REDHOOK ALE BREWERY INC
Form 10-K/A
April 29, 2008

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

Form 10-K/A
(Amendment No. 2)

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

For the fiscal year ended December 31, 2007

or

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

For the transition period from __________ to __________

Commission File Number 0-26542

REDHOOK ALE BREWERY, INCORPORATED

(Exact name of registrant as specified in its charter)

Washington	**91-1141254**
(State of incorporation)	*(I.R.S. Employer Identification Number)*
14300 NE 145th Street, Suite 210	
Woodinville, Washington	**98072-6950**
(Address of principal executive offices)	*(Zip Code)*

(425) 483-3232 *(Registrant s telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $0.005 Per Share	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:

None.

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 larger accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer o Accelerated filer o Smaller Reporting Company þ

Non-accelerated filer o
(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 o No þ

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of the last day of the registrant s most recently completed second quarter on June 30, 2007 (based upon the closing sale price of the registrant s Common Stock, as reported by The Nasdaq Stock Market) was $40,499,151. (1)

The number of shares of the registrant s Common Stock outstanding as of March 14, 2008 was 8,354,239.

(1) Excludes shares held of record on that date by directors and executive officers and greater than 10% shareholders of the registrant. Exclusion of such shares should not be construed to indicate that any such person directly or indirectly possesses the power to direct or cause the direction of the management of the policies of the registrant.

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EXPLANATORY NOTE

Redhook Ale Brewery, Incorporated (the Company or Redhook) is filing this Amendment No. 2 (the Amendment) to its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, originally filed with the Securities and Exchange Commission on March 26, 2008 (the Original Filing) and amended by Amendment No. 1 filed on April 3, 2008. The Company is filing herewith certain information required by Part III, Items 10 through 14 of Form 10-K that is required to be filed with the SEC within 120 days after the Company s fiscal year ended December 31, 2007. Such items were previously omitted as they were intended to be incorporated by reference to the Company s definitive joint proxy statement/prospectus for its 2008 Annual Meeting of Shareholders. In addition, in connection with the filing of this Amendment No. 2 and pursuant to Rules 12b-15 and 13a-14 under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Company is including with this Amendment No. 2 certain currently dated certifications required by Part III, Item 15. No other information included in the Annual Report on Form 10-K is amended by this Amendment No. 2 on Form 10-K/A.

This Form 10-K/A (Amendment No. 2) does not reflect events occurring after the Original Filing or modify or update those disclosures affected by subsequent events. Consequently, all other information is unchanged and reflects the disclosures made at the time of the filing of the Form 10-K. Accordingly, this Form 10-K/A should be read in conjunction with our SEC filings made subsequent to the filing of the Form 10-K.

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PART III.

Item 10. Directors, Executive Officers and Corporate Governance

Board of Directors

Set forth below is biographical information about the nominees for director whose terms expire at the 2008 Annual Meeting of Shareholders.

Frank H. Clement (66). Mr. Clement has served as a director of Redhook since March 1989. He is a retired Vice President of Investments at UBS Financial Services (formerly UBS Paine Webber), a registered broker dealer, in Seattle, Washington, where he was employed from 1975 to March 2002. From 1995 through 1999, he served on the Advisory Board of the Institute of Brewing Studies in Boulder, Colorado. Mr. Clement serves on the Dean s Advisory Board for the School of Management and on the National Alumni Association Board, both for S.U.N.Y. at Buffalo, Buffalo, New York. Since July 2004, Mr. Clement has served as a director of Craft Brands Alliance LLC.

John W. Glick (44). Mr. Glick has served as a director of Redhook since September 2005. Mr. Glick has worked with the Business and Wholesaler Development group at Anheuser-Busch (A-B) since April 2000, serving as Senior Director, Business Development since December 1, 2006 and Senior Manager of Business Development since September 2005. He has also held positions in the Business Planning and Brewery Operations groups at A-B. Prior to joining A-B s Executive Development Program in 1992, Mr. Glick held multiple engineering and manufacturing operations positions at General Motors. He received a Master s degree in Business Administration from Indiana University and a Bachelor of Science from GMI Engineering & Management Institute in Flint, Michigan. Mr. Glick has served as a director of Widmer Brothers Brewing Company (Widmer) and as a director for Kirin Brewery of America since April 2004. Mr. Glick is one of two directors on Redhook s board of directors designated by A-B; see Certain Transactions Below.

Michael Loughran (50). Mr. Loughran has served as a director of Redhook since May 2005. Mr. Loughran is the President of Kiket Bay Group, LLC, a financial consulting and independent equity research firm formed by him in November 2003. From March 2005 to March 2006, Mr. Loughran served as Senior Vice President and equity analyst for First Washington Corporation, a registered broker dealer in Seattle, Washington. From August 2002 to March 2005, Mr. Loughran was employed by Crown Point Group and its affiliate, the Robins Group, a registered broker dealer in Portland, Oregon, serving most recently as Vice President and equity analyst for the Robins Group. From November 2001 to August 2002, Mr. Loughran served as a financial consultant. Mr. Loughran received a Bachelor s degree in Economics from Princeton University in 1980 and a Master s degree in Business Administration from the University of Pennsylvania, Wharton School, in 1986.

David R. Lord (59). Mr. Lord has served as a director of Redhook since May 2003. He has been the President of Pioneer Newspapers, Inc., headquartered in Seattle, Washington, since 1991. Pioneer Newspapers owns seven daily newspapers and nine weekly, semi-weekly and monthly publications in the western United States. Prior to joining Pioneer Newspapers, Mr. Lord practiced law at Ferguson and Burdell, a Seattle firm specializing in business litigation, and was a criminal deputy prosecuting attorney for King County, Washington. Mr. Lord is president elect of the PAGE Co-op board of directors, a director on the Associated Press board of directors, the Job Network LLC board of directors, the Newspaper Association of America board of directors, American Press Institute board of directors, and a former chairman of the Inland Press Association.

John D. Rogers, Jr. (64). Mr. Rogers has served as a director of Redhook since May 2004. He currently serves as Managing Partner of J4 Ranch LLC. Mr. Rogers served as President, Chief Executive Officer and director of Door to Door Storage, Inc. in Kent, Washington from June 2004 to June 2007. Mr. Rogers was a director of NW Parks Foundation from November 2003 to December 2006. From 1996 to 2002, he was President and Chief Operating Officer of AWC, Inc. From 1993 to 1996, he was General Manager of British Steel Alloys and from 1986 to 1992, he was President of Clough Industries. Previous positions held by Mr. Rogers include President and Chief Executive Officer of Saab Systems Inc., NA, and National Industry Manager for Martin Marietta Aluminum of Bethesda, Maryland, following an appointment as a Sloan Fellow to M.I.T. Graduate School of Business where he graduated with a Masters of Science in Business Administration. Mr. Rogers earned a Master s degree in Business Administration from Southern Methodist University and a Bachelor s degree from the University of Washington.

Paul S. Shipman (55). Mr. Shipman is one of Redhook s founders and has served as its Chairman of the Board since November 1992, and as its Chief Executive Officer since June 1993. From September 1981 to November 2005, Mr. Shipman served as Redhook s President. Prior to founding Redhook, Mr. Shipman was a marketing analyst for the Chateau Ste. Michelle Winery from 1978 to 1981. Mr. Shipman received his Bachelor s degree in English from Bucknell University in 1975 and his Master s degree in Business Administration from the Darden Business School, University of Virginia, in 1978. Since July 2004, Mr. Shipman has served as a director of Craft Brands Alliance LLC.

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Anthony J. Short (48). Mr. Short has served as a director of Redhook since May 2000. Mr. Short has been Vice President, Business and Wholesaler Development at A-B since September 2002. In this capacity, he is responsible for domestic business development and various initiatives involving A-B s sales and distribution system. From March 2000 to September 2002, Mr. Short was Director of Business and Wholesaler Development. Previously, Mr. Short was Director of Wholesaler System Development. He began his career at A-B in 1986 in the Corporate Auditing Department. Prior to joining A-B, Mr. Short held positions at Schowalter & Jabouri, a regional firm of Certified Public Accountants. Mr. Short has served as a director of Widmer since October 1997 and as a director of Craft Brands Alliance LLC since July 2004. Mr. Short is one of two directors on Redhook s board of directors designated by A-B; see Certain Transactions below.

Executive Officers

The names, ages, titles and biographies of the Company s executive officers are provided under Executive Officers in Part I, Item 1 of the Annual Report on Form 10-K which was previously filed with the SEC on March 26, 2008 and are incorporated herein by reference.

Audit Committee of the Board of Directors

The Redhook audit committee is responsible for the engagement of and approval of the services provided by Redhook s independent registered public accountants. The audit committee assists Redhook s board of directors in fulfilling its oversight responsibilities by reviewing (i) the financial reports and other pertinent financial information provided by Redhook to the public and the Securities and Exchange Commission, (ii) Redhook s systems of internal controls established by management and the Board, and (iii) Redhook s auditing, accounting and financial reporting processes generally.

The Redhook audit committee is currently composed of Messrs. Clement, Loughran (Chairman), and Rogers, all of whom are independent directors as defined by Nasdaq Marketplace Rule 4200(a)(15) and 4350(d)(2). The Board has also determined that Mr. Loughran, an independent director, qualifies as an audit committee financial expert as defined by the Securities and Exchange Commission. Mr. Anthony J. Short is currently A-B s designee to the audit committee and participates in an advisory capacity only. The audit committee met five times during 2007. The board of directors has adopted a written charter for the audit committee. A copy of the audit committee charter is available on Redhook s website at www.redhook.com (select About Redhook Investor Relations Governance - Highlights).

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on its review of the copies of such reports received by Redhook, and on written representations by Redhook s officers and directors regarding their compliance with the applicable reporting requirements under Section 16(a) of the Exchange Act, Redhook believes that, with respect to its fiscal year ended December 31, 2007, all filing requirements applicable to its officers and directors, and all of the persons known to Redhook to own more than ten percent of its common stock were complied with by such persons.

Code of Conduct

The Company has adopted a Code of Conduct (code of ethics) applicable to all employees, including the principal executive officer, principal financial officer, principal accounting officer and directors. A copy of the Code of Conduct is available on the Company s website at www.Redhook.com (select About Redhook Investor Relations Governance Highlights). Any waivers of the code for the Company s directors or executive officers will be approved by the Board of Directors. The Company will disclose any such waivers on a current report on Form 8-K within four business days after the waiver is approved.

Item 11. Executive Compensation

Compensation Discussion and Analysis

Overview

The Redhook compensation committee of the board of directors, (the Committee), is responsible for establishing and administering the overall compensation policies applicable to Redhook s senior management, which includes Redhook s Chief Executive Officer, President and Chief Operating Officer, Vice Presidents, and Chief Financial Officer. The Committee is also responsible for establishing the general policies applicable to the granting, vesting and other terms of stock options and stock grants granted to employees under Redhook s stock option and stock incentive plans, and for determining the size and terms of stock and option grants made to Redhook s executive officers, among others.

The Committee is composed entirely of independent directors. Mr. Glick, A-B s designee to the compensation committee, participates on the committee in an advisory capacity only. The compensation committee oversees Redhook s executive compensation programs pursuant to a written charter, a copy of which is available on Redhook s website at www.redhook.com (select About Redhook Investor Relations Governance Highlights Compensation Committee).

Compensation Objectives

The Committee s responsibility is to insure that Redhook s compensation programs are structured and implemented in a manner that attracts and retains the caliber of executives and other key employees required for Redhook to compete in a highly competitive and rapidly evolving business sector, while also recognizing and emphasizing the importance and value of achieving targeted performance objectives and enhancing long-term shareholder value.

Redhook s executive compensation programs include five primary components:

Base salary. Base salary is the guaranteed element of an executive s annual cash compensation. The level of base salary reflects the employee s long-term performance, skill set and the market value of that skill set.

Bonuses. Discretionary bonus payments are intended to reward executives for achieving specific financial and operational goals.

Long-term incentive payments. Long term incentives, such as stock options, restricted stock and performance units, are intended to focus the executives on taking steps that they believe are necessary to ensure Redhook s long-term success, as reflected in increases to Redhook s stock price over a period of several years and growth in its earnings per share.

Severance and Change of Control payments. Severance and change of control payments are competitive measures intended to recruit and retain top quality executives, by offering executives compensation in the event their employment is involuntarily terminated without defined cause or as a result of a merger or other change in control transaction.

These primary components and their amounts for each of the Redhook executives are intended to be fair in relation to compensation received by other executives at similarly sized public and private companies and to reward Redhook s executives for performance.

Role of the Redhook Compensation Committee, Management and External Compensation Consultants

The Committee has the ultimate authority to determine matters of compensation for Redhook s senior management, and is responsible for establishing annual compensation for Redhook s senior management, setting Redhook s policies with respect to stock options and stock grants granted to employees under Redhook s incentive plans, and for determining the size and terms of grants made to Redhook s executive officers and employees. In setting compensation amounts, the Committee relies upon recommendations from Redhook s Chief Executive Officer and President and Chief Operating Officer with respect to compensation involving other executive officers and with respect to stock options and other stock grants to employees. Additionally, the Committee takes into account reports from the Chief Executive Officer regarding whether payment targets for incentive awards were met. However, no executive officer participates directly in establishing the amount of any component of his own compensation package.

In addition, the Committee has solicited input from the Committee s independent executive compensation consultant, MBL Group, LLC, (MBL). The Committee recognizes that executive compensation consultants can play an important and valuable role in the executive compensation process. Therefore, in 2004, and again in 2007, the Committee retained MBL to advise it on executive compensation matters, including advice on base salary levels and incentive programs. MBL looked at a variety of sources to determine the competitive compensation range for Redhook s CEO and other executive officers. These included formal executive salary surveys, data from several Redhook competitors, and data from selected MBL manufacturing clients who produce and sell retail products. MBL focused on manufacturing companies that were similar in size to Redhook and, where appropriate, located in the western half of the U.S. Their analysis included both publicly traded and privately held companies. The Committee believes that the MBL reports are an important point of reference for the Committee in measuring and setting executive compensation. The Committee relies on the reports from MBL to ensure that Redhook s compensation levels are comparable to compensation levels at other similarly-situated companies. The Committee does not, however, directly examine the compensation paid to executives at similarly-situated peer companies often referred to as benchmarking in setting executive compensation.

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Compensation Analysis

In determining executive compensation, the committee analyzes the following factors:

- Redhook s performance relative to goals set forth by the Board of Directors at the beginning of the year and in comparison to past years;

- MBL reports from 2004 and 2007 setting out data points for executive compensation, which included comparisons to similarly-situated executives at peer companies;

- individual performance by each executive officer; and

- historical compensation for each executive officer.

Determining the Amount and Mix of Compensation

In determining both the amount and mix of compensation, the Committee, after reviewing reports from MBL, compared each executive s pay to market data for that named executive s position and set compensation levels for salary, bonus and long-term compensation at levels around the 50th percentile for each position. Additionally, the Committee believes that incentive pay should be significant enough to properly reward the executives if the company met certain financial and operational objectives, therefore, it is the policy of the Committee that approximately 10% to 30% of the total compensation package should be at risk in order to motivate the executives to achieve financial and operational objectives set by the board. The Committee does not have a pre-established policy for allocating between either cash and non-cash or short-term or long-term compensation. However, as discussed below, since 2003, the Committee has not awarded stock options to its executive officers, and only added back a long-term incentive component to its executive compensation structure in 2007. Future awards of stock based compensation may be limited by the amount of shares available for grant under Redhook s stock incentive plans.

Redhook s compensation program is designed to balance the need to provide Redhook executives with incentives to achieve short-and long-term performance goals with the need to pay competitive base salaries. The Committee considers the amount of prior salary increases, performance of the executive, and the financial goals of the company in determining the mix of base salary and performance based compensation. For 2007, the allocation of compensation between base salary, estimated target performance bonus, estimated discretionary bonus and estimated long-term compensation for Redhook s named executives was as follows:

	Paul S. Shipman	**David J. Mickelson**	**Jay T. Caldwell**	**Gerard C. Prial (1)**	**Allen L. Triplett (1)**
Base Salary	59%	68%	83%	87%	87%
Est. Performance Bonus	22%	17%	0%	0%	0%
Est. Discretionary Bonus	4%	3%	17%	13%	13%
Est. Long-Term Incentive	15%	12%	0%	0%	0%

(1) Mr. Prial and Mr. Triplett resigned as executive officers of Redhook in February 2008.

Base Salaries. Base salaries for all executives, including the Chief Executive Officer, are set by the Committee using the MBL reports as a guideline and after a review of job responsibilities and individual contributions over the past year. The principal factors considered in decisions to adjust base salary are Redhook s recent and projected financial performance, individual performance measured against pre-established goals and objectives and changes in compensation in Redhook s general industry. The ultimate split between base salary and performance incentives in 2007 reflected the desire of the Committee to improve the cash flow of the company, as well as achieve certain strategic goals.

For 2007, base salary for Mr. Shipman, Chief Executive Officer, increased by 4%, compared to his base salary in 2006. Aggregate base salaries for Messrs. Mickelson, Prial and Triplett increased by 4% in 2007 as compared to 2006. The modest increases approved by the Committee for 2007 were cost-of-living increases. In 2007, Mr. Caldwell s base salary was increased from $110,000 to $125,000 in connection with his appointment to serve as the Chief Financial Officer and Treasurer.

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Base salaries are reviewed by the Committee during the first quarter of each year and increases typically take effect in April or May of the same year. Base salaries are also reviewed at the time of a promotion or other changes in responsibilities. Mr. Caldwell s base salary was increased to $180,000 effective October 1, 2007 to recognize the crucial role Mr. Caldwell would play in the closing of the proposed merger with Widmer, and for his continuing efforts in bringing together the accounting and finance functions of the two companies.

Performance Based Incentive Payments and Bonuses. Incentive payments and bonuses are based on the accomplishments of the executive team, Redhook s results relative to financial and operational objectives set at the beginning of the year, and other relevant and significant accomplishments of the company as a whole. Payment targets have been established for each executive officer per the terms of such officers agreement regarding employment and include both a discretionary bonus and nondiscretionary component. In determining what these performance based incentive payments and bonus payments should be, the Committee examined the historical relationship between salary and incentive pay for the Redhook executives to gain some perspective. The incentive pay had to be significant enough to properly reward the executives if the company met certain financial and operational objectives. It was agreed by the Committee that approximately 10% to 30% of the total compensation package should be at risk in order to motivate the executives to achieve these financial and operational objectives.

The incentive pay awards are divided into discretionary and nondiscretionary portions.

Bonus (Discretionary) Awards: Discretionary incentives reward specific financial and operational goals achieved. Some examples of specific goals tied to a discretionary incentive award might be an increase in focus on brand management or the development of new business. In setting and awarding these discretionary bonuses, the Committee focuses on more long-term, strategic objectives in order to obtain new sources of revenue and to manage brands in different ways. The Committee has discretion to increase or decrease the award, regardless of whether financial and operational goals are achieved.

For 2007, the Committee established the operational goals of (i) developing new business, (ii) managing brands to maturity and (iii) maximizing shareholder value. The target (maximum) bonus amounts for 2007 for which each executive was eligible were as follows: Mr. Shipman, $20,000, Mr. Mickelson, $10,000, Mr. Caldwell, $27,750, Mr. Prial, $25,000 and Mr. Triplett, $25,000.

Performance Based (Nondiscretionary) Awards: The nondiscretionary incentive component is paid to the executive if the company achieves certain performance targets set forth by the Committee. The Committee sets the incentive targets for the executive officers at the beginning of each fiscal year. Incentive targets usually relate to increasing revenues and cash flows in the short-term in order to lay a stronger foundation for long-term growth. Nondiscretionary awards have historically been limited to the CEO and the President.

The incentive targets for 2007 were as follows:

Earnings before interest, taxes and depreciation and amortization (EBITDA) greater than or equal to budgeted EBITDA (weighted at 50% of the total nondiscretionary award),

Sales growth of 4% or greater for the Washington Brewery and Forecasters Public

House over the prior year (weighted at 25% of the total nondiscretionary award), and

EBITDA growth of 4% or greater for the New Hampshire Brewery and Cataqua Public House over the prior year (weighted at 25% of the total nondiscretionary award).

The target (maximum) amounts to be awarded for achieving these performance targets for 2007 were: Mr. Shipman, $100,000, Mr. Mickelson, $50,000.

2007 Awards. In 2007, Mr. Shipman and Mr. Mickelson were awarded a nondiscretionary performance bonus of $25,000 and $12,500, respectively, as a result of achieving sales growth of greater than 4% at the Washington Brewery. The Committee also awarded discretionary bonuses of $10,000 and $5,000 bonus to Mr. Shipman and Mr. Mickelson, respectively, for their success in meeting the brand management targets established for Redhook ESB and Long Hammer IPA. Upon the recommendation of the CEO and the President, the Committee awarded Mr. Caldwell a discretionary bonus of $27,000 in consideration for his extra efforts associated with the planned merger with Widmer and in bringing together the finance and accounting functions at the two companies. Mr. Prial was awarded a discretionary bonus of $20,000 in consideration for his assistance with the transition to a new sales force on the east coast in anticipation of the merger.

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A summary of the incentive payments awarded to Redhook s executive officers for 2007 performance is set forth below:

Named Executive Officer	Target Performance Award	Target Discretionary Bonus	Performance Award Received	Discretionary Bonus Received	Total Awarded
Paul S. Shipman	$100,000	$20,000	$ 25,000	$ 10,000	$35,000
David J. Mickelson	50,000	10,000	12,500	5,000	$17,500
Jay T. Caldwell		27,750		27,000	$27,000
Gerard C. Prial		25,000		20,000	$20,000
Allen L. Triplett		25,000			$

The Committee has set the following performance incentive targets for its executive officers for 2008:

	Incentive Target	Amount
Paul S. Shipman, *Chief Executive Officer*	Delivering the Company in good financial condition at closing of merger with Widmer	Up to 10% of base salary paid to date of merger
	Closing of merger with Widmer	Up to 10% of base salary paid to date of merger
David J Mickelson, *President and Chief Operating Officer*	Delivering the Company in good financial condition at closing of merger with Widmer	Up to 10% of base salary paid to date of merger
	Closing of merger with Widmer	Up to 10% of base salary paid to date of merger
	EBITDA greater than or equal to budgeted EBITDA	10% of base salary
	Demonstrating leadership during the first half of 2008 during the merger negotiations with Widmer	10% of base salary
	Successfully directing the search and hiring of a controller and a CFO for the combined company	$20,000
Jay T. Caldwell, *Chief Financial Officer and Treasurer*	Delivering the Company in good financial condition at closing of merger with Widmer	Up to 10% of base salary paid to date of merger
	Closing of merger with Widmer	Up to 10% of base salary paid to date of merger

All of the above listed incentive awards are discretionary. Achievement of these performance goals is dependent on the closing of the merger with Widmer. The Committee felt that for 2008 it was important to incentivize its executive team to keep Redhook in good financial condition while at the same time focusing the team on the successful closing of the merger with Widmer. While there can be no assurance that the proposed merger with Widmer will occur, the Committee believes that the likelihood that these incentive payments will be made in 2008 is high.

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Long-Term Incentives. Prior to 2003, Redhook provided long-term incentives to executives through the grant of stock options. The options generally vested over five years and had an exercise price equal to the fair market value of Redhook s stock at the time of the grant, with the number of options awarded based on the executive s position. Since fair market value stock options can only produce value to an executive if the price of Redhook s stock increases above the exercise price, these option grants provided a direct link between executive compensation and Redhook s stock price performance. The Committee believed that stock options directly motivated an executive to maximize long-term shareholder value. The options were also utilized, through the option s vesting terms, to encourage key executives to continue in the employment of the company. Options were granted under Redhook s 1992 Stock Incentive Plan and 2002 Stock Option Plan. In 2003, the Committee decided to stop awarding option grants to its executive officers. The Committee determined that the level of total pay, and the split between base salary and incentive payments, was sufficient to compensate its executives as compared with the compensation paid to executives of comparably sized and similarly situated craft beer companies and other similarly sized public companies. The Committee further felt that the number of vested stock options already held by executive officers and their direct ownership of company stock was sufficient to foster the long-term perspective necessary to ensure that the executive team stays properly focused on shareholder value. In addition, the Committee s decision to stop the option program was based on a recommendation by management to the Committee that the granting of new stock options should be discontinued because the legal and accounting cost related to any new option grants was not deemed to be worth the investment.

In 2007, the Committee determined that adding back a long-term incentive component to Redhook s executive compensation plan was appropriate. The Committee believes that granting long-term incentives, such as restricted stock and performance units, will focus its executives on taking steps that they believe are necessary to ensure the long-term success of the company, as reflected in increases to Redhook s stock prices over a period of several years, growth in its earnings per share and other elements. The Committee determines actual award levels based on its review of individual performance, the amount of past rewards granted to an executive, and any change in responsibility.

In March 2007, the Committee granted a bonus of 10,000 shares of common stock to Mr. Shipman, and 5,000 shares of common stock to Mr. Mickelson under Redhook s 2007 Stock Incentive Plan. The grant was made to reward the executives for achievement of their performance goal of increasing EBITDA at least 32% year over year, and to provide an incentive for continued focus on revenue growth and growth in Redhook s earnings per share.

No stock awards were granted to Redhook s executive officers in 2008 for 2007 performance. The Committee felt, given the proposed merger with Widmer and the changes in Redhook s executive team that will result from the merger, long-term incentive payments were not necessary at this time. The Committee anticipates that the executive compensation packages offered to the new executive officers of the combined company will include an appropriate long-term incentive component.

The Committee has no policy, plan or practice regarding timing long-term incentive grants to executives, and does not time its grants or its release of material non-public information for the purpose of affecting the value of executive compensation.

Severance and Change of Control Arrangements. The current employment agreements with Redhook s executive officers contain provisions for severance payments in the event an officer s employment is involuntarily terminated without defined cause. The terms of each employment agreement was set through the course of arms-length negotiations with each of the named executive officers, and each employment agreement (other than Mr. Mickelson s employment agreement) was re-negotiated in 2007 or the first quarter of 2008 in anticipation of the proposed merger with Widmer. In entering into these agreements, the Committee wished to ensure that Redhook would have the continued dedication of its executive team and the availability of their advice and counsel, notwithstanding the uncertainty which would surround such executive s employment when faced with the possibility of the merger transaction. The Committee believes their severance arrangements are comparable with severance arrangements offered to executives at similarly-situated companies.

Generally, in the event of termination of employment, each officer is entitled to severance equal to one month of base salary for each year of the officer s service with the company, capped at a severance payment equal to 24 months of base salary. The officer is additionally entitled to be reimbursed for COBRA premiums to maintain the same health benefits provided to the officer for the term of the severance period paid by the company, not to exceed 18 months. The specific terms of these arrangements, including an estimate of compensation that would have been payable if they had been triggered at December 31, 2007 are described in detail under Potential Payments upon Termination or Change of Control below.

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Other Policies and Considerations:

Benefits. Redhook offers employee benefits coverage in order to provide employees with a reasonable level of financial support in the event of illness or injury, and to enhance productivity and job satisfaction through programs that focus on work/life balance. The benefits available are the same for all employees and executive officers and include medical and dental coverage, disability insurance, and life insurance. In addition, the company has a 401(k) plan, which includes a company match, as described further in Other Compensation below. All employees who meet certain plan eligibility requirements, including executive officers, are eligible to participate in these plans. The cost of employee benefits is partially borne by the employee, including each executive officer.

Perquisites. Redhook does not provide significant perquisites or personal benefits to executive officers. Executive officers are entitled to receive a car allowance of $850 per month. Additionally, all employees of Redhook, including executive officers, are entitled to receive a substantial discount on purchases made at any of Redhook s pub operations.

Other Compensation. Redhook s 401(k) plan currently provides for the company to match eligible participants contributions dollar-for-dollar up to 4% of the employee s gross earnings. Redhook s match is discretionary and determined annually. In order to be eligible for a matching contribution in any particular year, a participant must be an employee on the last day of that year and must have worked at least 1,000 hours during that year. All company matching contributions vest as follows: (i) 20% after one Year of Service (a Year of Service is one in which the employee worked at least 1,000 hours) and (ii) an additional 20% vests for each additional Year of Service completed. Executive officers are permitted to participate in Redhook s matching program.

Redhook made the following matching contributions to executive officers under its 401(k) plan for 2007 service: Mr. Shipman, $9,000; Mr. Mickelson, $9,000; Mr. Triplett, $7,869; Mr. Prial, $7,869 and Mr. Caldwell, $5,758.

Redhook Compensation Committee Report

The compensation committee, comprised of independent directors, has reviewed and discussed the above Compensation Discussion and Analysis, (CD&A), with Redhook s management. Based on the review and discussions, the compensation committee recommended to Redhook s board of directors that the CD&A be included in this joint proxy statement/prospectus.

David R. Lord (Chairman)
Frank H. Clement
John D. Rogers, Jr.
Compensation Committee Members

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Summary Compensation Table

The following table sets forth information regarding compensation earned during Redhook s fiscal years ended December 31, 2007, 2006 and 2005 (a) by the Chief Executive Officer, (b) by the Chief Financial Officer and (c) by the three other most highly compensated executive officers for the fiscal year ended December 31, 2007. The individuals included in the table will be collectively referred to as the named executive officers.

Name of Executive Officer	Year	Salary	Bonus (1)	Stock Awards (2)	Option Awards	Non-Equity Incentive Plan Compensation (3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (4)	Total
Paul S. Shipman	2007	$267,800	$10,000	$70,000	$	$ 25,000	$	$56,892	$429,692
Chief Executive Officer and Chairman of the Board	2006	257,500	8,000			100,000		19,000	384,500
David J. Mickelson	2007	$199,243	$ 5,000	$35,000	$	$ 12,500	$	$38,046	$289,789
President and Chief Operating Officer	2006	191,580	4,000			50,000		18,404	263,984
Jay T. Caldwell (5)	2007	$138,750	$27,000	$	$	$	$	$15,958	$181,708
Chief Financial Officer and Treasurer	2006	53,778	10,000						63,778
Gerard C. Prial (6)	2007	$171,990	$20,000	$	$	$	$	$18,069	$210,059
Vice President, Sales and Eastern Operations	2006	165,375	25,000					17,215	207,590
Allen L. Triplett (6)	2007	$171,990	$	$	$	$	$	$18,069	$190,059
Vice President, Brewing	2006	165,375	25,000					17,215	207,590

(1) Represents bonuses awarded at the discretion of the Compensation Committee.

(2) Represents compensation expense recognized in 2007 for financial reporting

purposes under Statement of Financial Accounting Standards No. 123(R). Stock awards for 2007 were granted upon shareholder approval of the Redhook 2007 Stock Incentive Plan at the 2007 Annual Meeting of Shareholders, and represent awards for 2006 performance. No stock awards were granted in 2007 or 2008 for 2007 performance.

(3) Represents performance based incentive awards. Performance based incentive awards earned in a fiscal year are paid in the following fiscal year, after confirmation that performance goals were met.

(4) Amounts shown for 2007 represent a car allowance of $10,200 and 401(k) employer matching contributions for each officer. Also includes cash compensation of

$37,692 and $18,846 paid to Messrs. Shipman and Mickelson, respectively, to approximate the federal income tax obligation resulting from the stock award.

(5) Mr. Caldwell joined Redhook as Controller in July 2006 and was appointed Chief Financial Officer and Treasurer in March 2007.

(6) Mr. Prial and Mr. Triplett resigned as executive officers of Redhook in February 2008.

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Grants of Plan-Based Awards for Fiscal Year 2007

		Estimated Future Payments under Non-Equity Incentive Plan Awards			All Other Stock Awards	
Name	Grant Date	Threshold (1)	Target (1)(2)	Maximum (2)	Number of Shares of Stock (#) (3)	Grant Date Fair Value of Stock Awards
Paul S. Shipman	May 22, 2007	$25,000	$100,000	$100,000	10,000	$70,000
David J. Mickelson	May 22, 2007	$12,500	$ 50,000	$ 50,000	5,000	$35,000

(1) The Compensation Committee of the Board of Directors sets target payouts for Redhook s Chief Executive Officer and President and COO at the beginning of the fiscal year. For 2007, the Committee chose three specific performance criteria, for which fixed amounts were payable if the specific performance criteria were achieved by the executive officer. Payment for the achievement of one performance criteria was not dependent on the success of the executive in meeting the other criteria.

Therefore, the threshold number in the table above represents the minimum amount the executive officer could receive if only one specific performance criteria was met.

(2) The Target and Maximum column above represent total payout if all three specific performance criteria are met. Actual award payments are reflected in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

(3) Represents stock grants awarded under Redhook s 2007 Stock Incentive Plan. The shares were fully vested upon grant. Cash compensation paid to Messrs. Shipman and Mickelson to approximate the federal income tax tax obligation resulting on the stock award is reflected in the All Other Compensation

column of the
Summary
Compensation
Table.

Outstanding Equity Awards Value at Fiscal Year End

The following table shows information concerning the number and value of unexercised options held by the named executive officers on December 31, 2007.

Name of Executive Officer	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price	Option Expiration Date
Paul S. Shipman	49,250		$3.97	May 20, 2009
	76,500		$1.87	August 3, 2011
	30,000		$2.02	August 27, 2012
David J. Mickelson	29,500		$3.97	May 20, 2009
	76,500		$1.87	August 3, 2011
	27,500		$2.02	August 27, 2012
Jay T. Caldwell				
Gerard C. Prial	19,750		$3.97	May 20, 2009
	76,500		$1.87	August 3, 2011
	27,500		$2.02	August 27, 2012
Allen L. Triplett	19,750		$3.97	May 20, 2009
	76,500		$1.87	August 3, 2011
	27,500		$2.02	August 27, 2012

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Option Exercises and Stock Vested. No stock options were exercised by the named executive officers during Redhook s fiscal year ended December 31, 2007. On November 29, 2005 the board of directors of Redhook approved an acceleration of vesting of all of Redhook s unvested stock options, including those held by executive officers, (the Acceleration). The Acceleration was effective for stock options outstanding as of December 30, 2005. These options were granted under Redhook s 1992 Stock Incentive Plan and 2002 Stock Option Plan. As a result of the Acceleration, options to acquire approximately 136,000 shares of Redhook s common stock, or 17% of total outstanding options, became exercisable on December 31, 2005. Of the options that were subject to the Acceleration, options to acquire approximately 106,200 shares of Redhook s common stock were held by executive officers, as follows:

Executive Officer	**Number of Options**	**Exercise Price**	**Original Vesting Date**
Paul S. Shipman	15,300	$1.87	August 2006
	12,000	$2.02	August 2006 and August 2007
David J. Mickelson	15,300	$1.87	August 2006
	11,000	$2.02	August 2006 and August 2007
Gerard C. Prial	15,300	$1.87	August 2006
	11,000	$2.02	August 2006 and August 2007
Allen L. Triplett	15,300	$1.87	August 2006
	11,000	$2.02	