

BOSTON BEER CO INC
Form 10-K
March 10, 2009

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

Form 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 27, 2008
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 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)

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

Title of each class	Name of each exchange on which registered
Class A Common Stock	NYSE

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations 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.

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

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

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

The aggregate market value of the Class A Common Stock (\$.01 par value) held by non-affiliates of the registrant totaled \$233,109,063 (based on the average price of the Company's Class A Common Stock on the New York Stock Exchange on June 28, 2008). All of the registrant's Class B Common Stock (\$.01 par value) is held by an affiliate.

As of March 6, 2009, there were 10,148,671 shares outstanding of the Company's Class A Common Stock (\$.01 par value) and 4,107,355 shares outstanding of the Company's Class B Common Stock (\$.01 par value).

DOCUMENTS INCORPORATED BY REFERENCE

Certain parts of the registrant's definitive Proxy Statement for its 2009 Annual Meeting to be held on June 2, 2009 are incorporated by reference into Part III of this report.

THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES

FORM 10-K

For The Period Ended December 27, 2008

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PART I

Item 1. *Business*

General

The Boston Beer Company, Inc. (Boston Beer or the Company) is the largest craft brewer and the fourth largest brewer overall in the United States. In fiscal 2008, Boston Beer sold 1,992,000 barrels of its proprietary products (core brands) and brewed 349,000 barrels under contract (non-core products) for third parties.

During 2008, the Company sold over twenty beers under the Samuel Adams® or the Sam Adams® brand names, seven flavored malt beverage products under the Twisted Tea® brand name, and one hard cider product under the HardCore® brand name. Boston Beer produces malt beverages and hard cider products at Company-owned breweries and under contract arrangements at other brewery locations. The Company-owned breweries are located in Cincinnati, Ohio (the Cincinnati Brewery), Lehigh Valley, Pennsylvania (the Pennsylvania Brewery) and Boston, Massachusetts (the Boston Brewery). During 2008, the Company brewed certain products under contract at breweries located in Eden, North Carolina, Rochester, New York, Latrobe, Pennsylvania and La Crosse, Wisconsin.

The Company's principal executive offices are located at One Design Center Place, Suite 850, Boston, Massachusetts 02210, and its telephone number is (617) 368-5000.

Beer Industry Background

Before Prohibition, the United States beer industry consisted of hundreds of small breweries that brewed full-flavored beers. Since the end of Prohibition, most domestic brewers have shifted production to less flavorful, lighter beers, which use lower-cost ingredients, and can be mass-produced to take advantage of economies of scale in production. This shift towards mass-produced beers has coincided with consolidation in the beer industry. During 2008, SABMiller plc and Molson Coors Brewing Company combined their United States operations into a joint venture, MillerCoors LLC (MillerCoors), and InBev completed its acquisition of Anheuser-Busch, Inc., creating Anheuser-Busch InBev (AB InBev). Today, these two major brewers comprise over 94% of all United States domestic beer production, excluding imports. Further, these two major brewers have entered the Better Beer category recently, either by developing their own beers, acquiring, in whole or part, existing craft brewers, or by importing and distributing foreign brewers' brands.

The Company's beer products are primarily positioned in the Better Beer category of the beer industry, which includes craft (small, independent and traditional) brewers as well as specialty beers and most imports. Better Beers are determined by higher price, quality, image and taste, as compared with regular domestic beers. Samuel Adams® is the third largest brand in the Better Beer category of the United States brewing industry, trailing only the imports Corona® and Heineken®. The Company estimates that the Craft Beer category grew approximately 5% to 6%, while both the Better Beer category as a whole and the total beer category grew only 1% to 2%. The Company believes that the Better Beer category is approximately 20% of United States beer consumption.

The domestic beer industry, excluding Better Beers, has experienced a slight decline in shipments over the last ten years. The Company believes that this decline is due to declining alcohol consumption per person in the population, drinkers trading up to drink high quality more flavorful beers and increased competition from wine and spirits companies. During the past ten years, domestic light beers, which are beers with fewer calories than the brewers' traditional beers, have experienced significant growth within the category and now have a higher market share than

traditional beers.

The Company's Twisted Tea® product line competes primarily within the flavored malt beverage (FMB) category of the beer industry. FMB's, such as Twisted Tea®, Smirnoff Ice®, BacardiSilver® and Mike's Hard Lemonade®, are flavored malt beverages that are typically priced competitively with Better Beers. The Company believes that the FMB category comprises approximately 2% of United States beer consumption. The Company believes that the volume comprising the FMB category decreased high single digits in 2008.

Table of Contents**Narrative Description of Business**

The Company's business goal is to become the leading brewer in the Better Beer category by creating and offering high quality full-flavored beers. With the support of a large, well-trained sales organization, the Company strives to achieve this goal by increasing brand availability and awareness through advertising, point-of-sale and promotional programs.

Products Marketed

The Company's product strategy is to create and offer a world-class variety of traditional beers and other alcoholic beverages with a focus on promoting the Samuel Adams® product line. In most markets, the Company focuses its advertising and promotional dollars on Samuel Adams Boston Lager®, Sam Adams Light® and Samuel Adams® Seasonal Beers.

The Samuel Adams® Brewmaster's Collection is an important part of the Company's portfolio and heritage, and receives limited promotional support. The Twisted Tea® brand family has grown each year since the product was first introduced and has established a strong drinker following in several markets. The Company plans to grow the brand further by continuing to promote the Twisted Tea® brand in these markets and expand into new markets. The Limited Edition Beers are produced at select times during the year in limited quantities and are sold at a higher price than the Company's other products. The following is a list of significant continuing styles as of December 27, 2008:

	Year First Introduced
<i>Core Focus Beers</i>	
Samuel Adams Boston Lager® (Flagship brand)	1984
Sam Adams Light®	2001
<i>Seasonal Beers</i>	
Samuel Adams® Double Bock	1988
Samuel Adams® Oktoberfest	1989
Samuel Adams® Winter Lager	1989
Samuel Adams® Summer Ale	1996
Samuel Adams® White Ale	1997
<i>Brewmaster's Collection</i>	
Samuel Adams® Boston Ale	1987
Samuel Adams® Cream Stout	1993
Samuel Adams® Honey Porter	1994
Samuel Adams Cherry Wheat®	1995
Samuel Adams® Pale Ale	1999
Samuel Adams® Hefeweizen	2003
Samuel Adams® Black Lager	2005
Samuel Adams® Brown Ale	2006
Samuel Adams® Irish Red	2008
<i>Limited Edition Beers</i>	
Samuel Adams® Triple Bock®	1994
Samuel Adams Utopias®	2001
Samuel Adams® Chocolate Bock	2003
Samuel Adams® Imperial Pilsner	2005
<i>Flavored Malt Beverages</i>	

Twisted Tea® Hard Iced Tea	2001
Twisted Tea® Raspberry Hard Iced Tea	2001
Twisted Tea® Half Hard Iced Tea & Half Hard Lemonade	2003
Twisted Tea® Peach Hard Iced Tea	2005
Twisted Tea® Light Hard Iced Tea	2007
Twisted Tea® Green Citrus Hard Iced Tea	2008
Twisted Tea® Midnight Hard Iced Tea	2008
<i>Hard Cider</i>	
HardCore® Crisp Hard Cider	1997

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Certain products may be produced at select times during the year solely for inclusion in the Company's variety packs. During 2008, Samuel Adams® Cranberry Lambic, Samuel Adams® Old Fezziwig® Ale and Samuel Adams® Holiday Porter were brewed and included in the Samuel Adams® Winter Classics variety pack, and Samuel Adams® Scotch Ale was brewed and included in the Samuel Adams® Brewmaster's Collection Mix Pack.

The Company continually evaluates the performance of its various beers, flavored malt beverages and hard cider styles and the rationalization of its product line, as a whole.

Product Innovations

The Company is committed to remaining a leading innovator in the Better Beer category by developing new products that allow the Samuel Adams® drinker to try new styles of malt beverages. To that end, the Company continually test brews different beers and occasionally sells them under various brand labels for evaluation of drinker interest. The Company also promotes an annual LongShot® American Homebrew Contest™ in which Samuel Adams® drinkers and employees of the Company submit homebrews for inclusion in the LongShot® six-pack in the following year.

Sales, Distribution and Marketing

The Company sells its products to a network of approximately 400 wholesale distributors, who then sell to retailers where the products are sold, such as pubs, restaurants, grocery chains, package stores, stadiums and other retail outlets. With few exceptions, the Company's products are not the primary brands in distributors' portfolios. Thus, the Company, in addition to competing with other malt beverages for a share of the consumer's business, competes with other brewers for a share of the distributor's attention, time and selling efforts.

The Company sells its products predominantly in the United States, but also has markets in Canada, Europe, Israel, the Caribbean, Pacific Rim and Mexico. During 2008, the Company's largest distributor accounted for approximately 4% of the Company's net sales. The top three distributors accounted for approximately 9%, collectively. In some states, the terms of the Company's contracts with its distributors may be affected by laws that restrict the enforcement of some contract terms, especially those related to the Company's right to terminate the services of its distributors.

The Company typically receives orders in the first week of a month for products to be shipped the following month. Products are shipped within days of completion and, accordingly, there has historically not been any significant product order backlog. During 2008, Boston Beer sold its products through a sales force in excess of 200 people, which the Company believes is one of the largest in the domestic beer industry. The Company's sales organization is designed to develop and strengthen relations at each level of the three-tier distribution system by providing educational and promotional programs encompassing distributors, retailers and drinkers. The Company's sales force has a high level of product knowledge and is trained in the details of the brewing and selling processes. Sales representatives typically carry hops, barley and other samples to educate wholesale and retail buyers about the quality and taste of the Company's beers. The Company has developed strong relationships with its distributors and retailers, many of which have benefited from the Company's premium pricing strategy and growth.

The Company also engages in media campaigns, primarily television, radio, billboards and print. These media efforts are complemented by participation in sponsorships of cultural and community events, local beer festivals, industry-related trade shows and promotional events at local establishments, to the extent permitted under local laws and regulations. The Company uses a wide array of point-of-sale items (banners, neons, umbrellas, glassware, display pieces, signs and menu stands) designed to stimulate impulse sales and continued awareness.

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Ingredients and Packaging

The Company has been successful to date in obtaining sufficient quantities of the ingredients used in the production of its beers. These ingredients include:

Malt. The two-row varieties of barley used in the Company's malt are grown in the United States and Canada. In 2008, the barley crop in the United States and Canada was consistent with ten-year averages overall in terms of quality and quantity. In 2007, the barley crop in the United States and Canada was below average when compared with ten-year averages overall, with below average output in terms of quality of crop in the United States and average to slightly below average in terms of quality in Canada. The 2008 crop was purchased at prices somewhat higher than previous years due to slight delays in the harvest in some areas due to climate conditions and isolated pockets of poor yield and quality in the United States and Canada, as well as a reduction in suppliers due to the increased demand for biofuel products. The Company purchased most of the malt used in the production of its beer from one major supplier during 2008. The Company believes that there are other malt vendors available that are capable of supplying its needs.

Hops. The Company uses Noble hops for its Samuel Adams® lagers. Noble hops are varieties from several specific growing areas recognized for growing hops with superior taste and aroma properties and include Hallertau-Hallertauer, Tettnang-Tettnanger and Spalt-Spalter from Germany. Noble hops are rare and more expensive than most other varieties of hops. Traditional English hops, namely, East Kent Goldings and English Fuggles, are used in the Company's ales. The Company enters into purchase commitments with two hops dealers, based on the Company's projected future volumes and brewing needs. The dealers then contract with farmers to ensure that the Company's needs are met. The contracts with the hop dealers are denominated in Euros for the German hops and in Pounds Sterling for the English hops. The Company does not currently hedge these forward currency commitments. The crops harvested in 2008 were at or above historical averages in terms of both quality and quantity for all hop varieties from Germany and the UK and the Company expects to receive all hops that were contracted for. The Company's goal is to maintain approximately one year's supply of essential hop varieties on-hand in order to limit the risk of an unexpected reduction in supply, and the Company's current hop inventory is expected to meet this standard. The Company stores its hops in multiple cold storage warehouses to minimize the impact of a catastrophe at a single site.

During 2007 and early 2008, many brewers experienced shortages of hops as demand exceeded supply, driving up prices and requiring brewers to contract out longer than historically necessary to reserve for their needs. The Company similarly added contracts for future years to protect its positions with its special varieties of hops. More recently, as a result of significant new plantings and as brewers have reviewed their actual future needs, the prices for some of the hop varieties that the Company uses has declined and the Company believes that during the next few years it will be able to add to certain of its hop positions at significant discounts to 2008 prices.

Yeast. The Company maintains a supply of proprietary strains of yeast used in its breweries and supplies them to the breweries owned by others where its beers are made. Since these yeasts would be impossible to duplicate if destroyed, the Company maintains secure supplies in several locations and the strains are stored and protected at an outside laboratory. In addition, the breweries under contract with the Company maintain a supply of the yeasts that are reclaimed from the batches of brewed beer. These brewers are obligated by their contracts to use the Company's proprietary strains of yeasts only for the brewing of the Company's beers and such yeasts cannot be used without the Company's approval to brew any other beers produced at the respective breweries.

Other Ingredients. The Company maintains competitive sources for the supply of other ingredients used in some of its specialty malt-based and cider products.

Packaging Materials. The Company maintains competitive sources for the supply of certain packaging materials, such as shipping cases, six-pack carriers and crowns. The Company enters into limited term supply agreements with certain vendors in order to receive preferential pricing. Historically, glass and labels were each supplied by a single source, although the Company believes that alternative suppliers are available. In 2007, the Company entered into a long term supply agreement with Anchor Glass Container Corporation

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(Anchor) that calls for Anchor to be the exclusive supplier of glass bottles for the Company's Cincinnati Brewery and Pennsylvania Brewery beginning January 1, 2009. The agreement also establishes the terms on which Anchor may supply glass bottles to other breweries where the Company brews its beers.

The Company initiates bottle deposits in some states and reuses most of the glass bottles that are returned pursuant to certain state bottle recycling laws and derives some economic benefit from this practice. The cost associated with reusing the glass varies, based on the costs of collection, sorting and handling, including arrangements with retailers, wholesalers and dealers in recycled products. There is no guarantee that the current economics relating to the use of returned glass will continue or that the Company will continue to reuse returnable bottles.

Quality Assurance

As of December 27, 2008, the Company employed fifteen brewmasters to monitor the Company's brewing operations and control the production of its beers. Over 125 tests, tastings and evaluations are typically required to ensure that each batch of Samuel Adams® beer, Twisted Tea® flavored malt beverage and HardCore® hard cider conforms to the Company's standards. The Company has on-site quality control labs at each brewery.

In order to ensure that its customers enjoy only the freshest beer, the Company includes a clearly legible freshness code on every bottle and keg of its Samuel Adams® products. Boston Beer was the first American brewer to use this practice.

Brewing Strategy

The Company has historically pursued a strategy of combining brewery ownership with production arrangements at breweries owned by third parties. The brewing services arrangements with breweries owned by others have historically allowed the Company to utilize excess capacity, providing the Company flexibility, as well as cost advantages over its competitors, while maintaining full control over the brewing process for the Company's beers. As the number of available breweries has declined, the risks of disruption have increased, and the dynamics of the brewery strategy of ownership versus brewing in breweries owned by others has changed. In 2007 and 2008, due to concerns about expected future availability and pricing of brewing capacity at breweries owned by others and the Company's desire to better control its brewing future and to improve efficiencies and costs long term, the Company initiated several steps designed to reduce its dependence on breweries owned by others. These steps included the acquisition on June 2, 2008 of substantially all of the assets of a brewery located in Breinigsville in Lehigh Valley, Pennsylvania from Diageo North America, Inc. (Diageo). From 2007 to 2008, core product volume brewed at Company-owned breweries increased from approximately 35% to approximately 52%. After completion of capital improvements, the Company expects the Pennsylvania Brewery to have an annual brewing capacity of approximately 1.4 million barrels and the Company expects to brew a significantly higher percentage of core products in 2009 at Company-owned breweries.

The aggregate purchase price for the acquisition of the Pennsylvania Brewery assets was \$56.5 million, which was paid in cash and which includes \$54.6 million in purchase price and \$1.9 million in transaction costs, and represents property, plant and equipment. During fiscal year 2008, the Company spent \$43.9 million on capital improvements at the Pennsylvania Brewery to upgrade portions of the facility and to restart the brew house, with several additional projects committed to but not yet completed. Brewing began prior to taking ownership of the brewery, and kegging and bottling commenced during the third quarter of 2008. Approximately 36% of the Company's second half core product volume was brewed at the Pennsylvania Brewery, and the Company intends to brew a significant portion of its products at the brewery. Most of the major investments necessary to upgrade the facility have been completed, with \$7.2 million of capital projects due for completion in the first quarter of 2009, and the Company will now focus on projects that will drive efficiency and increase productivity. The Company believes that it can expand the brewery

with significant capital investment.

The other Company-owned breweries are located in Cincinnati, Ohio and Boston, Massachusetts, and the Company currently has brewing services arrangements with MillerCoors, High Falls Operating Company, LLC

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and City Brewing Company, LLC to produce its products at breweries in Eden, North Carolina, Rochester, New York, and Latrobe, Pennsylvania and La Crosse, Wisconsin, respectively. The Company carefully selects breweries owned by others with (i) the capability of utilizing traditional brewing methods and (ii) first-rate quality control capabilities throughout brewing, fermentation, finishing and packaging. Under its brewing arrangements with breweries owned by others, the Company is charged a per unit rate for its products that are produced at each of the breweries and bears the costs of raw materials, excise taxes and deposits for pallets and kegs and specialized equipment required to brew the Company's beers.

In 2008, the Company invested over \$3.9 million in property, plant and equipment at the Cincinnati Brewery in order to maintain the facilities and improve efficiencies. The Company brewed approximately 34% of its core product volume at the Cincinnati Brewery in 2008. While the Cincinnati Brewery produces all of the Company's beer styles, it is the primary brewery for the production of most of the Company's specialty and lower volume beers and hard cider production. The Company is evaluating further capital investments in the Cincinnati Brewery to improve the brewery's capacity, economics, capability and flexibility, as both an alternative and a complement to the Company's other brewery options.

The Company's Boston Brewery production is mainly for developing new types of innovative and traditional products and to supply, in limited quantities, keg beers for the local market. Product development entails researching market needs and competitive products, sample brewing and market taste testing. Most of the Company's Samuel Adams® and HardCore® products are produced at the Boston Brewery in the course of each year.

The Company believes that it has secured sufficient alternatives in the event that production at any of its brewing locations is interrupted or discontinued; however, the Company may not be able to maintain its current economics if such disruption were to occur. Potential disruptions at breweries include labor issues, governmental actions, quality issues, contractual disputes, machinery failures or operational shut downs. Also as the brewing industry has consolidated, the financial stability of the breweries owned by others where the Company could brew some of its beers, if necessary, has become a more significant concern. The Company continues to work with all of its breweries to attempt to minimize any potential disruptions.

In February, 2009, there was a change in ownership of the brewery in Rochester, New York. The new owners have indicated an interest in renegotiating the terms under which the Company's products will continue to be brewed at the facility.

Competition

The Better Beer category within the United States beer market is highly competitive due to the large number of craft brewers with similar pricing and target consumers and gains in market share over the last ten years achieved by imported beers. The Company anticipates competition among domestic craft brewers to remain strong, as craft brewers experienced their fourth successive year of growth in 2008. Imported beers, such as Corona® and Heineken®, continue to compete aggressively in the United States. These import competitors may have substantially greater financial resources, marketing strength and distribution networks than the Company. Further, the two largest brewers in the United States, MillerCoors and AB Inbev, have entered the Better Beer category recently, either by developing their own beers, acquiring, in whole or part, existing craft brewers, by importing and distributing foreign brewers brands or by increasing their efforts on their own beers that might compete in Better Beer.

The Company also competes with other alcoholic beverages for drinker attention and consumption. In recent years, wines and spirits have been competing more directly with beers. The Company monitors such activity and attempts to develop strategies which benefit from the drinker's interest in trading up and position our beers competitively with wine and spirits.

The Company competes with other beer and alcoholic beverage companies within a three-tier distribution system. The Company competes for a share of the distributor's attention, time and selling efforts. In retail establishments, the Company competes for shelf and tap space. From a drinker perspective, competition exists for brand acceptance and loyalty. The principal factors of competition in the Better Beer segment of the beer

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industry include product quality and taste, brand advertising, trade and drinker promotions, pricing, packaging and the development of new products.

The Company distributes its products through independent distributors who may also distribute competitors' products. Certain brewers have contracts with their distributors that impose requirements on distributors that are intended to maximize the wholesalers' attention, time and selling efforts on that brewer's products. These contracts generally result in increased competition among brewers as the contracts may affect the manner in which a distributor allocates selling effort and investment to the brands included in its portfolio. The Company closely monitors these and other trends in its distributor network and works to develop programs and tactics intended to best position its products in the market.

The Company has certain competitive advantages over the regional craft brewers, including a long history of awards for product quality, greater available resources and the ability to distribute and promote its products on a more cost-effective basis. Additionally, the Company believes it has competitive advantages over imported beers, including lower transportation costs, higher product quality, a lack of import charges and superior product freshness.

The Company's Twisted Tea® products compete within the FMB category of the beer industry. This category is highly competitive due to, among other factors, the presence of large spirits companies, the advertising of malt-based spirits brands in channels not available to the parent brands and a fast pace of product innovation.

Alcoholic Beverage Regulation and Taxation

The manufacture and sale of alcoholic beverages is a highly regulated and taxed business. The Company's operations are subject to more restrictive regulations and increased taxation by federal, state and local governmental entities than are those of non-alcohol related beverage businesses. Federal, state, and local laws and regulations govern the production and distribution of beer, including permitting, licensing, trade practices, labeling, advertising, marketing, distributor relationships and related matters. Federal, state and local governmental entities also levy various taxes, license fees and other similar charges and may require bonds to ensure compliance with applicable laws and regulations. Failure by the Company to comply with applicable federal, state or local laws and regulations could result in higher taxes, penalties, fees and suspension or revocation of permits, licenses or approvals. There can be no assurance that other or more restrictive laws, regulations or higher taxes will not be enacted in the future.

Licenses and Permits

The Company, through its wholly-owned subsidiaries, Boston Beer Corporation, Samuel Adams Brewery Company, Ltd. and Samuel Adams Pennsylvania Brewery Company, produces its alcoholic beverages pursuant to a federal wholesaler's basic permit, a federal brewer's notice and a federal winery registration. Its products are then sold by Boston Beer Corporation to distributors. Brewery and wholesale operations require various federal, state and local licenses, permits and approvals. Suppliers, such as the Company, and/or distributors of alcoholic beverages are prohibited from holding an interest in any retailer. Violation of such regulations can result in the loss or revocation of existing licenses by the wholesaler, retailer and/or the supplier. The loss or revocation of any existing licenses, permits or approvals, and/or failure to obtain any additional or new licenses, could have a material adverse effect on the ability of the Company to conduct its business.

At the federal level, the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department (TTB) administers and enforces the federal laws and tax code provisions related to the production and taxation of alcohol products. Brewers are required to file an amended notice with the TTB in the event of a material change in the production processes, production equipment, brewery location, brewery management or brewery ownership. The TTB permits and registrations can be suspended, revoked or otherwise adversely affected for failure to pay tax, keep proper accounts, pay fees, bond premises, abide by federal alcoholic beverage production and distribution regulations or to

notify the TTB of any material change. Permits, licenses and approvals from state regulatory agencies can be revoked for many of the same reasons. The Company's operations are subject to audit and inspection by the TTB at any time.

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At the state and local level, some jurisdictions merely require notice of any material change in the operations, management or ownership of the permit or license holder and others require advance approvals, requiring that new licenses, permits or approvals be applied for and obtained in the event of a change in the management or ownership of the permit or license holder. State and local laws and regulations governing the sale of malt beverages and hard cider within a particular state by an out-of-state brewer or wholesaler vary from locale to locale.

Because of the many and various state and federal licensing and permitting requirements, there is a risk that one or more regulatory agencies could determine that the Company has not complied with applicable licensing or permitting regulations or has not maintained the approvals necessary for it to conduct business within its jurisdiction. There can be no assurance that any such regulatory action would not have a material adverse effect upon the Company or its operating results. The Company is not aware of any infraction of any of its licenses or permits which would materially impact its operations.

Taxation

The federal government and all of the states levy excise taxes on beer and hard cider. For brewers producing no more than 2.0 million barrels of malt beverages per calendar year, the federal excise tax is \$7.00 per barrel on the first 60,000 barrels of malt beverages removed for consumption or sale during a calendar year, and \$18.00 per barrel for each barrel in excess of 60,000. For brewers producing more than 2.0 million barrels of malt beverages for domestic consumption in a calendar year, the federal excise tax is \$18.00 per barrel for all barrels produced. In 2008 the Company continued to be able to take advantage of this reduced tax on the first 60,000 barrels of its malt beverages produced, as the volume from the packaging services agreement for non-core brands are not included in the calculation of the 2.0 million barrel limit. If the Company continues to grow its volumes, it anticipates that it may lose this reduced tax benefit. Individual states also impose excise taxes on alcoholic beverages in varying amounts, which have also been subject to change. The determination of who is responsible, the Company or the distributor, to bear the liability for these taxes varies by state. Twisted Tea® is classified as a malt beverage for federal excise tax purposes. In some states, Twisted Tea® may be taxed at a higher rate depending on the exact brewing process. In addition, the federal government and each of the states levy taxes on hard cider. The federal excise tax rate on qualifying hard cider is \$7.00 per barrel.

During the third quarter of 2007, the TTB performed a routine audit of the Cincinnati Brewery and other breweries where some of the Company's products are produced (the TTB Audit). In February 2008, the TTB formally disputed the Company's regulatory and tax treatment of certain of its 2006 and 2007 Twisted Tea® shipments and the Company received a notice of demand for additional excise taxes plus interest and penalties of approximately \$8.5 million which the Company estimated to be its maximum possible exposure related to the issue. The TTB asserted that these shipments were not classified consistent with TTB regulations that took effect January 1, 2006. Based on the Company's analysis, it believed that most of its Twisted Tea® shipments were in compliance with applicable regulations. Based on the information previously collected and its earlier assessment of likely outcomes, the Company recorded a provision of \$3.9 million in the third quarter of 2007. In the fourth quarter of 2008, the Company reduced the provision it had previously recorded for this matter from \$3.9 million to \$3.7 million. During the first quarter of 2009, the Company and the TTB reached a final settlement and no additional funds are due.

Federal and state legislators routinely consider various proposals to impose additional excise taxes on the production and distribution of alcoholic beverages, including beer and hard cider. Various states are also considering or have decided that FMB products should be taxed differently than beer. Further increases in excise taxes on beer, FMB's and/or hard cider, if enacted, could result in a general reduction in sales for the affected products or in the profit realized from the sales of the affected products.

Trademarks

The Company has obtained United States Trademark Registrations for several trademarks, including Samuel Adams[®], Sam Adams[®], the design logo of Samuel Adams[®], Samuel Adams Boston Lager[®], Samuel Adams

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Cherry Wheat[®], Triple Bock[®], Sam Adams Light[®], Twisted Tea[®] and HardCore[®]. The Samuel Adams[®] trademark and the Samuel Adams Boston Lager[®] trademark (including the design logo of Samuel Adams) and other Company trademarks are also registered or registration is pending in various foreign countries. The Company regards its Samuel Adams family of trademarks and other trademarks as having substantial value and as being an important factor in the marketing of its products. The Company is not aware of any trademark infringements that could materially affect its current business or any prior claim to the trademarks that would prevent the Company from using such trademarks in its business. The Company's policy is to pursue registration of its marks whenever appropriate and to vigorously oppose any infringements of its marks.

Environmental Regulations and Operating Considerations

The Company's operations are subject to a variety of extensive and changing federal, state and local environmental laws, regulations and ordinances that govern activities or operations that may have adverse effects on human health or the environment. Such laws, regulations or ordinances may impose liability for the cost of remediation, and for certain damages resulting from, sites of past releases of hazardous materials. The Company believes that it currently conducts, and in the past has conducted, its activities and operations in substantial compliance with applicable environmental laws, and believes that any costs arising from existing environmental laws will not have a material adverse effect on the Company's financial condition or results of operations. However, there can be no assurance that environmental laws will not become more stringent in the future or that the Company will not incur costs in the future in order to comply with such laws.

The Company's operations are subject to certain hazards and liability risks faced by all producers of alcoholic beverages, such as potential contamination of ingredients or products by bacteria or other external agents that may be wrongfully or accidentally introduced into products or packaging. The occurrence of such a problem could result in a costly product recall and serious damage to the Company's reputation for product quality, as well as give rise to product liability claims. The Company and the breweries where it brews under contract maintain insurance which the Company believes is sufficient to cover any product liability claims which might result from a contamination or other product liability with respect to its products, although the Company does not carry product recall insurance.

As part of its efforts to be environmentally friendly, the Company has reused its glass bottles returned from certain states that have bottle deposit bills. The Company believes that it benefits economically from washing and reusing these bottles which result in a lower cost than purchasing new glass, and that it benefits the environment by the reduction in landfill usage, the reduction of usage of raw materials and the lower utility costs for reusing bottles versus producing new bottles. The economics of using recycled glass varies based on the cost of collection, sorting and handling, and may be affected by local regulation, and retailer, distributor and glass dealer behavior. There is no guarantee that the current economics of using returned glass will continue, nor that the Company will continue to do so.

Employees

As of December 27, 2008, the Company employed approximately 775 people, of which approximately 80 were covered by collective bargaining agreements at the Cincinnati Brewery. The representation involves three labor unions, with one of the contracts expiring in late 2010 and two contracts expiring in early 2012. The Company believes it maintains a good working relationship with all three labor unions and has no reason to believe that the good working relationship will not continue. The Company has experienced no work stoppages, or threatened work stoppages, and believes that its employee relations are good.

Other

The Company submitted the Section 12(a) CEO Certification to the New York Stock Exchange in accordance with the requirements of Section 303A of the NYSE Listed Company Manual. This Annual Report on Form 10-K contains at Exhibits 31.1 and 31.2 the certifications of the Chief Executive Officer and Chief Financial Officer, respectively, in accordance with the requirements of Section 302 of the Sarbanes-Oxley Act of 2002. The Company makes available free of charge copies of its Annual Report on Form 10-K, as well as

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other reports required to be filed by Section 13(a) or 15(d) of the Securities Exchange Act of 1934, via the Internet at www.bostonbeer.com, or upon written request to Investor Relations, The Boston Beer Company, Inc., One Design Center Place, Suite 850, Boston, Massachusetts 02210.

Item 1A. Risk Factors

In addition to the other information in this Annual Report on Form 10-K, the risks described below should be carefully considered before deciding to invest in shares of the Company's Class A Common Stock. These are risks and uncertainties that management believes are most likely to be material and therefore are most important for an investor to consider. The Company's business operations and results may also be adversely affected by additional risks and uncertainties not presently known to it, or which it currently deems immaterial, or which are similar to those faced by other companies in its industry or business in general. If any of the following risks or uncertainties actually occurs, the Company's business, financial condition, results of operations or cash flows would likely suffer. In that event, the market price of the Company's Class A Common Stock could decline.

The Company Faces Substantial Competition.

The Better Beer category within the United States beer market is highly competitive, due to the large number of craft brewers with similar pricing and target consumers and gains in market share achieved by imported beers, a number of which are now imported and promoted by the two largest multi-national brewing companies, AB Inbev and MillerCoors. The Company faces strong competition from these two brewers, as they introduced new domestic specialty and faux craft brands to many markets and expend their efforts behind existing brands. Imported beers, such as Corona® and Heineken®, continue to compete aggressively in the United States beer market. Samuel Adams® is the third largest brand in the Better Beer category of the United States brewing industry, trailing only Corona® and Heineken®. The continued growth in the sales of craft-brewed domestic beers and in imported beers is expected to increase the competition in the Better Beer category within the United States beer market and, as a result, prices and market share of the Company's products may fluctuate and possibly decline. No assurance can be given that any decline in price would be offset by an increase in market share. The Company's products, including its Twisted Tea® products, also compete generally with other alcoholic beverages. The Company competes with other beer and beverage companies not only for drinker acceptance and loyalty but also for shelf and tap space in retail establishments and for marketing focus by the Company's distributors and their customers, all of which also distribute and sell other beers and alcoholic beverage products. Many of the Company's competitors, including Corona®, Heineken® and the large domestic brewers, which are now parts of larger, foreign-owned and financed brewers, have substantially greater financial resources, marketing strength and distribution networks than the Company. Moreover, the introduction of new products by competitors that compete directly with the Company's products or that diminish the importance of the Company's products to the retailers or distributors may have a material adverse effect on the Company's results of operations, cash flows and financial position.

The Joint Venture Between SABMiller and Molson Coors and the InBev purchase of Anheuser-Busch Could Bring Added Pressures to the Company's Ability to Compete.

In recent years, the beer industry has seen continued consolidation among brewers in order to take advantage of cost savings opportunities for supplies, distribution and operations. On June 30, 2008, the domestic joint venture arrangement between SABMiller and Molson Coors Brewing Company was completed which has made the combined brewer, MillerCoors, the second largest brewer in the United States, providing greater resources and a distribution platform to compete more effectively in the United States. On November 18, 2008, InBev completed its acquisition of Anheuser-Busch, creating Anheuser-Busch InBev, one of the world's top five consumer products companies, managing a portfolio of over 200 brands. Furthermore, AB InBev holds the number one or number two position in many markets, giving it the opportunity to exert significant influence over distributors, retailers and drinkers.

According to published reports, the MillerCoors joint venture is expected to bring an annual savings of \$500 million by the third year of the merger and AB Inbev merger is expected to bring an annual savings of \$1.5 billion by the third year of the merger. Due to the increased

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leverage that these combined operations will have, the costs to the Company of competing could increase and the availability of brewing capacity at other breweries could be reduced if any breweries are closed as a result of these transactions. The potential also exists for MillerCoors and AB Inbev to increase their influence with their distributors, making it difficult for smaller brewers to maintain their market presence or enter new markets. These potential increases in the number and availability of competing brands, the costs to compete, reductions in contract brewing capacity and decreases in distribution support and opportunities may have a material adverse effect on the Company's results of operations, cash flows and financial position.

There Is No Assurance of Continued Growth.

The Company's future growth may be limited by both its ability to continue to increase its market share in domestic and international markets, including those markets that may be dominated by one or more regional or local craft breweries, and by the growth in the craft-brewed beer market and the Better Beer market. The development of new products by the Company may lead to reduced sales in the Company's other products, including its flagship Samuel Adams Boston Lager®. The Company's future growth may also be limited by its ability to meet production goals at the Company's owned breweries, its ability to enter into new brewing contracts on commercially acceptable terms or the availability of suitable production capacity should production at the Company's owned breweries miss targets, and its ability to obtain sufficient quantities of certain ingredients and packaging materials, such as hops and bottles, from suppliers.

The Unpredictability and Fluctuation of the Company's Quarterly Results May Adversely Affect the Trading Price of Its Common Stock. The Company's Advertising and Promotional Investments May Not be Effective.

The Company's revenues and results of operations have in the past and may in the future vary from quarter to quarter due to a number of factors, many of which are outside of the Company's control and any of which may cause its stock price to fluctuate. As a growth-oriented Company, the Company has made, and expects to continue to make, significant advertising and promotional expenditures to enhance its brands. These expenditures may not result in higher sales volume. Variations in the levels of advertising and promotional expenditures have in the past caused, and are expected in the future to continue to cause, variability in the Company's quarterly results of operations. The Company has in the past made, and expects from time to time in the future to make, significant advertising and promotional expenditures to enhance its brands even though those expenditures may adversely affect the Company's results of operations in a particular quarter or even for the full year, and may not result in increased sales. While the Company attempts to invest only in effective advertising and promotional expenditures, it is difficult to correlate such investments with sales results, and there is no guarantee that the Company's expenditures will be effective in building brand equity or growing long term sales. In addition, the Company fills orders from its wholesalers who may choose independently to build their inventories or run their inventories down. Such a change in wholesaler inventories is somewhat unpredictable, and can lead to fluctuations in the Company's quarterly or annual results.

The Addition of the Pennsylvania Brewery Has Significantly Changed the Company's Operations. Owning a Larger Percentage of Its Breweries has High Capital Costs, Creates a Larger Fixed Cost Burden on the Company's Business, Requires Different Management Skills and Capabilities, and has Greater Uncertainty as to Operating Costs.

Historically, the Company has pursued a strategy of combining brewery ownership with brewing at breweries owned by others. The brewing arrangements with breweries owned by others have historically allowed the Company to utilize their excess capacity, providing the Company flexibility as well as cost advantages over its competitors. In 2007 and 2008, due to concerns about expected future availability and pricing of brewing capacity at breweries owned by others and the Company's desire to better control its brewing future and to improve efficiencies and costs long term, the Company initiated several steps designed to reduce its dependence on breweries owned by others. These steps

included the acquisition on June 2, 2008 of substantially all of the assets of the Pennsylvania Brewery from Diageo. From 2007 to 2008, core product volume brewed at Company-owned breweries increased from approximately 35% to approximately 52%. After

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completion of capital improvements, the Company expects the Pennsylvania Brewery to have an annual brewing capacity of 1.4 million barrels and the Company expects to brew a significantly higher percentage of core products in 2009 at Company-owned breweries.

The addition of the Pennsylvania Brewery has significantly changed the direction of the Company's operations from mainly brewing at breweries owned by others to mainly brewing at Company-owned breweries. This change increases the capital required by the Company to brew and package its beers and creates a more significant fixed-costs structure for the Company. The engineering, production management and leadership skills required to operate a brewery are different from those required to work with breweries where beer is brewed under contract with others. The Company believes that the shift to brewing at Company-owned breweries could bring operational savings, increased flexibility, greater reliability and better quality control capabilities throughout its brewing, fermentation, finishing and packaging operations, but that this shift is accompanied by risks and an increased cost of owning, maintaining and operating fixed assets. There is no certainty that the ultimate operating costs will be more favorable than the brewing strategy the Company has been using since its inception.

In Addition to the Added Complexity in the Company's Operations that will Arise From the Acquisition of the Pennsylvania Brewery, the Management Pressures that Accompany the Company's Growth May Also Exceed the Company's Ability to Manage the Growth and Implement Appropriate Internal Controls.

The combination of the Company's recent high growth and its purchase of the Pennsylvania Brewery have increased the operating complexity of the business. There can be no assurance that the Company will effectively manage such increased complexity without experiencing operating inefficiencies or control deficiencies. Such inefficiencies or deficiencies could have a material adverse effect on the business.

Unexpected Events at Company-owned Breweries and Breweries Owned by Others Could Harm Its Business which Could Have A Material Adverse Effect on the Company's Operations or Financial Results.

The Company-owned breweries are located in Breinigsville in Lehigh Valley, Pennsylvania, Cincinnati, Ohio and Boston, Massachusetts and the Company currently brews under agreements with breweries in Eden, North Carolina, Rochester, New York, Latrobe, Pennsylvania and La Crosse, Wisconsin. The Company carefully selects breweries owned by others with (i) the capability of utilizing traditional brewing methods and (ii) first rate quality control capabilities throughout brewing, fermentation, finishing and packaging. Higher than planned costs of operating under contract arrangement at breweries owned by others or an unexpected decline in the brewing capacity available to the Company may have a material adverse effect on the Company's results of operations, cash flows and financial position.

In 2008, the Company brewed its Samuel Adams Boston Lager® at each of its Company-owned brewing facilities, but at any particular time it may rely on only one brewery for its products other than Samuel Adams Boston Lager®. The Company believes that it has sufficient capacity options that would allow for a shift in production locations if necessary, although it is unable to quantify any additional costs, capital or operating, if any, that it might incur in securing access to such capacity.

Management believes that it has secured sufficient alternatives for most of its brands and packages in the event that production at any of its brewing locations is interrupted or discontinued; however, the Company may not be able to maintain its current economics if such disruption were to occur. Potential disruptions at breweries include labor issues, governmental action, quality issues, contractual disputes, machinery failures or operational shut downs. Also, as the brewing industry has consolidated, the financial stability of the breweries owned by others where the Company could brew some of its beers, if necessary, has become a more significant concern. The Company continues to work with all of its breweries in an attempt to minimize any potential disruptions. Nevertheless, should a disruption occur, the

Company could experience temporary shortfalls in production and/or increased production or distribution costs, and be required to make significant capital investments to secure alternative capacity for certain brands and packages, the combination of which could have a material adverse effect on the Company's results of operations, cash flows and financial position. A simultaneous interruption at

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several of the Company's production locations would likely cause significant disruption, increased costs and, potentially, lost sales.

The Company Is Dependent on Its Distributors.

In the United States, where approximately 99% of its beer is sold, the Company sells its beer to independent beer distributors for distribution to retailers and, ultimately, to drinkers. Although the Company currently has arrangements with approximately 400 wholesale distributors, sustained growth will require it to maintain such relationships and possibly enter into agreements with additional distributors. Changes in control or ownership of the current distribution network could lead to less support of the Company's products. No assurance can be given that the Company will be able to maintain or secure additional distributors on terms favorable to the Company.

The Company's distribution agreements are generally terminable by the distributor on short notice. While these distribution agreements contain provisions giving the Company enforcement and termination rights, some state laws prohibit the Company from exercising these contractual rights. The Company's ability to maintain its existing distribution agreements may be adversely affected by the fact that many of its distributors are reliant on one of the major beer producers for a large percentage of their revenue and, therefore, they may be influenced by such producers. If the Company's existing distribution agreements are terminated, it may not be able to enter into new distribution agreements on substantially similar terms, which may result in an increase in the costs of distribution.

The Company is Dependent on Key Suppliers, Including Foreign Sources; Its Dependence on Foreign Sources Creates Foreign Currency Exposure for the Company; The Company's Use of Natural Ingredients Creates Weather and Crop Reliability Exposure for the Company.

The Company purchases a substantial portion of the raw materials used in the brewing of its products, including its malt and hops, from a limited number of foreign and domestic suppliers. The Company purchased most of the malt used in the production of its beer from one major supplier during 2008. The Company is exposed to the quality of the barley crop each year, and significant failure of a crop would adversely affect the Company's costs. The Company believes that there are other malt vendors available that are capable of supplying part of its needs. The Company uses Noble hops for its Samuel Adams® lagers. Noble hops are varieties from several specific growing areas recognized for superior taste and aroma properties and include Hallertau-Hallertauer, Tettnang-Tettnanger and Spalt-Spalter from Germany. Noble hops are rare and more expensive than most other varieties of hops. Traditional English hops, namely, East Kent Goldings and English Fuggles, are used in the Company's ales. The Company enters into purchase commitments with two hops dealers, based on the Company's projected future volumes and brewing needs. The dealers then contract with farmers to ensure that the Company's needs are met. However, the performance and availability of the hops may be materially adversely affected by factors such as adverse weather, the imposition of export restrictions (such as increased tariffs and duties) and changes in currency exchange rates resulting in increased prices. The Company attempts to maintain over one year's supply of essential hop varieties on-hand in order to limit the risk of an unexpected reduction in supply. The Company stores its hops in multiple cold storage warehouses to minimize the impact of a catastrophe at a single site. Hops and malt are agricultural products and therefore many outside factors, including weather conditions, farmers rotating out of hops or barley to other crops, government regulations and legislation affecting agriculture, could affect both price and supply.

Historically, the Company has not experienced material difficulties in obtaining timely delivery from its suppliers although the Company has had to pay significantly above historical prices to secure supplies when investing and supply has been tight. Although the Company believes that there are alternate sources available for some of the ingredients and packaging materials, there can be no assurance that the Company would be able to acquire such ingredients or packaging materials from substitute sources on a timely or cost effective basis in the event that current suppliers could not adequately fulfill orders. The loss or significant reduction in the capability of a supplier to support

the Company's requirements could, in the short-term, adversely affect the Company's results of operations, cash flows and financial position until alternative supply arrangements were secured.

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The Company's contracts for hops are payable in Euros for German hops and in Pounds Sterling for English hops, and therefore, the Company is subject to the risk that the Euro or Pound may fluctuate against the U.S. dollar, as has been the case over the last several years. The Company has, as a practice, not hedged this exposure, although this practice is regularly reviewed. Significant adverse fluctuations in foreign currency exchange rates may have a material adverse effect on the Company's results of operations, cash flows and financial position. Currently, the cost of hops is approximately 4% of the Company's product cost. The cost of hops has greatly increased in recent years due to exchange rate changes and the rising market price of hops, and continuation of these trends will impact the Company's product cost and potentially the Company's ability to meet demand.

An Increase in Packaging Costs Could Harm the Company's Financial Results.

The Company maintains multiple sources for the supply of most of its packaging materials, such as shipping cases, six-pack carriers and crowns. Historically, glass and labels are each supplied by single sources. In 2007, the Company entered into a long term supply agreement with Anchor. This agreement calls for Anchor to be the exclusive supplier of glass bottles for the Company's Cincinnati Brewery and Pennsylvania Brewery beginning January 1, 2009 and establishes the terms on which Anchor may supply glass bottles to other breweries where the Company brews its beers.

Although the Company believes that alternative suppliers are available, the loss of either the Company's glass or other packaging materials suppliers could, in the short-term, adversely affect the Company's results of operations, cash flows and financial position until alternative supply arrangements were secured. If packaging costs continue to increase, there is no guarantee that such costs can be fully passed along to drinkers through increased prices. The Company has entered into long-term supply agreements for certain packaging materials that have shielded it from some cost increases. These contracts have varying lengths and terms and there is no guarantee that the economics of these contracts can be duplicated at time of renewal. This could expose the Company to significant cost increases in future years.

The Company initiates bottles deposits in some states and reuses most of the glass bottles that are returned pursuant to certain state bottle recycling laws and derives some economic benefit from this practice. The cost associated with reusing the glass varies, based on the costs of collection, sorting and handling, including arrangements with retailers, wholesalers and dealers in recycled products. The Company believes that it benefits economically from cleaning and reusing these bottles, which result in a lower cost than purchasing new glass, and that it benefits the environment by the reduction in landfill usage, the reduction of usage of raw materials and the lower utility costs for reusing bottles versus producing new bottles. The economics of using recycled glass varies based on the cost of collection, sorting and handling, retailer, distributor and glass dealer behavior, and may be adversely affected by changes in state regulation. There is no guarantee that the current economics of using returned glass will continue, or that the Company will continue to do so.

An Increase in Energy Costs Could Harm the Company's Financial Results.

In the last five years, the Company has experienced significant increases in direct and indirect energy costs, and energy costs could continue to rise, which would result in higher transportation, freight and other operating costs, including increases in the cost of supplies. The Company's future operating expenses and margins could be dependent on its ability to manage the impact of such cost increases. If energy costs continue to increase, there is no guarantee that such costs can be fully passed along to drinkers through increased prices.

The Company's Operations are Subject to Certain Operating Hazards. The Company Was Involved in a Product Recall in 2008 and there Is No Guarantee that Other Contamination Problems Will Not Develop that Could Harm the Company's Business.

The Company's operations are subject to certain hazards and liability risks faced by all brewers, such as potential contamination of ingredients or products by bacteria or other external agents that may be wrongfully or accidentally introduced into products or packaging. As discussed elsewhere, the Company announced a

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voluntary product recall of certain glass bottles of its Samuel Adams® products during 2008. 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 Company substantially completed the recall process during 2008. While the Company does not anticipate any repetition of such problems, the Company's operations are subject to a range of operating hazards which include product contamination, the occurrence of which could result in unexpected costs to the Company, and in the case of a costly product recall, potentially serious damage to the Company's reputation for product quality, as well as claims for product liability.

The Company is Subject to Existing and Potential Additional Regulation and Taxation, which Can Impose Burdens on Its Operations and Narrow the Markets for Its Products.

The manufacture and sale of alcoholic beverages is a business that is highly regulated and taxed at the federal, state and local levels. The Company's operations may be subject to more restrictive regulations and increased taxation by federal, state and local governmental agencies than are those of non-alcohol related businesses. For instance, brewery and wholesale operations require various federal, state and local licenses, permits and approvals. In addition, some states prohibit wholesalers and retailers from holding an interest in any supplier such as the Company. Violation of such regulations can result in the loss or revocation of existing licenses by the wholesaler, retailer and/or the supplier. The loss or revocation of any existing licenses, permits or approvals, failure to obtain any additional or new licenses, permits or approvals or the failure to obtain approval for the transfer of any existing permits or licenses, could have a material adverse effect on the ability of the Company to conduct its business. Because of the many and various state and federal licensing and permitting requirements, there is a risk that one or more regulatory authorities could determine that the Company has not complied with applicable licensing or permitting regulations, paid the appropriate excise taxes or does not maintain the approvals necessary for it to conduct business within their jurisdictions. There can be no assurance that any such regulatory action would not have a material adverse effect upon the Company or its operating results.

In addition, if the Company continues to grow its volumes, it anticipates that it may lose the reduced tax benefit for small brewers for the first 60,000 barrels of beer produced. Furthermore, increasing the state excise tax on alcoholic beverages, or certain types of alcoholic beverages such as flavored malt beverages, is frequently proposed in various state legislatures either to increase revenues or discourage purchase by underage drinkers, which, if adopted, could affect some or all of the Company's products. If federal or state excise taxes are increased, the Company may have to raise prices to maintain present profit margins. The Company does not necessarily believe that a price increase due to increased taxes will reduce unit sales, but the actual effect will depend on the amount of any increase, general economic conditions and other factors. Higher taxes may reduce overall demand for beer, thus negatively impacting sales of the Company's products. Recently, states have been reviewing the state tax treatment for FMB's which could result in increased costs to the Company and decreased sales.

Further federal or state regulation may be forthcoming that could limit distribution and sales of alcohol products. Such regulation might reduce the Company's ability to sell its products at retail and at wholesale and could severely impact the Company's business.

Changes in Public Attitudes and Drinker Tastes Could Harm the Company's Business.

The alcoholic beverage industry has become the subject of considerable societal and political attention in recent years due to increasing public concern over alcohol-related social problems, including drunk driving, underage drinking and health consequences from the misuse of alcohol, including alcoholism. As an outgrowth of these concerns, the possibility exists that advertising by beer producers could be restricted, that additional cautionary labeling or packaging requirements might be imposed, that further restrictions on the sale of alcohol might be imposed or that there may be renewed efforts to impose increased excise or other taxes on beer sold in the United States. The domestic

beer industry, other than Better Beers, has experienced a slight decline in shipments over the last ten years. The Company believes that this slower growth is due to both declining alcohol consumption per person in the population and increased competition from wine and spirits companies. If beer consumption in general were to come into disfavor among domestic drinkers, or if the domestic beer

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industry were subjected to significant additional governmental regulations, the Company's business could be materially adversely affected.

The Company Has Been Involved in Various Litigation Matters in the Past and there Is No Guarantee that Other Litigation Will Not Develop that Could Harm the Company's Business.

As discussed elsewhere, the Company is considering pursuing a claim against the manufacturer of the glass bottles that were subject to a product recall in 2008. 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 the risk that the recovery by the manufacturer on its claims could exceed the Company's recovery on its claims. In addition, when 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. 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 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.

The Class B Shareholder Has Significant Influence over the Company.

The Company's Class A Common Stock is not entitled to any voting rights, except for the right as a class to approve certain mergers and charter and by-law amendments and to elect a minority of the directors of the Company. Consequently, the election of a majority of the Company's directors and all other matters requiring stockholder approval are decided by C. James Koch, Chairman of the Board of Directors of the Company, as the current holder of 100% of the Company's Class B Common Stock. As a result, Mr. Koch is able to exercise substantial influence over all matters requiring stockholder approval, including the composition of the board of directors and approval of equity-based and other executive compensation and other significant corporate matters. This could have the effect of delaying or preventing a change in control of the Company and will make most transactions difficult or impossible to accomplish without the support of Mr. Koch.

Changes in the Continued Health of the Company's Brands and the Role of the Company's Founder in the Samuel Adams® Brand Communication Could Harm the Company's Business.

There is no guarantee that the brand equities that the Company has built in its brands will continue to appeal to drinkers. Changes in drinker attitudes or demands could severely affect the strength of the brands and the revenue that is generated from that strength. It is possible that the Company could react to such changes and reposition the brands, but there is no certainty that the Company would be able to maintain volumes, pricing power and profitability. It is also possible that marketing messages or other actions taken by the Company could damage the brand equities as opposed to building them. If such damage should occur, it could have a negative effect on the financial condition of the Company.

In addition to these inherent brand risks, the Founder and Chairman of the Company, C. James Koch, is an integral part of the Company's current Samuel Adams® brand message. The role of Mr. Koch as founder, brewer and leader of the Company, is emphasized as part of the Company's brand communication and has appeal to some drinkers. If Mr. Koch were not available to the Company to continue his active role, his absence could detrimentally affect the strength of the Company's messaging and, accordingly, the Company's growth prospects. If this were to occur, the Company might need to adapt its strategy for communicating its key messages regarding its traditional brewing processes, brewing heritage and quality. This might have a detrimental impact on the future growth of the Company.

The Company's Operating Results and Cash Flow May Be Adversely Affected by Unfavorable Economic and Financial Market Conditions.

The recent volatility and uncertainty in the financial markets and economic conditions may directly or indirectly affect the Company's performance and operating results in a variety of ways, including: (a) prices

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for energy and agricultural products may rise faster than current estimates; (b) the Company's key suppliers may not be able to fund their capital requirements, resulting in disruption in the supplies of the Company's raw and packaging materials; (c) the credit risks of the Company's wholesalers may increase; (d) the Company's credit facility, or portion thereof, may become unavailable at a time when needed by the Company to meet critical needs; (e) overall beer consumption may decline; or (f) drinkers of the Company's beers may change their purchase preferences and frequency which may result in sales declines.

Volatile and uncertain financial markets and economic conditions may cause disruption in the Company's operations and cash flow and reduce its gross profit and gross margin, as described above, and may also increase the Company's advertising, promotional and selling and general and administrative costs, and therefore adversely impact our operating results.

The Unprecedented Conditions in the Financial and Credit Markets May Adversely Affect the Availability and Cost of the Company's Financing.

The financial and credit markets have been experiencing unprecedented levels of volatility and disruption, putting downward pressure on financial and other asset prices generally and on the credit available for certain issuers. The United States government and the Federal Reserve Bank recently created a number of programs to help stabilize credit markets and financial institutions and restore liquidity. These programs appear to have improved conditions in the credit and financial markets, but there can be no assurance that these programs, individually or collectively, will continue to have the beneficial effects on the market overall, or will resolve the credit or liquidity issues of the companies that participate in the programs.

Considering the Company's current level of working capital, which is lower than previous years due to the addition of the Pennsylvania Brewery, and expected operating cash flow needs, the Company's 2009 plan anticipates borrowing from its existing credit facility; however, the Company expects to end 2009 with no borrowings under its line of credit or incur any other debt. The Company currently believes that the lender of its existing credit facility will be able to provide financing in accordance with their contractual obligations, but given the current failures and turmoil at many financial institutions, there is no absolute guarantee that this credit facility will be available.

Item 1B. *Unresolved Staff Comments*

The Company has not received any written comments from the staff of the Securities and Exchange Commission regarding the Company's periodic or current reports that (1) the Company believes are material, (2) were issued not less than 180 days before the end of the Company's 2008 fiscal year, and (3) remain unresolved.

Item 2. *Properties*

The Company maintains its principal corporate offices in approximately 33,500 square feet of leased space located in Boston, Massachusetts. The lease of this facility is set to expire in 2017. The Company also leases two smaller sales offices in California.

The Company maintains a brewery in Boston, Massachusetts in approximately 24,000 square feet of leased space. The Company's Boston Brewery production is mainly for developing new types of innovative and traditional products and to supply, in limited quantities, keg beers for the local market. Most of the Company's Samuel Adam® and HardCore® products are produced at the Boston Brewery in the course of each year. The Company also operates a tour center at the Boston Brewery. The lease of this facility was renewed in 2008 and will expire in 2019.

The Company owns approximately 69 acres of land in Lehigh Valley, Pennsylvania, which houses the Company's Pennsylvania Brewery. The buildings on this property consist of approximately 853,000 square feet of brewery space.

The Company owns approximately 5.8 acres of land in Cincinnati, Ohio, which houses the Company's Cincinnati Brewery. The buildings on this property consist of approximately 128,500 square feet of brewery space.

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In 2007, the Company purchased 52.7 acres of land in Freetown, Massachusetts, for a purchase price of \$6.0 million. In February 2008, after concluding that it would proceed with the Pennsylvania Brewery purchase, the Company placed the land in Freetown, Massachusetts on the market.

The Company believes that its facilities are adequate for its current needs and that suitable additional space will be available on commercially acceptable terms as required.

Item 3. *Legal Proceedings*

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 4. *Submission of Matters to a Vote of Security Holders*

Not applicable.

PART II**Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

The Company's Class A Common Stock is listed for trading on the New York Stock Exchange. The Company's NYSE symbol is SAM. For the fiscal periods indicated, the high and low per share sales prices for the Class A Common Stock of The Boston Beer Company, Inc. as reported on the New York Stock Exchange-Composite Transaction Reporting System were as follows:

Fiscal 2008	High	Low
First Quarter	\$ 49.98	\$ 33.64
Second Quarter	\$ 48.59	\$ 37.99
Third Quarter	\$ 54.15	\$ 39.50
Fourth Quarter	\$ 48.03	\$ 25.55

Fiscal 2007	High	Low
First Quarter	\$ 36.23	\$ 30.80
Second Quarter	\$ 41.33	\$ 32.07
Third Quarter	\$ 49.73	\$ 38.86
Fourth Quarter	\$ 55.30	\$ 31.00

There were 15,557 holders of record of the Company's Class A Common Stock as of March 6, 2009. Excluded from the number of stockholders of record are stockholders who hold shares in nominee or street name. The closing price per share of the Company's Class A Common Stock as of March 6, 2009 as reported under the New York Stock Exchange-Composite Transaction Reporting System, was \$21.77.

Class A Common Stock

At December 27, 2008, the Company had 22,700,000 authorized shares of Class A Common Stock with a par value of \$.01, of which 10,068,486 were issued and outstanding. The Class A Common Stock has no voting rights, except (1) as required by law, (2) for the election of Class A Directors, and (3) that the approval of the holders of the Class A Common Stock is required for (a) future authorizations or issuances of additional securities which have rights senior to Class A Common Stock, (b) alterations of rights or terms of the Class A or Class B Common Stock as set forth in the Articles of Organization of the Company, (c) certain other amendments of the Articles of Organization of the Company, (d) certain mergers or consolidations with, or acquisitions of, other entities, and (e) sales or dispositions of any significant portion of the Company's assets.

Table of Contents**Class B Common Stock**

At December 27, 2008, the Company had 4,200,000 authorized shares of Class B Common Stock with a par value of \$.01, of which 4,107,355 shares were issued and outstanding. The Class B Common Stock has full voting rights, including the right to (1) elect a majority of the members of the Company's Board of Directors and (2) approve all (a) amendments to the Company's Articles of Organization, (b) mergers or consolidations with, or acquisitions of, other entities, (c) sales or dispositions of any significant portion of the Company's assets and (d) equity-based and other executive compensation and other significant corporate matters. The Company's Class B Common Stock is not listed for trading. Each share of Class B Common Stock is freely convertible into one share of Class A Common Stock, upon request of any Class B holder.

As of March 6, 2009, C. James Koch was the sole holder of record of all the Company's issued and outstanding Class B Common Stock.

The holders of the Class A and Class B Common Stock are entitled to dividends, on a share-for-share basis, only if and when declared by the Board of Directors of the Company out of funds legally available for payment thereof. Since its inception, the Company has not paid dividends and does not currently anticipate paying dividends on its Class A or Class B Common Stock in the foreseeable future.

Repurchases of the Registrants Class A Common Stock

As of December 27, 2008, the Company has repurchased a cumulative total of approximately 8.5 million shares of its Class A Common Stock for an aggregate purchase price of \$114.0 million. On February 13, 2008, the Board of Directors of the Company increased the aggregate expenditure limit for the Company's Stock Repurchase Program by \$10.0 million, thereby increasing the limit from \$110.0 million to \$120.0 million. As of December 27, 2008, the Company had approximately \$6.0 million remaining on the \$120.0 million share buyback expenditure limit.

During the twelve months ended December 27, 2008, the Company repurchased 430,283 shares of its Class A Common Stock as illustrated in the table below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar
				Value of Shares that May Yet be Purchased Under the Plans or Programs
December 30, 2007 to February 2, 2008	277,100	\$ 35.62	277,100	\$ 1,442,079
February 3, 2008 to March 1, 2008	83,000	36.84	83,000	8,384,675
March 2, 2008 to March 29, 2008	68,679	34.89	68,679	5,988,751
March 30, 2008 to May 3, 2008				5,988,751
May 4, 2008 to May 31, 2008				5,988,751
June 1, 2008 to June 28, 2008	937	22.41		5,988,751
June 29, 2008 to August 2, 2008	567	19.84		5,988,751

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August 3, 2008 to August 30, 2008					5,988,751	
August 31, 2008 to September 27, 2008					5,988,751	
September 28, 2008 to November 1, 2008					5,988,751	
November 2, 2008 to November 29, 2008					5,988,751	
November 30, 2008 to December 27, 2008					5,988,751	
Total	430,283	\$	35.69	428,779	\$	5,988,751

Of the shares that were purchased during the period, 1,504 shares represent repurchases of unvested investment shares issued under the Investment Share Program of the Company's Employee Equity Incentive Plan.

Table of Contents**Item 6. Selected Consolidated Financial Data**

	Year Ended				
	Dec. 27 2008	Dec. 29 2007	Dec. 30 2006	Dec. 31 2005 (53 weeks)	Dec. 25 2004
(In thousands, except per share and net revenue per barrel data)					
Income Statement Data:					
Revenue	\$ 449,554	\$ 380,575	\$ 315,250	\$ 263,255	\$ 239,680
Less recall returns	13,222				
Less excise taxes	37,932	38,928	29,819	24,951	22,472
Net revenue	398,400	341,647	285,431	238,304	217,208
Cost of goods sold	205,040	152,288	121,155	96,830	87,973
Recall related costs	9,473				
Gross profit	183,887	189,359	164,276	141,474	129,235
Operating expenses:					
Advertising, promotional and selling expenses	132,901	124,457	113,669	100,870	94,913
General and administrative expenses	34,988	24,574	22,657	17,288	14,837
Impairment of long-lived assets	1,936	3,443			
Total operating expenses	169,825	152,474	136,326	118,158	109,750
Operating income	14,062	36,885	27,950	23,316	19,485
Other income, net	1,778	4,759	3,816	2,203	593
Income before provision for income taxes	15,840	41,644	31,766	25,519	20,078
Provision for income taxes	7,752	19,153	13,574	9,960	7,576
Net income	\$ 8,088	\$ 22,491	\$ 18,192	\$ 15,559	\$ 12,502
Net income per share basic	\$ 0.58	\$ 1.58	\$ 1.31	\$ 1.10	\$ 0.89
Net income per share diluted	\$ 0.56	\$ 1.53	\$ 1.27	\$ 1.07	\$ 0.86
Weighted average shares outstanding basic	13,927	14,193	13,900	14,126	14,126
Weighted average shares outstanding diluted	14,341	14,699	14,375	14,516	14,518
Balance Sheet Data:					
Working capital	\$ 1,797	\$ 77,736	\$ 79,692	\$ 60,450	\$ 61,530
Total assets	\$ 219,757	\$ 197,955	\$ 154,475	\$ 119,054	\$ 107,462
Total long-term obligations	\$ 12,672	\$ 4,210	\$ 5,016	\$ 4,336	\$ 2,854
Total stockholders equity	\$ 140,028	\$ 133,588	\$ 108,589	\$ 85,979	\$ 78,370
Statistical Data:					
Barrels sold	2,341	1,876	1,612	1,364	1,267
Net revenue per barrel	\$ 170	\$ 182	\$ 177	\$ 175	\$ 171

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

Forward-Looking Statements

In this Form 10-K 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, project, 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

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which such statement is made, and the Company undertakes no obligation to update any forward-looking statement to reflect future 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 unanticipated. Such risks and uncertainties include the factors set forth above and the other information set forth in this Form 10-K.

Introduction

The Boston Beer Company is engaged in the business of producing and selling low alcohol beverages primarily in the domestic market and, to a lesser extent, in selected international markets. The Company's revenues are derived by selling its products to distributors, who in turn sell the product through to retailers and drinkers.

The Company's products compete in the Better Beer category, which includes imported beers and craft beers. This category has seen high single-digit compounded annual growth over the past ten years. Defining factors for Better Beer include superior quality, image and taste, supported by appropriate pricing. The Company believes that the Better Beer category is positioned to increase market share as drinkers continue to trade up in taste and quality. In 2008, growth of the Craft Beer category was approximately 5% to 6%, while both the Better Beer category as a whole and the total beer category grew only 1% to 2%. The Better Beer category now comprises approximately 20% of domestic beer consumption. The Company believes that significant opportunity to gain market share continues to exist for the Better Beer category.

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 Company's Cincinnati Brewery, which detected glass inclusions in certain bottles of beer. The bottles were from a single glass plant of the supplier 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, and the Company made no material changes in its estimate of overall recall costs during the quarter. To date, the Company estimates that it has destroyed or quarantined for destruction approximately 990,000 cases of the affected products, of which approximately 200,000 cases had been under its control at its breweries or warehouses. The full costs of the recall effort include drinker rebates, product credits, fees and incentives to retailers and wholesalers for the recall, lost product, freight and destruction charges for returned product, warehouse and inspection fees, repackaging materials, point-of-sale materials and other costs. The Company also faces potential future lost sales and believes that it may have experienced lost sales at retail as a result of the recall, which probably contributed somewhat to the slower growth rate in depletions for the second quarter and potentially subsequent quarters.

The Company currently believes it may have claims against the supplier of these glass bottles for the impact of the recall, but it is not yet possible to predict the outcome of any such claim. Consequently, no amounts have been recorded as receivable as of December 27, 2008 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.

As a result of the recall, the Company recorded charges that negatively impacted its 2008 operating results before tax by \$22.7 million and its 2008 net income by \$12.0 million in 2008. The net income per dilutive share effect was \$0.84 for the year ended December 27, 2008. The recorded charges are based on actual recall activities and estimated remaining activities from information available to the Company as of December 27, 2008. The Company has

completed the process of collecting cases of suspected product. The Company expects to have paid substantially all of the remaining direct costs related to the recall within the next three months. The Company believes that it replenished some of the recalled shipments in the second and third quarters, which resulted in higher shipments and gross revenue than would have normally been anticipated for those quarters, absent the recall, and any benefit from this is not included in the above provision.

Table of Contents**Outlook**

The Company believes that the transition of ownership and start-up of brewing the Company's products at the Pennsylvania Brewery has progressed smoothly in 2008, particularly with respect to the quality of the beer, safety record and the lack of disruption in the Company's supply chain. Brewing at the Pennsylvania Brewery increased during the year but is yet to reach its expected full potential, as the Company continues to co-pack for Diageo through the remaining term of the agreement, which ends May 2, 2009. While the Company is still experiencing start-up costs at the Pennsylvania Brewery as it ramps up to full capacity utilization, it anticipates these costs will diminish materially during 2009. Through the end of 2008, the Company spent \$43.9 million on capital improvements at the Pennsylvania Brewery to upgrade portions of the facility and to restart the brew house with several additional projects committed to and in progress, but not yet completed. The start-up costs include ramping up of the line efficiencies, the costs and complexity caused by Diageo production and other non-continuing costs, as production started prior to all capital projects being completed. As the Company looks forward to 2009, it believes it will continue to make progress on efficiencies, capacity and costs at its breweries.

The March 2009 year-to-date shipments and orders in-hand indicate that gross core shipments will be down approximately 14% versus the same period in 2008. The March 2009 year-to-date shipments and orders reflect volume approximately 2% lower than the depletions from the same period in the prior year. Year-to-date depletions reported to the Company through February 2009 were down approximately 9% from the same period in 2008, with two fewer selling days in 2009. Year-to-date depletions adjusted for comparable selling days through February 2009 are estimated to be down approximately 4% from the same period in 2008. The Company believes it is seeing inventory reductions at wholesalers and retailers compared to prior years that could be depressing the year-to-date shipments, orders in-hand and depletions, and that the shipments and orders in-hand are generally consistent with the depletions trends. Considering those inventory adjustments for the full year, shipments should be expected to more closely mirror full year depletion trends. Actual shipments may differ and no inferences should be drawn with respect to shipments in future periods.

Looking forward to 2009, based on information of which the Company is currently aware, the Company sees cost increases of between 7% and 9%, primarily in packaging costs due to a new contract for its glass bottles and due to the depreciation and operating costs of the Pennsylvania Brewery. While the costs of operating the new brewery are higher than rates under the Company's historic brewing arrangements under contracts with others, the Company believes that such costs may be lower than future available contract brewing rates and that the advantages of controlling the brewing process and security of supply outweigh any potential additional costs. These cost increases will be somewhat offset by price increases, currently targeted at 3%, and operational efficiency initiatives currently underway, but the Company anticipates that its 2009 gross margin percentage could be lower than its full-year 2008 gross margin, excluding the impact of the recall on gross margin in 2008. While the Company continues to experience a healthy pricing environment, there is no guarantee that it will be able to achieve the planned price increases. It is also difficult to predict what full year volume trends for shipments and depletions will be based on current conditions. The Company is committed to trying to grow market share and to maintain volume and healthy pricing, and is prepared to invest to accomplish this even if this causes short term earnings decreases. Based upon the Company's best estimates at this time, the Company is targeting 2009 earnings per diluted share to be between \$1.40 and \$1.70, but actual results could vary significantly from this target. The Company continues to evaluate 2009 capital expenditures, but currently expects them to be between \$20.0 million and \$30.0 million, which includes approximately \$7.0 million of carryover projects committed to in 2008 and in progress at the Pennsylvania Brewery. The Company anticipates focusing on projects that will increase efficiency and productivity at the breweries, and decisions as to which projects will actually be undertaken will depend, in part, on their projected returns on investment. Accordingly, actual 2009 capital expenditures may well be different from these estimates.

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 at the Cincinnati and Pennsylvania

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Breweries under contract arrangements for third parties. Volume produced under contract arrangements is referred to below as non-core products.

The following table sets forth certain items included in the Company's consolidated statements of income as a percentage of net revenue:

	Year Ended		
	Dec. 27	Dec. 29	Dec. 30
	2008	2007	2006
	Barrels Sold (In thousands)		
Core products	1,992	1,848	1,581
Non-core products	349	28	31
Total barrels	2,341	1,876	1,612
	Percentage of Net Revenue		
Net revenue	100.0%	100.0%	100.0%
Cost of goods sold (including recall related costs of 2.4% of net revenue in 2008)	53.9%	44.6%	42.4%
Gross profit	46.1%	55.4%	57.6%
Advertising, promotional and selling expenses	33.4%	36.4%	39.8%
General and administrative expenses	8.8%	7.2%	7.9%
Impairment of long-lived assets	0.5%	1.0%	
Total operating expenses	42.7%	44.6%	47.8%
Operating income	3.4%	10.8%	9.8%
Interest income, net	0.4%	1.2%	1.1%
Other income, net	0.0%	0.1%	0.2%
Income before provision for income taxes	3.8%	12.1%	11.1%
Provision for income taxes	1.9%	5.6%	4.8%
Net income	1.9%	6.5%	6.4%

Year Ended December 27, 2008 (52 weeks) Compared to Year Ended December 29, 2007 (52 weeks)

Net revenue. Net revenue increased by \$56.8 million or 16.6% to \$398.4 million for the year ended December 27, 2008, from \$341.6 million for the year ended December 29, 2007. The increase was primarily due to an increase in the shipment volume of Boston Beer's core brands, net of returns of 57,000 barrels (or 790,000 cases) of products as a result of the product recall, as well as an increase of approximately 6% in core net revenue per barrel and revenue from the packaging services agreement with Diageo. The effect of the estimated recall related returns of 790,000 cases was a \$13.2 million reduction in net revenue.

Volume. Total shipment volume, net of the estimated 57,000 barrels of recalled products, increased by 0.4 million barrels or 24.8% to 2.3 million barrels for the year ended December 27, 2008, as compared to 1.9 million barrels for the year ended December 29, 2007. The increase in volume was primarily attributable to production under the Diageo

packaging services agreement, as well as increases in the Samuel Adams® and Twisted Tea® brand families. The growth in the Samuel Adams® brand family was driven by double-digit growth rates in Samuel Adams® Seasonals and the Samuel Adams® Brewmaster's Collection.

The Company believes that wholesaler inventory levels at December 27, 2008 were slightly higher than last year's levels, as reflected in shipments exceeding depletions for the full year, and such inventory is expected to unwind during 2009.

Net selling price. The selling price per barrel decreased by approximately 6.6% to \$170.18 per barrel for the year ended December 27, 2008, as compared to \$182.11 for the year ended December 29, 2007. This decrease was primarily driven by a lower price per barrel for Diageo products produced under the packaging services

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agreement, offset by core price increases and the impact of the \$3.9 million excise tax provision recorded in 2007 related to the TTB audit.

Significant changes in the package mix could have a material effect on net revenue. The Company packages its core brands in kegs and bottles. Assuming the same level of production, a shift in the mix from bottles to kegs would effectively decrease revenue per barrel, as the price per equivalent barrel is lower for kegs than for bottles. The percentage of bottles to total shipments decreased by 0.2% points in core brands to 72.5% of total shipments for the year ended December 27, 2008 as compared to 2007.

Gross profit. Gross profit was \$78.55 per barrel or 46.1% as a percentage of net revenue for the year ended December 27, 2008, as compared to \$100.94 or 55.4% for the year ended December 29, 2007. The decrease in gross profit per barrel is primarily due to the decrease in net selling price per barrel due to the Diageo products and the increase in cost of goods sold per barrel as compared to the prior year.

Cost of goods sold increased to \$91.63 per barrel or 53.9% as a percentage of net revenue as compared to \$81.18 per barrel or 44.6% as a percentage of net revenue in the prior year. The increase is primarily due to higher packaging material and ingredient costs, as well as \$9.5 million in costs incurred for the product recall efforts and the costs of products sold for which the associated revenue was reversed due to the product recall. The remaining increase in cost per barrel resulted from the Pennsylvania Brewery, whose costs included start-up expenses, and the \$2.3 million full year shortfall fees.

The Company includes freight charges related to the movement of finished goods from 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 other entities that classify costs related to distribution differently.

Advertising, promotional and selling. Advertising, promotional and selling expenses increased by \$8.4 million or 6.7% to \$132.9 million for the year ended December 27, 2008, as compared to \$124.5 million in the prior year. The increase is primarily due to increases in freight expenses to wholesalers of \$4.8 million and salary and benefit costs of \$2.9 million. The Company will invest in advertising and promotional campaigns that it believes are effective, but there is no guarantee that such investments 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 \$10.4 million or 42.3% to \$35.0 million in 2008 as compared to 2007, primarily due to increases in salary and benefit costs of \$3.9 million, start-up and recurring planned administrative costs related to the Pennsylvania Brewery of \$3.9 million and legal expenses of \$0.8 million.

Impairment of long-lived assets. During the fourth quarter of 2008, the Company incurred a \$1.9 million impairment charge related to machinery and equipment held at a third-party brewery. The impairment was a result of the Company stopping brewing at a third-party brewery where the Company owned machinery and equipment, as brewing was transferred to the Pennsylvania Brewery. In performing the evaluation of its long-lived assets held at the third-party brewery as of December 27, 2008, the Company concluded that there was too much uncertainty about assigning a probability as to the eventual timing of cash flows related to these assets, and therefore, recorded an

impairment charge in the amount of \$1.9 million. In 2007, the Company incurred an impairment charge of \$3.4 million related to capitalized costs for the Freetown, Massachusetts brewery project.

Stock-Based Compensation Expense. For the year ended December 27, 2008, an aggregate of \$4.1 million in stock-based compensation expense is included in advertising, promotional and selling expense and general

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and administrative expenses, as compared to \$3.1 million in 2007. Stock-based compensation expense increased \$1.0 million in 2008 as compared to 2007 due to more option grants during 2008.

On January 1, 2008, the Company granted the Chief Executive Officer an option to purchase 753,864 shares of its Class A Common Stock, which vest over a five-year period, commencing on January 1, 2014, at the rate of 20% per year. The Company calculated the aggregate fair value of the option grant to be \$6.3 million, of which it recognized \$0.7 million in 2008.

Interest income. Interest income decreased by \$2.7 million to \$1.6 million for the year ended December 27, 2008 primarily due to lower interest rates earned on decreased average cash and investment balances during 2008 as compared to 2007.

Other income, net. Other income decreased by \$0.3 million to \$0.2 million for the year ended December 27, 2008 as compared to \$0.5 million in the prior year. The decrease is due primarily to a decrease in lease income.

Provision for income taxes. The Company's effective income tax rate for the year ended December 29, 2007 increased to 48.9% from the 2007 rate of 46.0%. This increase in the effective tax rate is primarily due to lower than expected pre-tax income due to the recall, but with no corresponding reduction in non-deductible expenses.

Year Ended December 29, 2007 (52 weeks) Compared to Year Ended December 30, 2006 (52 weeks)

Net revenue. Net revenue increased by \$56.2 million or 19.7% to \$341.6 million for the year ended December 29, 2007 as compared to \$285.4 million for the year ended December 30, 2006, due to an 18.8% increase in shipment volume and a 2.8% increase in net revenue per barrel.

Volume. Volume increased by 0.3 million barrels or 18.8% to 1.9 million barrels for the year ended December 29, 2007 as compared to 1.6 million barrels for the year ended December 30, 2006. The increase in volume was primarily attributable to increases in the Samuel Adams® brand family. The growth in the Samuel Adams® brand family was driven by double-digit growth rates in Samuel Adams® Seasonals and Brewmaster's Collection and single-digit growth rates in Sam Adams Light® and Samuel Adams Boston Lager®.

Net selling price. The selling price per barrel increased by approximately 2.8% to \$182.11 per barrel for the year ended December 29, 2007, as compared to \$177.07 for the year ended December 30, 2006. This increase was primarily driven by price increases, offset by the \$3.9 million provision for excise tax recorded in the third quarter related to the TTB audit and a shift in the package mix from cases to kegs. The percentage of bottles to total shipments decreased by 0.5% point in core brands to 72.7% of total shipments for the year ended December 29, 2007 as compared to 2006.

Gross profit. Gross profit was \$100.94 per barrel or 55.4% as a percentage of net revenue for the year ended December 29, 2007, as compared to \$101.91 or 57.6% for the year ended December 30, 2006. The decrease in gross profit per barrel is primarily due to an increase in cost of goods sold per barrel as compared to the prior year and the provision for excise tax related to the TTB audit, partially offset by price increases.

Cost of goods sold increased to \$81.18 per barrel or 44.6% as a percentage of net revenue as compared to \$75.16 per barrel or 42.4% as a percentage of net revenue in the prior year. The increase is primarily due to higher packaging material and ingredient costs and the increase in other processing costs at our Cincinnati Brewery as compared to 2006.

Advertising, promotional and selling. Advertising, promotional and selling expenses increased by \$10.8 million or 9.5% to \$124.5 million for the year ended December 29, 2007, as compared to the prior year. The increase is primarily due to increases in advertising, marketing and promotional expenditures of \$6.5 million, freight costs of \$3.3 million and salaries and benefits (including stock based compensation) of \$2.1 million.

General and administrative. General and administrative expenses increased by \$1.9 million or 8.3% to \$24.6 million in 2007 as compared to 2006, primarily due to increases in salaries and benefits of \$2.5 million

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offset by a \$0.9 million reimbursement of prior period legal costs due to a settlement reached in the fourth quarter.

Impairment of long-lived assets. During the second quarter of 2007, the Company incurred an impairment charge of \$3.4 million related to capitalized costs for the Freetown, Massachusetts brewery project. The Company concluded that the likelihood of this project significantly diminished as the Company's negotiations with Diageo North America progressed and ultimately culminated in the completion of the Contract of Sale for the brewery owned by Diageo in Lehigh Valley, Pennsylvania.

Stock-Based Compensation Expense. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*, which generally requires recognition in financial statements of share-based compensation costs based on fair value of the awards.

For the year ended December 29, 2007, an aggregate of \$3.1 million in stock-based compensation expense is included in advertising, promotional and selling expense and general and administrative expenses, as compared to \$2.8 million in 2006. Stock-based compensation expense increased \$0.3 million in 2007 as compared to 2006 due to more option grants during 2007, as well as an increase in the fair value of those options.

Interest income. Interest income increased by \$1.2 million to \$4.3 million for the year ended December 29, 2007 primarily due to higher interest rates earned on increased average cash and investment balances during 2007 as compared to 2006.

Other income, net. Other income decreased by \$0.2 million to \$0.5 million for the year ended December 29, 2007 as compared to \$0.7 million in the prior year. The decrease is due primarily to increased disposals of equipment in 2007.

Provision for income taxes. The Company's effective income tax rate for the year ended December 29, 2007 increased to 46.0% from the 2006 rate of 42.7%. The increase primarily resulted from an additional \$2.2 million income tax provision recorded in the fourth quarter of 2007 due to the Company's review of its judgments concerning certain income tax deductions, in response to an income tax audit.

Liquidity and Capital Resources

Cash and short term investments decreased to \$9.1 million as of December 27, 2008 from \$95.5 million as of December 29, 2007, primarily due to the acquisition of assets of the Pennsylvania Brewery, purchases of property, plant and equipment and repurchases of common stock, partially offset by cash flows provided by operating activities and proceeds from stock option exercises.

Cash flows provided by 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 flows provided by operating activities are changes in operating assets and liabilities, such as accounts receivable, accounts payable and accrued expenses.

Cash flows provided by operating activities of \$39.8 million in 2008 primarily consisted of net income of \$8.1 million, non-cash items of \$22.5 million, proceeds from the sale of trading securities of \$16.2 million and a net increase in operating assets and liabilities of \$6.9 million. Cash flows provided by operating activities of \$53.8 million in 2007 primarily consisted of net income of \$22.5 million, non-cash items of \$9.9 million, net proceeds from the sale of trading securities of \$3.0 million, and a net decrease in operating assets and liabilities of \$18.4 million. Comparing 2008 to 2007, cash flows provided by operating activities decreased by \$14.0 million. Of the decrease, \$14.4 million resulted from the decrease in net income, due to costs related to the product recall (as discussed in Results of Operations), offset by a \$12.6 million increase in non-cash items and a \$13.2 million increase in net proceeds from the

sale of trading securities. The remaining decrease in cash flows provided by operating activities resulted from the net increase in operating assets and liabilities of \$6.9 million in 2008, as compared to the \$18.4 million net decrease in 2007, primarily attributable to a change in accrued expenses of \$15.1 million and a change in prepaid expenses and other assets of \$9.8 million.

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The Company used \$104.5 million in investing activities during 2008 as compared to \$37.1 million in 2007. Investing activities during 2008 primarily consisted of \$45.0 million of the remaining purchase price for the Pennsylvania Brewery acquisition, \$43.9 million related to equipment purchases to upgrade the Pennsylvania Brewery, \$10.6 million for purchases of kegs to support volume growth and \$3.9 million for equipment purchases related to upgrades to the Cincinnati Brewery.

Cash used in financing activities was \$5.6 million during 2008 as compared to \$0.5 million in 2007. The increase is primarily due to an increase of \$9.2 million in repurchases of the Company's Class A Common Stock under its Stock Repurchase Program, offset by a \$1.8 million increase in proceeds from the exercise of stock options and a \$2.3 million increase in excess tax benefits from stock-based compensation arrangements.

During the year ended December 27, 2008, the Company repurchased 0.4 million shares of its Class A Common Stock for a total cost of \$15.3 million. On February 13, 2008, the Board of Directors of the Company increased the aggregate expenditure limit for the Company's Stock Repurchase Program by \$10.0 million, thereby increasing the limit from \$110.0 million to \$120.0 million. As of December 27, 2008, the Company has repurchased a cumulative total of approximately 8.5 million shares of its Class A Common Stock for an aggregate purchase price of \$114.0 million and had approximately \$6.0 million remaining on the \$120.0 million share buyback expenditure limit.

On March 10, 2008, the Company increased its existing credit facility from \$20.0 million to \$50.0 million. 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. Based upon current projections, the Company expects that its cash and investment balances of \$9.1 million at December 27, 2008, cash flows from operations and the credit facility should be sufficient to meet the Company's short-term and long-term operating and capital requirements. The Company has not yet borrowed any funds under its line of credit and the timing of future borrowings will depend on the timing of inventory purchases and capital expenditures. The Company anticipates using the line of credit at some time in the next twelve months, as it continues its capital investments and has seasonal inventory changes related to hop purchases and other timing issues on certain payments. The Company expects to end 2009 with no borrowings under its line of credit or incur any other debt.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These items are monitored and analyzed by management for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if past experience or other assumptions do not turn out to be substantially accurate.

Inventories

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market. Our provisions for excess or expired inventory are based on management's estimates of forecasted usage of inventories. A significant change in the timing or level of demand for certain products as compared to forecasted amounts may result in recording additional provisions for excess or expired inventory in the future. Provisions for excess inventory are recorded as cost of goods sold.

The Company uses certain Noble hops grown in Germany and certain English hops, for which it enters into purchase commitments to ensure adequate numbers of farmers in its preferred growing regions are planting and maintaining the proper quality hop vines. The Company manages hop inventory and contract levels as necessary to attempt to ensure that it has access to the best hops each year. The current inventory levels

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remain lower than would be normally preferred due to the under delivery of 2007 contracts, but the Company currently believes the current inventory and expected hop deliveries in 2009 to be adequate to meet 2009 brewing requirements, and the Company has added contracts to protect itself in future years. The Company's ability to meet future years brewing demand will be dependent on good hop crops and full delivery against the Company's hop contracts in the future. Actual hops usage and needs may differ materially from management's estimates.

Valuation of Long-Lived Assets

The Company's long-lived assets include property, plant and equipment which are depreciated over their estimated useful lives. For purposes of determining whether there are any impairment losses, as further discussed below, management has historically examined the carrying value of the Company's identifiable long-lived assets, including their useful lives, when indicators of impairment are present. For all long-lived assets, if an impairment loss is identified based on the fair value of the asset, as compared to the carrying value of the asset, such loss would be charged to expense in the period the impairment is identified. Furthermore, if the review of the carrying values of the long-lived assets indicates impairment of such assets, the Company may determine that shorter estimated useful lives are more appropriate. In that event, the Company will be required to record additional depreciation in future periods, which will reduce earnings.

Factors generally considered important which could trigger an impairment review on the carrying value of long-lived assets include the following: (1) significant underperformance relative to expected historical or projected future operating results; (2) significant changes in the manner of use of acquired assets or the strategy for the Company's overall business; (3) underutilization of assets; and (4) discontinuance of products by the Company or its customers. Although the Company believes that the carrying value of its long-lived assets was realizable as of December 27, 2008, future events could cause the Company to conclude otherwise.

Promotional Activities Accrual

Throughout the year, the Company's sales force engages in numerous promotional activities. In connection with its preparation of financial statements and other financial reporting, management is required to make certain estimates and assumptions regarding the amount and timing of expenditures resulting from these activities. Actual expenditures incurred could differ from management's estimates and assumptions.

Distributor Promotional Discount Allowance

The Company enters into promotional discount programs with its various distributors for certain periods of time. The agreed-upon discount rates are applied to certain distributors' sales to retailers, based on volume metrics, in order to determine the total discounted amount. The computation of the discount accrual requires that management make certain estimates and assumptions that affect the reported amounts of related assets at the date of the financial statements and the reported amounts of revenue during the reporting period. Actual promotional discounts owed and paid could differ from the estimated accrual.

Stale Beer Accrual

In certain circumstances and with the Company's approval, the Company accepts and destroys stale beer that is returned by distributors. The Company credits approximately fifty percent of the distributor's cost of the beer that has passed its expiration date for freshness when it is returned to the Company or destroyed. The Company establishes an accrual based upon both historical returns activities, which is applied to an estimated lag time for receipt of product, and the Company's knowledge of specific return transactions. The actual stale beer expense incurred by the Company could differ from the estimated accrual.

Deposits

The Company collects a deposit when certain containers are shipped. This deposit is refunded to the distributors upon return of the containers to the Company. An estimate of deposit liability, which is included in current liabilities, is based on historical information and this computation requires that management make

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certain estimates and assumptions that affect the reported amounts in the financial statements in the reporting period. Actual deposit redemptions could differ from the estimates used to compute the allowance for deposits.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with the fair value recognition provisions of SFAS No. 123R. To calculate the fair value of options, the Company uses the Black-Scholes option-pricing model for grants issued prior to the adoption of SFAS No. 123R on January 1, 2006. For grants issued on or after January 1, 2006, the Company uses the lattice model, such as the binomial option-pricing model, with the exception of the 2008 stock option grant to the Company's Chief Executive Officer, which is considered to be a market-based award and was valued utilizing the Monte Carlo Simulation pricing model, which calculates multiple potential outcomes for an award and establishes fair value based on the most likely outcome. Both the Black-Scholes and lattice models require the input of subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (expected term), the estimated volatility of the Company's common stock price over the expected term, the expected dividend rate and expected exercise behavior. In addition, an estimated forfeiture rate is applied in the recognition of the compensation charge. Periodically, the Company grants performance-based stock options, related to which it only recognizes compensation expense if it is probable that performance targets will be met. Consequently, at the end of each reporting period, the Company estimates whether it is probable that performance targets will be met. Changes in the subjective assumptions and estimates can materially affect the amount of stock-based compensation expense recognized on the consolidated statements of income.

Income Taxes

The Company provides for deferred taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. This results in differences between the book and tax basis of the Company's assets and liabilities and carry-forwards such as tax credits. In estimating future tax consequences, all expected future events, other than enactment of changes in the tax laws or rates, are generally considered. Valuation allowances are provided to the extent deemed necessary when realization of deferred tax assets appears unlikely.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in several different state tax jurisdictions. The Company is periodically reviewed by tax authorities regarding the amount of taxes due. These reviews include inquiries regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. The Company records estimated reserves for exposures associated with positions that it takes on its income tax returns. Through December 30, 2006, the Company recorded estimated income tax reserves as it deemed necessary in accordance with SFAS No. 5, *Accounting for Contingencies*. At the beginning of fiscal 2007, the Company adopted Financial Accounting Standards Board Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*. This interpretation clarifies the accounting and financial statement reporting for uncertainty in income taxes recognized by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of FIN 48 did not result in any impact on the Company's retained earnings balance.

Product Recall

Prior to announcing the voluntary product recall on April 7, 2008, the Company had not had a significant product recall. The Company establishes reserves for product recalls on a product-specific basis when circumstances giving rise to the recall become known. Facts and circumstances related to any recall, including where the product affected

by the recall is located (for example, with wholesale, retail and drinkers or in the Company's inventory) and cost estimates for any fees and incentives to wholesalers for their effort to return the products, freight and destruction charges for returned products, warehouse and inspection fees, repackaging materials, point-of-sale materials and other costs are considered when establishing reserves for product recall.

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These factors are updated and reevaluated each period and the related reserves are adjusted when these factors indicate that the recall reserves are either insufficient to cover or exceed the estimated product recall expenses.

Significant changes in the assumptions used to develop estimates for product recall reserves could affect key financial information, including accounts receivable, inventories, net revenues, gross profit, operating expenses and net income. In addition, estimating product recall reserves requires a high degree of judgment in areas such as estimating the quantity of recalled products not yet consumed, the allocation of recalled products sold to drinkers and the portion held at retail and wholesale, incentives to be earned by wholesalers for their effort to return the products, future freight rates, and the way in which drinkers might be compensated for their claims or affected products they hold.

During the year ended December 27, 2008, the Company recorded an estimated accrual for product returns of \$13.2 million and an estimated accrual for recall-related costs of \$6.3 million and wrote-off \$3.2 million of affected inventory in connection with the recall announced in April 2008. The Company believes that its reserves for the product recalls at December 27, 2008 are adequate and appropriate. However, due to the degree of judgment involved in making such estimates, actual returns and costs may be different from the reserves. Consequently, the reserves for the product recall may not be sufficient to cover such losses.

Other Taxes

The Company is responsible for compliance with TTB regulations which includes making timely and accurate excise tax payments. The Company is subject to periodic compliance audits by the TTB. The Company calculates its excise tax expense based upon units produced and on its understanding of the applicable excise tax laws.

During the third quarter of 2007, the TTB performed a routine audit of the Cincinnati Brewery and other breweries where some of the Company's products are produced (the TTB Audit). In February 2008, the TTB formally disputed the Company's regulatory and tax treatment of certain of its 2006 and 2007 Twisted Tea[®] shipments and the Company received a notice of demand for additional excise taxes plus interest and penalties of approximately \$8.5 million which the Company estimated to be its maximum possible exposure related to the issue. The TTB asserted that these shipments were not classified consistent with TTB regulations that took effect January 1, 2006. Based on the Company's analysis, it believed that most of its Twisted Tea[®] shipments were in compliance with applicable regulations. Based on the information previously collected and its earlier assessment of likely outcomes, the Company recorded a provision of \$3.9 million in the third quarter of 2007. During the first quarter of 2009, the Company and the TTB reached a final settlement and no additional funds are due related to this matter.

Business Environment

The alcoholic beverage industry is highly regulated at the federal, state and local levels. The TTB and the Justice Department's Bureau of Alcohol, Tobacco, Firearms and Explosives enforce laws under the Federal Alcohol Administration Act. The TTB is responsible for administering and enforcing excise tax laws that directly affect the Company's results of operations. State and regulatory authorities have the ability to suspend or revoke the Company's licenses and permits or impose substantial fines for violations. The Company has established strict policies, procedures and guidelines in efforts to ensure compliance with all applicable state and federal laws. However, the loss or revocation of any existing license or permit could have a material adverse effect on the Company's business, results of operations, cash flows and financial position.

The Better Beer category is highly competitive due to the large number of regional craft and specialty brewers and the brewers of imported beers who distribute similar products that have similar pricing and target drinkers. The Company believes that its pricing is appropriate given the quality and reputation of its core brands, while realizing that economic pricing pressures may affect future pricing levels. Certain major domestic brewers have also developed niche brands

to compete within the Better Beer category and have acquired interests in Craft Beers or importation rights to foreign brands. Import brewers and major domestic brewers are able to compete more aggressively than the Company, as they have substantially greater resources, marketing strength and distribution networks than the Company. The Company anticipates Craft Beer competition increasing as

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craft brewers have benefited from a couple of years of healthy growth and are looking to maintain these trends. The Company also increasingly competes with wine and spirits companies, some of which have significantly greater resources than the Company. This competitive environment may affect the Company's overall performance within the Better Beer category. As the market matures and the Better Beer category continues to consolidate, the Company believes that companies that are well-positioned in terms of brand equity, marketing and distribution will have greater success than those who do not. With approximately 400 distributors nationwide and the Company's sales force in excess of 200 people, a commitment to maintaining brand equity and the quality of its beer, the Company believes it is well positioned to compete in a maturing market.

The demand for the Company's products is also subject to changes in drinkers' tastes.

The current financial crisis affecting the banking system and financial markets and the uncertainty in global economic conditions has resulted in a significant tightening of the credit markets, a low level of liquidity in financial markets, reduced corporate profits and capital spending and decreased consumer confidence. These conditions make it difficult for the Company, its vendors and its customers to accurately forecast and plan future business activities and have caused, and may continue to cause, the Company's customers to reduce their spending on the Company's products. The Company cannot predict the duration of the global economic crisis or the timing or strength of a subsequent economic recovery. If the economy or the markets in which the Company operates experience continued weakness at current levels or deteriorate further, the Company's business, financial condition and results of operations would be adversely affected.

In 2009, the Company will continue to aggressively manage the balance between investing and capturing growth opportunities with the need for cost reduction actions beyond those already implemented. The current economic uncertainty makes it extremely difficult to presently predict this balance as the Company continually adjusts to the challenging business environment.

The Potential Impact of Known Facts, Commitments, Events and Uncertainties

Brewing Capacity

Historically, the Company has pursued a strategy of combining brewery ownership with brewing at breweries owned by others. The brewing arrangements with breweries owned by others have historically allowed the Company to utilize their excess capacity, providing the Company flexibility as well as quality and cost advantages over its competitors. In 2007 and 2008, due to concerns about expected future availability and pricing of brewing capacity at breweries owned by others and the Company's desire to better control its brewing future and to improve efficiencies and costs long term, the Company initiated several steps designed to reduce its dependence on breweries owned by others. These steps included the acquisition on June 2, 2008 of substantially all of the assets of the Pennsylvania Brewery from Diageo. From 2007 to 2008, core product volume brewed at Company-owned breweries increased from approximately 35% to approximately 52%. After completion of capital improvements, the Company expects the Pennsylvania Brewery to have an annual brewing capacity of approximately 1.4 million barrels and the Company expects to brew a significantly higher percentage of core products in 2009 at Company-owned breweries.

The other Company-owned breweries are located in Cincinnati, Ohio and Boston, Massachusetts, and the Company currently has brewing services arrangements with MillerCoors, High Falls Operating Company, LLC and City Brewing Company, LLC to produce its products at breweries in Eden, North Carolina, Rochester, New York, and Latrobe, Pennsylvania and La Crosse, Wisconsin, respectively. The Company carefully selects breweries owned by others with (i) the capability of utilizing traditional brewing methods and (ii) first-rate quality control capabilities throughout brewing, fermentation, finishing and packaging. Under its brewing arrangements with breweries owned by others, the Company is charged a per unit rate for its products that are produced at each of the breweries and bears the

costs of raw materials, excise taxes and deposits for pallets and kegs and specialized equipment required to brew the Company's beers.

The Company believes that it has secured sufficient alternatives in the event that production at any of its brewing locations is interrupted or discontinued; however, the Company may not be able to maintain its

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current economics if such disruption were to occur. Potential disruptions at breweries include labor issues, governmental action, quality issues, contractual disputes, machinery failures or operational shut downs. Also as the brewing industry has consolidated, the financial stability of the breweries owned by others where the Company could brew some of its beers, if necessary, has become a more significant concern. The Company continues to work with all of its breweries to attempt to minimize any potential disruptions.

In February, 2009, there was a change in ownership of the brewery in Rochester, New York. The new owners have indicated an interest in renegotiating the terms under which the Company's products are brewed at the facility.

Hops Purchase Commitments

The Company utilizes several varieties of hops in the production of its products. To ensure adequate supplies of these varieties, the Company enters into advance multi-year purchase commitments based on forecasted future hop requirements, among other factors.

During 2008, the Company entered into several hops future contracts in the normal course of business. The total value of the contracts entered into as of December 27, 2008, which are denominated in Euros and British Pounds Sterling, was \$44.3 million. This is higher than historical levels due to the Company's forecasted growth and the addition of hop contracts for several years in reaction to the hops shortage experienced in 2007 and 2008. The Company has no forward exchange contracts in place as of December 27, 2008 and currently intends to purchase future hops using the exchange rate at the time of purchase. The contract agreements were deemed necessary in order to bring hop inventory levels and purchase commitments into balance with the Company's current brewing volume and hop usage forecasts. In addition, these contracts enable the Company to secure its position for future supply with hop vendors in the face of some competitive buying activity.

The Company's accounting policy for hop inventory and purchase commitments is to recognize a loss by establishing a reserve to the extent inventory levels and commitments exceed forecasted needs as well as aged hops as determined by the Company's brewing department. The computation of the excess inventory required management to make certain assumptions regarding future sales growth, product mix, cancellation costs and supply, among others. Actual results may differ materially from management's estimates. The Company continues to manage inventory levels and purchase commitments in an effort to maximize utilization of hops on hand and hops under commitment. However, changes in management's assumptions regarding future sales growth, product mix and hops market conditions could result in future material losses.

Contractual Obligations

The following table presents contractual obligations as of December 27, 2008:

	Total	Payments Due by Period			Thereafter
		2009	2010-2011	2012-2013	
			(In thousands)		
Advertising commitments	\$ 13,005	\$ 12,053	\$ 952	\$	\$
Hops purchase commitments	44,323	13,108	14,526	13,429	3,260
Operating leases	7,524	851	1,879	2,034	2,760
Pennsylvania Brewery capital expenditures	4,763	4,763			
Other	5,072	4,061	631	380	

Total contractual obligations	\$ 74,687	\$ 34,836	\$ 17,988	\$ 15,843	\$ 6,020
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The Company's outstanding purchase commitments related to advertising contracts of approximately \$13.0 million at December 27, 2008 reflect amounts that are non-cancelable.

The Company has entered into contracts for the supply of a portion of its hops requirements. These purchase contracts, which extend through crop year 2015, specify both the quantities and prices, denominated in Euros and British Pounds Sterling, to which the Company is committed. Amounts included in the above table are in United States dollars using the exchange rates as of December 27, 2008. The Company does not have any forward currency contracts in place and currently intends to purchase the committed hops in Euros or British

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Pounds Sterling using the exchange rate at the time of purchase. Payments made during 2008 to purchase hops under contracts amounted to \$9.3 million.

In the normal course of business, the Company has entered into various agreements with brewing companies related to the production of its beers. Under these agreements, the Company is required to repurchase from the supplier all unused raw materials purchased by the supplier specifically for its product at the suppliers cost upon termination of these production arrangements. Also, in some cases the Company is obligated to meet annual volume requirements under its agreements with other breweries. During 2008, the Company did not meet existing minimum volume requirements in accordance with the production agreements at three brewery locations. The fees associated with not meeting minimum volume requirements under these agreements totaled approximately \$2.3 million and have been recognized in the Company's consolidated financial statements at December 27, 2008.

The Company's arrangements with other brewing companies provide that the Company may be required to purchase fixed assets in support of brewery operations. As of December 27, 2008, there were no significant fixed asset purchase requirements outstanding under existing contracts. Changes to the Company's brewing strategy or existing production arrangements, new production relationships or introduction of new products in the future may require the Company to purchase fixed assets to support the contract breweries' operations.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued Staff Position (FSP) No. 157-2, delaying the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities. The Company adopted the provisions of SFAS No. 157 related to financial assets and liabilities and items that are recognized at fair value on a recurring basis on December 30, 2007, the first day of its 2008 fiscal year. The partial adoption of SFAS No. 157 related to financial assets and financial liabilities did not have an effect on the Company's consolidated financial position, operations and cash flows for the fiscal year ended December 27, 2008.

As permitted by FSP No. 157-2, the Company will not apply the provisions of SFAS No. 157 to the following items until 2009: property, plant and equipment and goodwill. The Company is in the process of evaluating the impact of the deferred provisions of SFAS No. 157 on its 2009 consolidated financial position, operations and cash flows.

In September 2006, the FASB issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106 and 132(R)*, which applies to all plan sponsors who offer defined benefit postretirement plans. SFAS No. 158 requires recognition of the funded status of a defined benefit postretirement plan in the statement of financial position and expanded disclosures in the notes to financial statements. The Company adopted this provision for the year ended December 30, 2006 and the adoption did not have a material impact on its consolidated financial position. In addition, SFAS No. 158 requires measurement of plan assets and benefit obligations as of the date of the plan sponsor's fiscal year end. The Company adopted the measurement provision of SFAS No. 158 for its fiscal year ended December 27, 2008 which did not have a material effect on its 2008 consolidated financial position, operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. SFAS No. 159 permits companies to choose to measure many financial instruments at fair value, that are not currently required to be measured at fair value, at specified election dates under its fair value option. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different

measurement attributes for similar types of assets and liabilities. The Company adopted the provisions of SFAS No. 159 in the first quarter of 2008, but did not elect the fair value option for any of its financial assets and financial liabilities.

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In December 2007, the FASB issued SFAS No. 141 (revised) (SFAS No. 141R), *Business Combinations*, which replaces SFAS No 141, *Business Combinations*. SFAS No. 141R will significantly change the accounting for business combinations and an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. In addition to new financial statements disclosures, SFAS No. 141R will also change the accounting treatment for certain specific items, including the expensing of acquisition costs and restructuring costs associated with a business combination, and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date which generally will affect income tax expense. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the Company's fiscal 2009 period, with the exception of the accounting of valuation allowances on deferred tax assets and acquired tax contingencies for which the adoption is retrospective. The Company will evaluate the impact of SFAS 141R on its consolidated financial statements in the event future business combinations are contemplated.

Off-Balance Sheet Arrangements

The Company has not entered into any material off-balance sheet arrangements as of December 27, 2008.

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

In the ordinary course of business, the Company is exposed to the impact of fluctuations in foreign exchange rates. The Company does not enter into derivatives or other market risk sensitive instruments for the purpose of speculation or for trading purposes. Market risk sensitive instruments include derivative financial instruments, other financial instruments, and derivative commodity instruments, such as futures, forwards, swaps and options, that are exposed to rate or price changes.

The Company enters into hops purchase contracts in foreign denominated currencies, as described above under *Hops Purchase Commitments*. The cost of these hops commitments changes as foreign exchange rates fluctuate. Currently, it is not the Company's policy to hedge against foreign currency fluctuations.

The interest rate for borrowings under the Company's credit facility is based on either (i) the Alternative Prime Rate (3.25% at December 27, 2008) or (ii) the applicable LIBOR rate (0.5% at December 27, 2008) plus 0.45%, and therefore, subjects the Company to fluctuations in such rates. As of December 27, 2008, the Company had no amounts outstanding under its current line of credit.

Sensitivity Analysis

The Company applies a sensitivity analysis to reflect the impact of a 10% hypothetical adverse change in the foreign currency rates. A potential adverse fluctuation in foreign currency exchange rates could negatively impact future cash flows by approximately \$4.3 million as of December 27, 2008.

There are many economic factors that can affect volatility in foreign exchange rates. As such factors cannot be predicted, the actual impact on earnings due to an adverse change in the respective rates could vary substantially from the amounts calculated above.

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Item 8. *Financial Statements and Supplementary Data*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of The Boston Beer Company, Inc.

We have audited the accompanying consolidated balance sheets of The Boston Beer Company, Inc. and subsidiaries as of December 27, 2008 and December 29, 2007, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 27, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Boston Beer Company, Inc. and subsidiaries at December 27, 2008 and December 29, 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 27, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note B to the consolidated financial statements, effective December 31, 2006, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. In addition, as discussed in Note L to the consolidated financial statements, effective January 1, 2006, the Company adopted Financial Accounting Standards Board No. 123R *Share-Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Boston Beer Company, Inc.'s internal control over financial reporting as of December 27, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 6, 2009

Table of Contents**THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)**

	December 27, 2008	December 29, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 9,074	\$ 79,289
Short-term investments		16,200
Accounts receivable, net of allowance for doubtful accounts of \$255 and \$249 as of December 27, 2008 and December 29, 2007, respectively	18,057	17,972
Inventories	22,708	18,090
Prepaid expenses and other assets	16,281	4,252
Deferred income taxes	2,734	2,090
 Total current assets	 68,854	 137,893
Property, plant and equipment, net	147,920	46,198
Other assets	1,606	12,487
Goodwill	1,377	1,377
 Total assets	 \$ 219,757	 \$ 197,955
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 20,203	\$ 17,708
Accrued expenses	46,854	42,449
 Total current liabilities	 67,057	 60,157
Deferred income taxes	9,617	1,215
Other liabilities	3,055	2,995
 Total liabilities	 79,729	 64,367
Commitments and contingencies		
Stockholders Equity:		
Class A Common Stock, \$.01 par value; 22,700,000 shares authorized; 10,068,486 and 10,095,573 shares issued and outstanding as of December 27, 2008 and December 29, 2007, respectively	101	101
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	102,653	88,754
Accumulated other comprehensive loss, net of tax	(431)	(204)
Retained earnings	37,664	44,896
 Total stockholders equity	 140,028	 133,588

Total liabilities and stockholders' equity	\$	219,757	\$	197,955
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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 INCOME****(In thousands, except per share data)**

	December 27, 2008	Year Ended December 29, 2007	December 30, 2006
Revenue (net of product recall returns of \$13,222 in fiscal 2008)	\$ 436,332	\$ 380,575	\$ 315,250
Less excise taxes	37,932	38,928	29,819
Net revenue	398,400	341,647	285,431
Cost of goods sold (including costs associated with product recall of \$9,473 in fiscal 2008)	214,513	152,288	121,155
Gross profit	183,887	189,359	164,276
Operating expenses:			
Advertising, promotional and selling expenses	132,901	124,457	113,669
General and administrative expenses	34,988	24,574	22,657
Impairment of long-lived assets	1,936	3,443	
Total operating expenses	169,825	152,474	136,326
Operating income	14,062	36,885	27,950
Other income, net:			
Interest income	1,604	4,252	3,143
Other income, net	174	507	673
Total other income, net	1,778	4,759	3,816
Income before provision for income taxes	15,840	41,644	31,766
Provision for income taxes	7,752	19,153	13,574
Net income	\$ 8,088	\$ 22,491	\$ 18,192
Net income per common share basic	\$ 0.58	\$ 1.58	\$ 1.31
Net income per common share diluted	\$ 0.56	\$ 1.53	\$ 1.27
Weighted-average number of common shares basic	13,927	14,193	13,900
Weighted-average number of common shares diluted	14,341	14,699	14,375

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

Table of Contents**THE BOSTON BEER COMPANY, INC. AND SUSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY****For the Years Ended December 27, 2008, December 29, 2007 and December 30, 2006****(In thousands, continued on next page)**

	Class A Common Shares	Class A Common Stock	Class B Common Shares	Class B Common Stock	Additional Paid-in Capital
Balance at December 31, 2005	9,814	\$ 98	4,107	\$ 41	\$ 70,808
Net income					
Stock options exercised, including tax benefit of \$2,240	334	3			6,737
Net issuance of investment shares and restricted stock awards	43	1			215
Elimination of unearned compensation upon adoption of SFAS No. 123R					(353)
Stock-based compensation expense					2,751
Repurchase of Class A Common Stock	(199)	(2)			
Defined benefit plans liability adjustment, net of tax of \$3					
Total fiscal 2006 comprehensive income					
Balance at December 30, 2006	9,992	100	4,107	41	80,158
Net income					
Stock options exercised, including tax benefit of \$1,792	236	2			5,238
Net issuance of investment shares and restricted stock awards	51	1			300
Stock-based compensation expense					3,058
Repurchase of Class A Common Stock	(183)	(2)			
Defined benefit plans liability adjustment, net of tax of \$6					
Total fiscal 2007 comprehensive income					
Balance at December 29, 2007	10,096	101	4,107	41	88,754
Net income					
Stock options exercised, including tax benefit of \$3,926	349	4			9,196
Net issuance of investment shares and restricted stock awards, including tax benefit of \$139	52				555
Stock-based compensation expense					4,148
Repurchase of Class A Common Stock	(429)	(4)			
Defined benefit plans liability adjustment, net of tax of \$155					
Total fiscal 2008 comprehensive income					

Balance at December 27, 2008	10,068	\$	101	4,107	\$	41	\$	102,653
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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 STOCKHOLDERS EQUITY**

For the Years Ended December 27, 2008, December 29, 2007 and December 30, 2006
(In thousands, continued from last page)

	Unearned Compensation	Accumulated Other Comprehensive Loss, net of tax	Retained Earnings	Total Stockholders Equity	Comprehensive Income
Balance at December 31, 2005	\$ (353)	\$ (196)	\$ 15,581	\$ 85,979	
Net income			18,192	18,192	\$ 18,192
Stock options exercised, including tax benefit of \$2,240				6,740	
Net issuance of investment shares and restricted stock awards				216	
Elimination of unearned compensation upon adoption of SFAS No. 123R	353				
Stock-based compensation expense				2,751	
Repurchase of Class A Common Stock			(5,286)	(5,288)	
Defined benefit plans liability adjustment, net of tax of \$3		(1)		(1)	(1)
Total fiscal 2006 comprehensive income					\$ 18,191
Balance at December 30, 2006		(197)	28,487	108,589	
Net income			22,491	22,491	\$ 22,491
Stock options exercised, including tax benefit of \$1,792				5,240	
Net issuance of investment shares and restricted stock awards				301	
Stock-based compensation expense				3,058	
Repurchase of Class A Common Stock			(6,082)	(6,084)	
Defined benefit plans liability adjustment, net of tax of \$6		(7)		(7)	(7)
Total fiscal 2006 comprehensive income					\$ 22,484
Balance at December 29, 2007		(204)	44,896	133,588	
Net income			8,088	8,088	\$ 8,088
				9,200	

Stock options exercised, including
tax benefit of \$3,926