for the first quarter of 2011 increased by approximately 7% versus the same period in 2010, due primarily to increases in Twisted Tea®, Samuel Adams® Brewmaster's Collection, Samuel Adams Boston Lager® and Samuel Adams® Seasonals, partially offset by declines in Sam Adams Light®.

Year-to-date depletions through April 2011 are estimated by the Company to be up approximately 5% from the same period in 2010. Shipments and orders in-hand suggest that core shipments year-to-date through May 2011 will be up approximately 8% compared to the same period in 2010. The Company believes that inventory levels at wholesalers at the end of the first quarter are similar to the levels in previous years, except for those wholesalers participating in the Freshest Beer Program whose inventories were lower. Actual shipments may differ and no inferences should be drawn with respect to shipments in future periods.

**Net Selling Price.** The net selling price per core barrel decreased by 0.9% to \$204.62 for the three months ended March 26, 2011, as compared to \$206.48 for the same period last year. This decrease in net revenue per barrel for core brands is primarily due to increased stale beer returns and product mix changes, partially offset by price increases of 1.1%.

**Gross profit.** Gross profit per core barrel decreased to \$105.07 per barrel for the three months ended March 26, 2011, as compared to \$105.19 for the three months ended March 27, 2010. Gross margin for core products was 51.3% for the three months ended March 26, 2011, as compared to 50.9% for the three months ended March 27, 2010. The decrease in gross profit per core barrel of \$0.12 and increase in gross margin of 0.4 percentage point is the result of decreases in the net selling price per barrel, partially offset by a decrease in cost of goods sold on a per barrel basis.

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Cost of goods sold for core brands was \$99.55 per barrel for the three months ended March 26, 2011, as compared to \$101.29 per barrel for the three months ended March 27, 2010. The decrease in costs of goods sold of \$1.74 per barrel resulted from decreased ingredient costs partially offset by an unfavorable package mix and increased brewery processing costs.

The Company includes freight charges related to the movement of finished goods from its manufacturing locations to distributor locations in its advertising, promotional and selling expense line item. As such, the Company's gross margins may not be comparable to the reported margins of other entities that classify costs related to distribution differently.

**Advertising, promotional and selling.** Advertising, promotional and selling expenses increased by \$6.4 million, or 22.0%, to \$35.5 million for the three months ended March 26, 2011, as compared to \$29.1 million for the three months ended March 27, 2010. The increase is primarily a result of planned increased investments in point of sale materials, higher costs for additional sales personnel and increased advertising, as well as increased costs of freight to wholesalers.

Such expenses for core brands were 34.8% of net revenue, or \$71.31 per barrel, for the three months ended March 26, 2011, as compared to 31.1% of net revenue, or \$64.18 per barrel, for the three months ended March 27, 2010. The increase in advertising, promotional and selling expenses per barrel and as a percentage of net revenue are a result of increases in advertising, promotional and selling expenses increasing at a higher rate than core shipment volume. The Company will invest in advertising and promotional campaigns that it believes are effective, but there is no guarantee that such investment will generate sales growth.

The Company conducts certain advertising and promotional activities in its wholesalers' markets, and the wholesalers make contributions to the Company for such efforts. These amounts are included in the Company's statement of operations as reductions to advertising, promotional and selling expenses. Historically, contributions from wholesalers for advertising and promotional activities have amounted to between 2% and 4% of net sales. The Company may adjust its promotional efforts in the wholesalers' markets, if changes occur in these promotional contribution arrangements, depending on the industry and market conditions.

**General and administrative.** General and administrative expenses increased by \$1.8 million, or 21.2%, to \$10.3 million for the three months ended March 26, 2011, as compared to \$8.5 million for the same period last year, due to increases in salaries and benefits costs and consulting expenses, and also due to the fact that in the first quarter of 2010 there was a \$0.9 million reversal of a 2009 expense for an option that did not vest.

**Provision for income taxes.** The Company recorded an income tax provision of \$2.6 million for the three months ended March 26, 2011, compared to \$4.0 million for the three months ended March 27, 2010. The Company's effective tax rate for the first quarter of 2011 increased to 40.0% from the first quarter 2010 rate of 39.3% as a result of lower pretax income but with no corresponding decrease in non-deductible expenses. The Company continues to expect its full year tax rate to be approximately 39%.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash decreased to \$45.3 million as of March 26, 2011 from \$49.0 million as of December 25, 2010, primarily due to cash used in operating activities and cash used in investing activities.

Cash provided by or used in operating activities consist of net income, adjusted for certain non-cash items, such as depreciation and amortization, stock-based compensation expense and related excess tax benefit, and other non-cash items included in operating results. Also affecting cash provided by or used in operating activities are changes in operating assets and liabilities, such as accounts receivable, inventory, accounts payable and accrued expenses.

Cash used in operating activities for the three months ended March 26, 2011 was \$2.3 million and primarily consisted of a net increase in operating assets and liabilities of \$10.2 million, partially offset by net income of \$4.0 million and non-cash items of \$3.9 million. Cash used in operating activities for the three months ended March 27, 2010 was \$3.0 million and primarily consisted of a net increase in operating assets and liabilities of \$12.4 million, partially offset by net income of \$6.3 million and non-cash items of \$3.1 million.



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The Company used \$2.2 million in investing activities during the three months ended March 26, 2011, as compared to \$2.1 million during the three months ended March 27, 2010. Investing activities primarily consisted of equipment purchases to upgrade the Company-owned breweries.

Cash provided by financing activities was \$915,000 during the three months ended March 26, 2011, as compared to \$11.7 million of cash used in financing activities during the three months ended March 27, 2010. The \$12.6 million change in financing cash flow is primarily due to a decrease in stock repurchases under the Company's Stock Repurchase Program.

During the three months ended March 26, 2011, the Company repurchased approximately 17,000 shares of its Class A Common Stock for an aggregate purchase price of \$1.5 million. As of March 26, 2011, the Company had repurchased a cumulative total of approximately 9.8 million shares of its Class A Common Stock for an aggregate purchase price of \$190.6 million and had approximately \$34.4 million remaining on the share buyback expenditure limit. From March 27, 2011 through April 29, 2011, the Company repurchased an additional 30,000 shares of its Class A Common Stock for a total cost of \$2.7 million. Through April 29, 2011, the Company has repurchased a cumulative total of approximately 9.8 million shares of its Class A Common Stock for an aggregate purchase price of \$193.3 million, and had approximately \$31.7 million remaining on the \$225.0 million share buyback expenditure limit set by the Board of Directors.

The Company expects that its cash balance as of March 26, 2011 of \$45.3 million, along with future operating cash flow and the Company's unused line of credit of \$50.0 million, will be sufficient to fund future cash requirements. The Company's \$50.0 million credit facility has a term not scheduled to expire until March 31, 2013. The Company was not in violation of any of its covenants to the lender under the credit facility and there were no amounts outstanding under the credit facility as of the date of this filing.

### ***2011 Outlook***

In 2010, the Company began testing its Freshest Beer Program with five wholesalers in different markets. The Company successfully reduced the inventories of these wholesalers from three to four weeks to less than two weeks, resulting in fresher beer being delivered to retail. The Company has expanded this pilot program by adding five more wholesalers. The Company believes that in the long term this program will deliver better, fresher beer to its drinkers and should reduce costs and improve efficiency throughout the supply chain. As of April 29, 2011, the Freshest Beer Program is now active at ten wholesalers representing approximately 15% of the Company's business. The Company estimates that inventory levels at participating wholesalers at the end of the first quarter were approximately 56,000 cases lower than would otherwise been anticipated. Beyond the impact of reduced shipments, the Company has not yet incurred material costs in implementing the Freshest Beer Program but anticipates some systems additions and improvements, and equipment investments later in 2011 to increase flexibility and response times and to service more wholesalers. The Company is still targeting that 50% of its volume will be on our Freshest Beer Program by the end of 2011.

The Company left unchanged its projection of 2011 earnings per diluted share of between \$3.45 and \$3.95. While the Company is currently concerned about significant cost pressure from fuel price increases and their impact on freight costs, package material and brewery operating costs, it believes that it is too early in the year to assess the extent to which the increased fuel costs may be offset with operating efficiencies, pricing or volume growth, or the possibility that these pressures may subside. At current fuel prices the Company believes that freight costs could negatively impact 2011 earnings per diluted share by approximately \$0.20, but this could be offset by a slightly lower negative impact of the Freshest Beer Program and other Company initiatives. Accordingly, the Company's actual 2011 earnings per diluted share could vary significantly from the current projection.

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The Company expects that the competitive pricing environment will continue to be challenging, but will be seeking to achieve revenue per barrel increases of approximately 1% during 2011. If the Company successfully executes its Freshest Beer Program for 50% of its volume in 2011, it would expect shipment growth of 7% to 8%, reflecting an anticipated aggregate inventory reduction at wholesalers in the range of 300 thousand to 500 thousand case equivalents. The Company will continue to focus on efficiencies at its breweries and is not currently anticipating any significant increases in the costs of packaging and ingredients for 2011 beyond the energy and freight cost impacts. Further increases in energy costs will have a material impact on 2011 costs. Full-year 2011 gross margins are currently expected to be between 54% and 56%, after taking into consideration the current known impact of implementing the Freshest Beer Program. The Company intends to increase its investments in its brand support by between \$12 million and \$18 million for the full year 2011, which does not include any increases in freight costs for the shipment of beer products to its wholesalers. The Company will increase its investments in brand support commensurate with the opportunities for growth that it sees, but there is no guarantee such increased investments will result in increased volumes. The Company is committed to trying to grow market share while maintaining volume and healthy pricing, and it is prepared to invest to accomplish this, even if this causes short term earnings decreases. The Company believes that its full year 2011 effective tax rate will be approximately 39%.

Based on information currently available, the Company estimates full year capital expenditures of between \$15.0 million and \$25.0 million, most of which relate to continued investments in its breweries and additional keg purchases. The actual amounts spent may nonetheless differ significantly from these estimates. The Company believes that its capacity requirements for 2011 can be met by its Company-owned breweries and existing contracted capacity at third party brewers.

## **THE POTENTIAL IMPACT OF KNOWN FACTS, COMMITMENTS, EVENTS AND UNCERTAINTIES**

### **Off-balance Sheet Arrangements**

At March 26, 2011, the Company did not have off-balance sheet arrangements as defined in 03(a)(4)(ii) of Regulation S-K.

### **Contractual Obligations**

There were no material changes outside of the ordinary course of the Company's business to contractual obligations during the three month period ended March 26, 2011.

### **Critical Accounting Policies**

There were no material changes to the Company's critical accounting policies during the three month period ended March 26, 2011.

### **Recent Accounting Pronouncements**

None

## **FORWARD-LOOKING STATEMENTS**

In this Quarterly Report on Form 10-Q and in other documents incorporated herein, as well as in oral statements made by the Company, statements that are prefaced with the words may, will, expect, anticipate, continue, estimate, intend, designed and similar expressions, are intended to identify forward-looking statements regarding events, conditions, and financial trends that may affect the Company's future plans of operations, business strategy, results of operations and financial position. These statements are based on the Company's current expectations and estimates as to prospective events and circumstances about which the Company can give no firm assurance. Further, any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement to reflect subsequent events or circumstances. Forward-looking statements should not be relied upon as a prediction of actual future financial condition or results. These forward-looking statements, like any forward-looking statements, involve risks and uncertainties that could cause actual results to differ materially from those projected or anticipated. Such risks and uncertainties include the factors set forth below in addition to the other information set forth in this Quarterly Report on Form 10-Q and in the section titled Other Risks and Uncertainties in the Company's Annual Report on Form 10-K for the year ended December 25, 2010.



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### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Since December 25, 2010, there have been no significant changes in the Company's exposures to interest rate or foreign currency rate fluctuations. The Company currently does not enter into derivatives or other market risk sensitive instruments for the purpose of hedging or for trading purposes.

### **Item 4. CONTROLS AND PROCEDURES**

As of March 26, 2011, the Company conducted an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rule 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods and that such disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to its management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended March 26, 2011 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**

In 2009, the Company was informed that ownership of the High Falls brewery located in Rochester, New York (the Rochester Brewery) changed and that the new owners would not assume the Company's existing contract for brewing services at the Rochester Brewery. Brewing of the Company's products at the Rochester Brewery ceased in April 2009. In February 2010, the Company filed a Demand for Arbitration with the American Arbitration Association (the arbitration), which, as amended, asserted a breach of contract claim against the previous owner of the Rochester Brewery. In March 2010, the new and previous owners of the Rochester Brewery filed a complaint in federal court seeking a declaratory judgment and injunction to require certain of the Company's claims to proceed in court, rather than in the arbitration. In April 2010, the Company filed an answer to that complaint and asserted certain counterclaims, including a claim against the new owners of the Rochester Brewery for interference with contract. The court denied the new and previous owners' motion for a preliminary injunction in June 2010. A hearing in the arbitration was held in October 2010. In January 2011, the arbitrator issued an award of approximately \$1.3 million in damages and expenses to be paid by High Falls Brewery Company, LLC, although the likelihood of collection of such award is in doubt. A hearing was held on a pre-trial motion in the federal court action in April 2011, but no ruling has yet been received.

The Company is currently not a party to any pending or threatened litigation, the outcome of which would be expected to have a material adverse effect on its financial condition or the results of its operations.

### **Item 1A. RISK FACTORS**

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 25, 2010, which could materially affect the Company's business, financial condition or future results. The risks described in the Company's Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect its business, financial condition and/or operating results.

**Table of Contents****Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

As of March 26, 2011, the Company has repurchased a cumulative total of approximately 9.7 million shares of its Class A Common Stock for an aggregate purchase price of \$190.6 million. As of March 26, 2011, the Company had approximately \$34.4 million remaining on the \$225.0 million share buyback expenditure limit.

During the three months ended March 26, 2011, the Company repurchased 18,021 shares of its Class A Common Stock as illustrated in the table below:

| Period                                | Total<br>Number<br>of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number of<br>Shares Purchased<br>as<br>Part of Publicly<br>Announced Plans<br>or<br>Programs | Approximate Dollar<br>Value of Shares that<br>May Yet be<br>Purchased<br>Under the Plans or<br>Programs |
|---------------------------------------|----------------------------------------------|------------------------------------|----------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| December 26, 2010 to January 29, 2011 | 7,394                                        | \$ 90.01                           | 7,394                                                                                              | \$ 35,262,537                                                                                           |
| January 30, 2011 to February 26, 2011 | 7,894                                        | 82.54                              | 7,000                                                                                              | 34,636,058                                                                                              |
| February 27, 2011 to March 26, 2011   | 2,733                                        | 87.23                              | 2,600                                                                                              | 34,402,006                                                                                              |
| Total                                 | 18,021                                       | \$ 86.32                           | 16,994                                                                                             | \$ 34,402,006                                                                                           |

Of the shares that were purchased during the period, 1,027 shares represent repurchases of unvested investment shares issued under the Investment Share Program of the Company's Employee Equity Incentive Plan.

As of April 29, 2011, the Company has repurchased a cumulative total of approximately 9.8 million shares of its Class A Common Stock for an aggregate purchase price of \$193.3 million and had approximately \$31.7 million remaining on the \$225.0 million share buyback expenditure limit.

As of April 29, 2011, the Company had 9.3 million shares of Class A Common Stock outstanding and 4.1 million shares of Class B Common Stock outstanding.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable

**Item 4. REMOVED AND RESERVED****Item 5. OTHER INFORMATION**

Not Applicable

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**Item 6. EXHIBITS**

| <b>Exhibit No.</b> | <b>Title</b>                                                                                                                                                                                          |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11.1               | The information required by Exhibit 11 has been included in Note C of the notes to the consolidated financial statements.                                                                             |
| *31.1              | Certification of the President and Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| *31.2              | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002               |
| *32.1              | Certification of the President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                   |
| *32.2              | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                                 |

\* Filed with this report

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

THE BOSTON BEER COMPANY, INC.  
(Registrant)

Date: May 4, 2011

/s/ Martin F. Roper  
Martin F. Roper  
President and Chief Executive Officer  
(principal executive officer)

Date: May 4, 2011

/s/ William F. Urich  
William F. Urich  
Chief Financial Officer  
(principal accounting and financial officer)