

BOSTON BEER CO INC  
Form 10-Q  
November 04, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 27, 2008**  
**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**  
**Commission file number: 1-14092**  
**THE BOSTON BEER COMPANY, INC.**  
(Exact name of registrant as specified in its charter)

**MASSACHUSETTS** **04-3284048**  
(State or other jurisdiction of incorporation (I.R.S. Employer  
or organization) Identification No.)

**One Design Center Place, Suite 850, Boston, Massachusetts**  
(Address of principal executive offices)

**02210**

(Zip Code)

**(617) 368-5000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant 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   
accelerated filer  (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 Act.)

Yes  No

Number of shares outstanding of each of the issuer's classes of common stock, as of October 31, 2008:

|  |                    |
|--|--------------------|
| <b>Class A Common Stock, \$.01 par value</b> | <b>10,069,597</b>  |
| <b>Class B Common Stock, \$.01 par value</b> | <b>4,107,355</b>   |
| (Title of each class)                        | (Number of shares) |



**THE BOSTON BEER COMPANY, INC.**  
**FORM 10-Q**  
**QUARTERLY REPORT**  
**SEPTEMBER 27, 2008**  
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CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

|   | <b>September<br/>27,<br/>2008</b> | <b>December 29,<br/>2007</b> |
|---|-----------------------------------|------------------------------|
|   | (unaudited)                       |                              |
| <b>Assets</b>   |                                   |                              |
| Current Assets:   |                                   |                              |
| Cash and cash equivalents   | \$ 10,569                         | \$ 79,289                    |
| Short-term investments  |                                   | 16,200                       |
| Accounts receivable, net of allowance for doubtful accounts of \$235 and \$249<br>as of September 27, 2008 and December 29, 2007, respectively  | 21,310                            | 17,972                       |
| Inventories   | 23,804                            | 18,090                       |
| Prepaid expenses and other assets   | 2,994                             | 2,152                        |
| Deferred income taxes   | 2,090                             | 2,090                        |
| <br>Total current assets  | <br>60,767                        | <br>135,793                  |
| Property, plant and equipment, net  | 139,785                           | 46,198                       |
| Other assets  | 1,050                             | 12,487                       |
| Goodwill  | 1,377                             | 1,377                        |
| <br>Total assets  | <br>\$ 202,979                    | <br>\$ 195,855               |
| <b>Liabilities and Stockholders Equity</b>  |                                   |                              |
| Current Liabilities:  |                                   |                              |
| Accounts payable  | \$ 24,598                         | \$ 17,708                    |
| Accrued expenses  | 38,420                            | 40,349                       |
| <br>Total current liabilities   | <br>63,018                        | <br>58,057                   |
| Deferred income taxes   | 1,215                             | 1,215                        |
| Other liabilities   | 2,652                             | 2,995                        |
| <br>Total liabilities   | <br>66,885                        | <br>62,267                   |
| Commitments and Contingencies   |                                   |                              |
| Stockholders Equity:  |                                   |                              |
| Class A Common Stock, \$.01 par value; 22,700,000 shares authorized;<br>10,049,077 and 10,095,573 shares issued and outstanding as of September 27,<br>2008 and December 29, 2007, respectively | 100                               | 101                          |
| Class B Common Stock, \$.01 par value; 4,200,000 shares authorized;<br>4,107,355 shares issued and outstanding  | 41                                | 41                           |
| Additional paid-in capital  | 102,090                           | 88,754                       |
| Accumulated other comprehensive loss, net of tax  | (204)                             | (204)                        |
| Retained earnings   | 34,067                            | 44,896                       |
| <br>Total stockholders equity   | <br>136,094                       | <br>133,588                  |

|  |            |            |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 202,979 | \$ 195,855 |
|--|------------|------------|

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

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

(in thousands, except per share data)

(unaudited)

|   | <b>Three months ended</b> |                  | <b>Nine months ended</b> |                  |
|---|---------------------------|------------------|--------------------------|------------------|
|   | <b>September</b>          | <b>September</b> | <b>September</b>         | <b>September</b> |
|   | <b>27,</b>                | <b>29,</b>       | <b>27,</b>               | <b>29,</b>       |
|   | <b>2008</b>               | <b>2007</b>      | <b>2008</b>              | <b>2007</b>      |
| Revenue (net of product recall returns of \$979 and \$13,307 for the three and nine months ended September 27, 2008)                              | \$ 110,467                | \$ 97,158        | \$ 323,446               | \$ 279,193       |
| Less excise taxes   | 9,339                     | 13,014           | 28,823                   | 29,733           |
| Net revenue   | 101,128                   | 84,144           | 294,623                  | 249,460          |
| Cost of goods sold (including costs associated with product recall of \$1,254 and \$9,546 for the three and nine months ended September 27, 2008) | 57,237                    | 41,028           | 159,281                  | 113,284          |
| Gross profit  | 43,891                    | 43,116           | 135,342                  | 136,176          |
| Operating expenses:   |                           |                  |                          |                  |
| Advertising, promotional and selling expenses   | 34,004                    | 32,956           | 101,249                  | 92,082           |
| General and administrative expenses   | 9,368                     | 6,567            | 26,017                   | 17,995           |
| Write-off of brewery costs  |                           |                  |                          | 3,443            |
| Total operating expenses  | 43,372                    | 39,523           | 127,266                  | 113,520          |
| Operating income  | 519                       | 3,593            | 8,076                    | 22,656           |
| Other income, net:  |                           |                  |                          |                  |
| Interest income   | 134                       | 1,162            | 1,316                    | 3,201            |
| Other (expense) income, net   | (14)                      | 165              | 200                      | 504              |
| Total other income, net   | 120                       | 1,327            | 1,516                    | 3,705            |
| Income before provision for income taxes  | 639                       | 4,920            | 9,592                    | 26,361           |
| Provision for income taxes  | 934                       | 1,743            | 5,101                    | 10,625           |
| Net (loss) income   | \$ (295)                  | \$ 3,177         | \$ 4,491                 | \$ 15,736        |
| Net (loss) income per common share basic  | \$ (0.02)                 | \$ 0.22          | \$ 0.32                  | \$ 1.11          |
| Net (loss) income per common share diluted  | \$ (0.02)                 | \$ 0.21          | \$ 0.31                  | \$ 1.07          |



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|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Weighted-average number of common shares<br>basic   | 13,934 | 14,235 | 13,890 | 14,186 |
| Weighted-average number of common shares<br>diluted | 13,934 | 14,789 | 14,333 | 14,688 |

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

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

(in thousands)

(unaudited)

|   | <b>Nine months ended</b> |                      |
|---|--------------------------|----------------------|
|   | <b>September</b>         | <b>September 29,</b> |
|   | <b>27,</b>               | <b>2007</b>          |
|   | <b>2008</b>              | <b>2007</b>          |
| <b>Cash flows provided by operating activities:</b>                               |                          |                      |
| Net income  | \$ 4,491                 | \$ 15,736            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |                      |
| Depreciation and amortization   | 8,289                    | 4,704                |
| Write-off of brewery costs  |                          | 3,443                |
| Loss on disposal of property, plant and equipment                                 | 25                       | 23                   |
| Bad debt (recovery) expense   | (7)                      | 51                   |
| Stock-based compensation expense  | 3,354                    | 2,099                |
| Excess tax benefit from stock-based compensation arrangements                     | (4,578)                  | (2,000)              |
| Purchases of trading securities   |                          | (30,395)             |
| Proceeds from sale of trading securities  | 16,200                   | 30,193               |
| Changes in operating assets and liabilities:                                      |                          |                      |
| Accounts receivable   | (3,331)                  | (3,222)              |
| Inventories   | (5,714)                  | (1,946)              |
| Prepaid expenses and other assets   | (754)                    | (524)                |
| Accounts payable  | 6,890                    | (42)                 |
| Accrued expenses  | 2,649                    | 5,923                |
| Other liabilities   | (343)                    | (318)                |
| Net cash provided by operating activities   | 27,171                   | 23,725               |
| <b>Cash flows used in investing activities:</b>                                   |                          |                      |
| Purchases of property, plant and equipment  | (45,339)                 | (18,618)             |
| Proceeds from disposal of property, plant and equipment                           | 11                       | 5                    |
| Purchase of assets from Diageo North America, Inc.                                | (44,960)                 | (2,124)              |
| Net cash used in investing activities   | (90,288)                 | (20,737)             |
| <b>Cash flows (used in) provided by financing activities:</b>                     |                          |                      |
| Repurchase of Class A common stock  | (15,324)                 |                      |
| Proceeds from exercise of stock options   | 4,842                    | 3,232                |
| Excess tax benefit from stock-based compensation arrangements                     | 4,578                    | 2,000                |
| Net proceeds from sale of investment shares                                       | 301                      | 213                  |
| Net cash (used in) provided by financing activities                               | (5,603)                  | 5,445                |

|  |           |           |
|--|-----------|-----------|
| Change in cash and cash equivalents                      | (68,720)  | 8,433     |
| Cash and cash equivalents at beginning of period         | 79,289    | 63,147    |
| Cash and cash equivalents at end of period               | \$ 10,569 | \$ 71,580 |
| <b>Supplemental disclosure of cash flow information:</b> |           |           |
| Income taxes paid  | \$ 8,329  | \$ 12,164 |

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

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

**A. Organization and Basis of Presentation**

The Boston Beer Company, Inc. and its subsidiaries (the Company) are engaged in the business of selling low alcohol beverages throughout the United States and in selected international markets, under the trade names, The Boston Beer Company, Twisted Tea Brewing Company and HardCore Cider Company. The Company's Samuel Adams and Sam Adams Light® are produced and sold under the trade name, The Boston Beer Company. The accompanying consolidated statement of financial position as of September 27, 2008 and the statements of consolidated operations and consolidated cash flows for the interim periods ended September 27, 2008 and September 29, 2007 have been prepared by the Company, without audit, in accordance with U.S. generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission.

Accordingly, they do not include all of the information and footnotes required for complete financial statements by generally accepted accounting principles and should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 29, 2007.

**Management's Opinion**

In the opinion of the Company's management, the Company's unaudited consolidated financial position as of September 27, 2008 and the results of its consolidated operations and consolidated cash flows for the interim periods ended September 27, 2008 and September 29, 2007, reflect all adjustments (consisting only of normal and recurring adjustments) necessary to present fairly the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

**B. Short-Term Investments**

In January 2008, the Company liquidated all of its short-term investments. As of December 29, 2007, the Company's short-term investments consisted of municipal auction rate securities. These investments were classified as trading securities which are recorded at fair market value and whose change in fair market value is recorded in earnings. The Company recorded no realized gains or losses on short-term investments for the interim periods ended September 27, 2008 and September 29, 2007.

**C. Inventories**

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

|                 | <b>September<br/>27,<br/>2008</b> | <b>December 29,<br/>2007</b> |
|-----------------|-----------------------------------|------------------------------|
|                 | <b>(in thousands)</b>             |                              |
| Raw materials   | \$ 12,077                         | \$ 11,229                    |
| Work in process | 6,518                             | 4,116                        |
| Finished goods  | 5,209                             | 2,745                        |
|                 | <b>\$ 23,804</b>                  | <b>\$ 18,090</b>             |

**Table of Contents****D. Net (Loss) Income per Share**

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

|  | <b>Three months ended</b>                    |                                   | <b>Nine months ended</b>          |                                   |
|--|--|-----------------------------------|-----------------------------------|-----------------------------------|
|  | <b>September<br/>27,<br/>2008</b>            | <b>September<br/>29,<br/>2007</b> | <b>September<br/>27,<br/>2008</b> | <b>September<br/>29,<br/>2007</b> |
|  | <b>(in thousands, except per share data)</b> |                                   |                                   |                                   |
| Net (loss) income                                  | \$ (295)                                     | \$ 3,177                          | \$ 4,491                          | \$ 15,736                         |
| Weighted average shares of Class A Common Stock    | 9,827  | 10,128                            | 9,783                             | 10,079                            |
| Weighted average shares of Class B Common Stock    | 4,107  | 4,107                             | 4,107                             | 4,107                             |
| Shares used in net income per common share basic   | 13,934                                       | 14,235                            | 13,890                            | 14,186                            |
| Effect of dilutive securities:                     |  |                                   |                                   |                                   |
| Stock options                                      |  | 522                               | 419                               | 480                               |
| Non-vested investment shares and restricted stock  |  | 32                                | 24                                | 22                                |
| Dilutive potential common shares                   |  | 554                               | 443                               | 502                               |
| Shares used in net income per common share diluted | 13,934                                       | 14,789                            | 14,333                            | 14,688                            |
| Net (loss) income per common share basic           | \$ (0.02)                                    | \$ 0.22                           | \$ 0.32                           | \$ 1.11                           |
| Net (loss) income per common share diluted         | \$ (0.02)                                    | \$ 0.21                           | \$ 0.31                           | \$ 1.07                           |

Basic net (loss) income per common share for each share of Class A Common Stock and Class B Common Stock is \$(0.02) and \$0.22 for the three months ended September 27, 2008 and September 29, 2007, respectively, and \$0.32 and \$1.11 for the nine months ended September 27, 2008 and September 29, 2007, respectively, as each share of Class A and Class B participates equally in earnings. Shares of Class B are convertible at any time into shares of Class A on a one-for-one basis at the option of the stockholder.

During the three and nine months ended September 27, 2008, the Company had 1.5 and 1.0 million potential common shares outstanding, respectively, which were not included in the computation of net loss or income per diluted share because their effect was anti-dilutive. Additionally, performance-based stock options to purchase an aggregate of 170,000 shares of Class A Common Stock were outstanding during the three and nine months ended September 27, 2008 but not included in computing dilutive income per share because the performance criteria of these stock options were not expected to be met as of September 27, 2008.

**E. Comprehensive Income or Loss**

Comprehensive income or loss represents net income or loss, plus defined benefit plans liability adjustments, net of tax effect. The defined benefit plans liability adjustments for the interim periods ended September 27, 2008 and September 29, 2007 were not material.

**F. Commitments and Contingencies**

*Purchase Commitments*

The Company had outstanding non-cancelable purchase commitments related to advertising contracts of approximately \$19.1 million at September 27, 2008.

The Company has entered into contracts for the supply of a portion of its hops requirements. These purchase contracts extend through crop year 2015 and specify both the quantities and prices, mostly denominated in euros, to which the Company is committed. Hops purchase commitments outstanding at September 27, 2008 totaled \$52.9 million, based on the exchange rates on that date.

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Capital expenditures for the newly acquired brewery in Lehigh Valley, Pennsylvania (the Pennsylvania Brewery ) for 2008 are estimated to be between \$45.0 million and \$55.0 million, of which \$31.0 million had been incurred as of September 27, 2008. The Company had outstanding non-cancelable purchase commitments related to capital expenditures for the Pennsylvania Brewery of \$14.7 million as of September 27, 2008.

Based on projected production requirements and production capacity at the Pennsylvania Brewery for the remainder of 2008, the Company estimated that it will likely not meet its 2008 minimum production requirements under certain production arrangements with other brewing companies. Consequently, during the three months ended September 27, 2008, the Company recorded a \$2.3 million provision, which represents the estimated full year shortfall fees of not meeting those minimum production requirements. This \$2.3 million provision is included in cost of goods sold in the accompanying consolidated statements of operations for the three and nine months ended September 27, 2008.

Other outstanding purchase commitments totaled \$4.2 million at September 27, 2008.

**Contingent Excise Tax Liability**

During the third quarter of 2007, the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department (the TTB ) performed a routine audit of the Company's brewery in Cincinnati, Ohio (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 currently estimates to be its maximum possible exposure related to the issue. The TTB has asserted that these shipments were not classified consistent with TTB regulations that took effect January 1, 2006. Based on the Company's analysis, it believes 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.

The Company met with the TTB and presented its analysis of the events identified by the TTB Audit. During the third quarter of 2008, the Company submitted a settlement proposal and made a payment of \$3.7 million to the TTB. The TTB has proposed some changes to the Company's proposed settlement which do not materially affect the economics of the settlement, and the Company is considering how to proceed. Based on available information, the Company continues to believe that the recorded excise tax provision of \$3.9 million is adequate.

**G. Stock Option Grant to Chief Executive Officer**

Effective January 1, 2008, the Company granted the Chief Executive Officer an option to purchase 753,864 shares of its Class A Common Stock. The option vests over a five-year period, commencing on January 1, 2014, at the rate of 20% of the underlying shares per year. The exercise price is determined by multiplying \$42.00 by the aggregate change in the DJ Wilshire 5000 Index from and after January 1, 2008 through the close of business on the trading date next preceding each date on which the option is exercised. The exercise price will not be less than \$37.65 per share and the excess of the fair value of the Company's Class A Common Stock over each actual exercise price cannot exceed \$70 per share. The Company has accounted for this award as a market-based award under the Monte Carlo Simulation pricing model and calculated the weighted average fair value per share to be \$8.41. During the three and nine months ended September 27, 2008, the Company recorded stock-based compensation expense of \$0.2 million and \$0.6 million, respectively, related to this stock option grant.

**H. Income Taxes**

As of September 27, 2008 and December 29, 2007, the Company had approximately \$5.9 million and \$6.6 million, respectively, of unrecognized income tax benefits. The change in the balance of unrecognized tax benefits is primarily due to a decrease related to payments made in connection with the completion of Internal Revenue Service ( IRS ) examinations for the years 2004 to 2006, partially offset by incremental increases in unrecognized tax benefits for the nine months ended September 27, 2008.

The Company's practice is to classify interest and penalties related to income tax matters in income tax expense. As of September 27, 2008 the Company had \$1.5 million accrued for interest and penalties.





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During the nine months ended September 27, 2008, the IRS completed examinations of the Company's 2004 and 2005 consolidated corporate income tax returns and the Company made related payments of tax and interest to the IRS of \$0.8 million. The IRS is in the process of completing the examination of the Company's 2006 consolidated corporate income tax return and the Company has made related payments of tax to the IRS of \$0.4 million. As a result of these payments, the Company reduced its unrecognized tax benefits by \$0.9 million and recognized a tax benefit of \$0.1 million.

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

It is reasonably possible that the Company's unrecognized tax benefits may increase or decrease significantly in 2008 due to the commencement or completion of certain state income tax audits. However, the Company cannot estimate the range of such possible changes. The Company does not expect that any potential changes would have a material impact on the Company's financial position, results of operations or cash flows.

**I. Fair Value Measurements**

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, on December 30, 2007, the first day of its 2008 fiscal year. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, an exit price. The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Under existing accounting pronouncements, certain assets and liabilities are measured at fair value and SFAS No. 157 expands the disclosures that are required for items measured at fair value. Further, under SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, entities are permitted to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value measurement option under SFAS No. 159 for any of its financial assets or liabilities.

On the date of the adoption, or December 30, 2007, the Company applied the provisions of SFAS No. 157 to its short-term investments which consisted of trading securities. To measure the fair value of its short-term investments, the Company used Level 1 inputs from a fair value hierarchy of three levels according to SFAS No. 157, under which inputs represent unadjusted quoted prices in active markets for identical items. The adoption of SFAS No. 157 did not affect the Company's financial position, results of operations or cash flows.

As permitted by Financial Accounting Standards Board Staff Position 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.

**J. Product Recall**

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

Through the six months ended June 28, 2008, the Company recorded an estimated accrual for product returns of \$12.3 million, net of estimated excise tax credits and an estimated accrual for recall-related costs of \$6.1 million, and wrote-off \$2.2 million of affected inventory. During the three months ended September 27, 2008, additional charges of \$1.0 million for product returns, \$0.6 million for recall-related costs and \$0.6 million for inventory write-offs were recorded based on actual recall activities and inventory counts during the quarter and an estimate of remaining activities to be incurred. The estimated returns have been recorded as a reduction of revenue and the costs of the recall and the inventory write-off have been included in cost of goods sold, since substantially all of the costs incurred are a direct result of the packaging defect. For the three and nine months ended September 27, 2008, the recorded recall charges resulted in a total reduction to operating income and income before income taxes of \$2.2 million and

\$22.9 million, respectively, and a reduction to net income of \$1.2 million and \$12.0 million, respectively.

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The following table summarizes the Company's reserves and reserve activities for the product recall for the three months ended September 27, 2008 (in thousands):

|                      | Reserves at      |                         |                  | Reserves at              |
|----------------------|------------------|-------------------------|------------------|--------------------------|
|                      | June 28,<br>2008 | Changes in<br>Estimates | Reserves<br>Used | September<br>27,<br>2008 |
| Product returns      | \$ 1,138         | \$ 1,143                | \$ (1,957)       | \$ 324                   |
| Excise tax credit    | (944)            | (164)                   |                  | (1,108)                  |
| Recall-related costs | 3,179            | 646                     | (2,530)          | 1,295                    |
| Inventory reserves   | 1,458            | 608                     |                  | 2,066                    |
|                      | \$ 4,831         | \$ 2,233                | \$ (4,487)       | \$ 2,577                 |

The provision for returns for the nine months ended September 27, 2008 is based on an estimate of 790,000 affected cases of the Company's products at retail and wholesale, and sale prices of relevant products. Such estimates are updated using actual returns and information of remaining cases to be returned provided by distributors that are available to the Company as of September 27, 2008. The recall-related costs primarily include 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. These costs are calculated based upon the estimated number of affected bottles, the Company's historical costs for various activities such as freight, destruction and warehousing, agreed upon incentives with retailers and wholesalers and costs incurred to date. The Company is completing the process of collecting cases of suspected product and, depending on the results of that process, actual cases affected and costs associated could be different from these estimates. The Company expects to have paid substantially all of the direct costs related to the recall within the next three months.

The Company currently believes it may have claims against the supplier of these glass bottles for the impact of the recall, but it is impossible to predict the outcome of such potential claims. Consequently, no amounts have been recorded as receivable as of September 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.

**K. Purchase of Brewery Assets in Lehigh Valley, Pennsylvania**

As part of its strategy of combining brewery ownership with production arrangements at breweries owned by third parties, on June 2, 2008, the Company completed the acquisition of substantially all of the assets of a brewery located in Upper Macungie Township in Lehigh Valley, Pennsylvania (the Pennsylvania Brewery) from Diageo North America, Inc. (Diageo) in exchange for cash. The Company intends to brew a significant portion of its Samuel Adams® craft beers at the Pennsylvania Brewery. The aggregate purchase price for the acquisition of assets was \$56.5 million, which includes \$54.6 million in purchase price and \$1.9 million in transaction costs, and represents property, plant and equipment. In June 2008, the Company reclassified \$11.5 million representing previously made deposits to Diageo and transaction costs from other assets to property, plant and equipment, net, in the accompanying consolidated balance sheet.

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**L. Packaging Services Agreement**

In connection with the purchase and sale arrangement, Diageo and the Company entered into a Packaging Services Agreement dated August 1, 2007 (the Packaging Services Agreement ), pursuant to which the Company has agreed to blend and package the Diageo products that were being produced at the Pennsylvania Brewery by Diageo. The Packaging Services Agreement commenced on June 2, 2008, the date on which the Company purchased the Pennsylvania Brewery, and has a term of approximately two years. Similar to contracts that the Company has historically entered into to meet its supply needs, the agreement provides for guaranteed service capacity and production service for producing Diageo products which includes labor, machinery and warehouse space; however, there are no minimum volume guarantees by Diageo and the capacity commitment by the Company will decline over the term of the agreement. During the three and nine months ended September 27, 2008, the Company recorded \$3.7 million and \$4.9 million in revenue related to the Packaging Services Agreement.

**M. Line of Credit**

The Company has a credit facility in place that provides for a \$50.0 million revolving line of credit which expires on March 31, 2013. As of September 27, 2008, there were no borrowings outstanding and the line of credit was fully available to the Company for borrowing. The Company was not in violation of any of its covenants to the lender under the credit facility.

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

The following is a discussion of the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of The Boston Beer Company, Inc. (the Company or Boston Beer) for the three and nine-month periods ended September 27, 2008, as compared to the three and nine-month periods ended September 29, 2007. This discussion should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements of the Company and Notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2007.

**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 brewery in Cincinnati, Ohio (the Cincinnati Brewery), which detected glass inclusions in certain bottles of beer. The bottles were from a single glass plant that supplies bottles to the Company. The glass plant in question supplied approximately 25% of the Company's glass bottles during the first quarter of 2008.

To date, the Company estimates it has destroyed and 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 this 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 the potential for future lost sales and believes that it may have experienced lost sales at retail which probably contributed somewhat to the slower growth rate in depletions for the second quarter.

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 such potential claim. Consequently, no amounts have been recorded as receivable as of September 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 operating results before tax by \$22.9 million and net income by \$12.0 million for the nine months ended September 27, 2008. The net income per dilutive share effect was \$0.84 for the nine months ended September 27, 2008. The recorded charges are based on actual recall activities and estimated remaining activities from information available to the Company as of September 27, 2008. The Company is completing the process of collecting cases of suspected product and, depending on the results of that process, actual cases affected and costs associated could be different from these estimates. The Company expects to have paid substantially all of the 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.

**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 Brewery and the products packaged at the brewery in Pennsylvania (the Pennsylvania Brewery) under contract arrangements for third parties.

***Three Months Ended September 27, 2008 compared to Three Months Ended September 29, 2007***

**Net revenue.** Net revenue increased by \$17.0 million or 20.2% to \$101.1 million for the three months ended September 27, 2008, as compared to \$84.1 million for the three months ended September 29, 2007. The increase was primarily due to an increase in the shipment volume of Boston Beer's core brands of 6.1% or 29,000 barrels, net of additional estimated product returns of 5,000 barrels (or 65,000 cases) as a result of the product recall, a price increase of approximately 5% implemented in the first quarter, revenue from the packaging services agreement with Diageo North America, Inc. (Diageo), as well as the negative impact on net revenue for the three months ended September 29, 2007 from a \$3.9 million provision for excise taxes. The effect on net revenue of the additional estimated returns

related to the recall of 65,000 cases was a \$1.0 million reduction. The final effect of returns related to the product recall could differ from this estimate.

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The \$3.9 million provision for excise taxes recorded in the third quarter of 2007 resulted from a routine audit performed by the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department (the TTB) 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. The TTB has asserted that these shipments were not classified consistent with TTB regulations that took effect January 1, 2006. Based on the Company's analysis, it believes that most of its Twisted Tea shipments were in compliance with applicable regulations. The \$3.9 million provision was based on the information previously collected and the Company's earlier assessment of likely outcomes, which the Company continues to believe to be adequate.

*Volume.* Total shipment volume, net of an additional estimated 5,000 barrels of recalled products, increased by 41.0% to 671,000 barrels for the three months ended September 27, 2008, as compared to 476,000 barrels for the three months ended September 29, 2007. Shipment volume for the core brands, net of the estimated additional returns of recalled products, increased by 6.1% to 501,000 barrels, due to increases in Samuel Adams® brand family and Twisted Tea® brand family shipments. Prior to the reversal of shipments of recalled product, the shipment volume increase for the core brands was approximately 7.2% primarily resulting from double-digit growth rates in Samuel Adams® Seasonals and Twisted Tea®.

Shipments and orders in-hand suggest that gross core shipments through November 2008 will be up approximately 12% as compared to the same period in 2007. Net of product returns, core shipments and orders in-hand appear to be up approximately 9%. Actual shipments may differ, and no inferences should be drawn with respect to shipments in future periods.

Depletions, or sales by the wholesalers to retailers, of the Company's core brands for the third quarter of 2008 increased by approximately 12.2% over the same period in 2007. Year-to-date depletions reported to the Company through September 2008 were up approximately 10% over the same period in 2007, but this number may not be indicative of actual business trends due to some inconsistent reporting of the recall in the numbers that are available to the Company. The Company believes that wholesaler inventory levels at September 27, 2008 were in line with prior year's levels.

*Net Selling Price.* The net selling price per barrel for core brands increased by 9.2% to \$193.83 per barrel for the three months ended September 27, 2008, as compared to \$177.48 for the same period last year. The increase in net selling price per barrel is primarily due to price increases combined with lower discount rates implemented in the first quarter and the impact of the \$3.9 million excise tax provision on net selling price per barrel for the three months ended September 29, 2007, but slightly offset by the effect of the recall.

**Gross profit.** Gross profit for core brands was \$90.59 per barrel for the three months ended September 27, 2008, as compared to \$90.97 for the three months ended September 29, 2007. Gross margin for core brands was 46.7% for the three months ended September 27, 2008, as compared to 51.3% for the three months ended September 29, 2007. The decreases in gross profit per barrel and gross margin are primarily due to an increase in cost of goods sold per barrel, a \$2.3 million provision for estimated full year shortfall fees of not meeting minimum production requirements in 2008 due to transferring volume to the Company's Pennsylvania Brewery from other brewing companies, as well as an additional product recall effect of \$2.2 million, offset by increases in the Company's net selling price and the impact of the \$3.9 million excise tax provision in 2007.

Cost of goods sold for core brands increased by \$16.73 per barrel to \$103.24 per barrel and was 53.3% of net revenue for the three months ended September 27, 2008, as compared to \$86.51 per barrel and 48.7% of net revenue for the three months ended September 29, 2007. The increase in cost per barrel resulted from higher costs of raw and package material, Pennsylvania Brewery costs which include start-up expenses, the \$2.3 million full year shortfall fees and the additional product recall costs of \$1.3 million. The Company expects most of the year-on-year cost pressures to continue for the remainder of the year.

Total cost of goods sold increased by \$16.2 million or 39.5% to \$57.2 million for the three months ended September 27, 2008, as compared to \$41.0 million for the three months ended September 29, 2007. The increase was primarily due to increased volume and cost of goods sold per barrel for the core brands and the production costs

associated with the packaging services agreement with Diageo.



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Excluding the impact of the product recall, 2008 full year gross margin as a percentage of net revenue could be down as much as 4% points below full year 2007 levels, based on available cost increase information.

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

**Advertising, promotional and selling.** Advertising, promotional and selling expenses increased by \$1.0 million, or 3.0%, to \$34.0 million for the three months ended September 27, 2008, as compared to \$33.0 million for the three months ended September 29, 2007. The increase is primarily due to increases in freight expenses to wholesalers and salary and benefit costs, offset by decreases in advertising and local promotions expenses. Advertising, promotional and selling expenses for core brands were 35.0% of net revenue, or \$67.87 per barrel, for the three months ended September 27, 2008, as compared to 39.3% of net revenue, or \$69.82 per barrel, for the three months ended September 29, 2007. The decreases in advertising, promotional and selling expenses per barrel and as a percentage of net revenue are due to the timing of advertising projects. Further, the \$3.9 million provision for excise tax negatively impacted advertising, promotional and selling expenses as a percentage of net revenue for the three months ended September 29, 2007. The Company will invest in advertising and promotional campaigns that it believes are effective, but there is no guarantee that such investment will generate sales growth.

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

**General and administrative.** General and administrative expenses increased by \$2.8 million, or 42.4%, to \$9.4 million for the three months ended September 27, 2008, as compared to \$6.6 million for the same period last year. The increase primarily reflects the addition of recurring planned administrative costs related to the Pennsylvania Brewery, increases in salary and benefit costs and legal expenses.

**Total other income, net.** Total other income, net, decreased by \$1.2 million to \$0.1 million for the three months ended September 27, 2008 primarily due to less interest earned on lower average cash and investment balances during the third quarter of 2008 as compared to the same period in 2007.

**Provision for income taxes.** The income tax provision for the three months ended September 27, 2008 decreased by \$0.8 million to \$0.9 million from \$1.7 million for the same period last year as a result of lower pre-tax income. The Company's effective tax rate increased to approximately 146.2% for the three months ended September 27, 2008 from 35.4% for the same period last year. This increase in the effective tax rate is primarily due to lower than expected pretax income, but with no corresponding reduction in non-deductible expenses. The Company expects the effective tax rate to be approximately 51.0% for the full year 2008.

***Nine Months Ended September 27, 2008 compared to Nine Months Ended September 29, 2007***

**Net revenue.** Net revenue increased by \$45.1 million or 18.1% to \$294.6 million for the nine months ended September 27, 2008 from \$249.5 million for the nine months ended September 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 5% in 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 \$13.3 million reduction in net revenue. Total final returns related to the product recall could differ from this estimate.

**Volume.** Total shipment volume, net of the estimated 57,000 barrels of recalled products, increased by 25.0% to 1,723,000 barrels for the nine months ended September 27, 2008 as compared to the same period 2007. Shipment volume for the core brands, net of the estimated returns of recalled products, increased by 9.6% to 1,487,000 barrels, due primarily to increases in Samuel Adams® brand family and Twisted Tea® brand family shipments. Prior to the reversal of shipments related to the recall, the core shipment volume increase was approximately 13.9% as a result of the growth in Samuel Adams® brand family and Twisted Tea® brand family shipments, driven by high double-digit

growth rates in Samuel Adams® Seasonals, Samuel Adams® Brewmaster's Collection and Twisted Tea®.

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**Net Selling Price.** The net selling price per barrel for core brands increased by approximately 6.2% to \$193.98 per barrel for the nine months ended September 27, 2008 as compared to \$182.69 for the same period last year. This increase in net selling price per barrel is primarily due to price increases combined with lower discount rates implemented in the first quarter and the impact of the \$3.9 million excise tax provisions in 2007, but slightly offset by the effect of the recall.

**Gross profit.** Gross profit for core brands was \$92.41 per barrel for the nine months ended September 27, 2008, as compared to \$99.91 for the nine months ended September 29, 2007. Gross margin for core products was 47.6% for the first nine months of 2008, as compared to 54.7% for the same period in 2007. The decreases in gross profit per barrel and gross margin are primarily due to the product recall effect of \$22.9 million which affected gross margin for core brands by 5.5 percentage points. To a lesser extent, the decreases in gross profit per barrel and gross margin resulted from an increase in cost of goods sold per barrel and the \$2.3 million full year shortfall fees, partially offset by increases in the Company's net selling price and the impact of the \$3.9 million excise tax provision in 2007.

Cost of goods sold for core products increased by 22.7% or \$18.79 per barrel to \$101.57 per barrel for the nine months ended September 29, 2008, as compared to \$82.78 per barrel for the same period last year. The cost per barrel increase is primarily due to higher costs of raw and package material, \$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 Pennsylvania Brewery costs which include start-up expenses and the \$2.3 million full year shortfall fees.

Total cost of goods sold increased by \$40.6 million or 36.6% to \$159.3 million for the nine months ended September 27, 2008, as compared to \$113.3 million for the nine months ended September 29, 2007. The increase was primarily due to increased volume and cost of goods sold per barrel for the core brands and the production costs associated with the packaging services agreement with Diageo.

**Advertising, promotional and selling.** Advertising, promotional and selling expenses increased by \$9.1 million, or 9.9%, to \$101.2 million for the nine months ended September 27, 2008, as compared to \$92.1 million for the nine months ended September 29, 2007. Advertising, promotional and selling expenses for core brands were 35.1% of net revenue, or \$68.09 per barrel, for the nine months ended September 27, 2008, as compared to 37.1% of net revenue, or \$67.86 per barrel, for the nine months ended September 29, 2007. The decreases in advertising, promotional and selling expenses as a percentage of net revenue are due to the timing of advertising projects.

**General and administrative.** General and administrative expenses increased by 44.4% or \$8.0 million to \$26.0 million for the nine months ended September 27, 2008 as compared to the same period last year. The increase in general and administrative expenses is primarily due to an increase in salary and benefits, the addition of start-up and recurring planned administrative costs related to the Pennsylvania Brewery and legal costs.

**Write-off of Brewery Costs.** During the second quarter of 2007, the Company incurred a \$3.4 million write-off of capitalized costs related to the potential construction of a new brewery to be located in Freetown, Massachusetts. The Company concluded that the likelihood of this project significantly diminished as the Company's negotiations with Diageo North America progressed and ultimately resulted in the Company's purchase of the Pennsylvania Brewery.

**Total other income, net.** Other income, net, decreased by \$2.2 million to \$1.5 million for the nine months ended September 27, 2008 as compared to the same period ended September 29, 2007. This decrease is due to less interest earned on lower average cash and investment balances during the nine months ended September 27, 2008 as compared to the same period in 2007.

**Provision for income taxes.** The Company's effective tax rate increased to approximately 53.2% for the nine months ended September 27, 2008 from 40.3% for the same period last year. 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.

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

Cash and short term investments decreased to \$10.6 million as of September 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, inventory, accounts payable and accrued expenses.

Cash flows provided by operating activities of \$27.2 million for the nine months ended September 27, 2008 primarily resulted from net income of \$4.5 million, the sale of all of the Company's remaining trading securities of \$16.2 million and non-cash items of \$7.1 million, partially offset by a net increase in net operating assets and liabilities of \$0.6 million. The net increase in net operating assets and liabilities for the nine months ended September 27, 2008 primarily resulted from a \$5.7 million increase in inventory due to higher general inventory levels in support of growth and the new brewery and a \$3.3 million increase in accounts receivable due to the increase in sales and the timing of cash collections in the period, offset by a \$6.9 million increase in accounts payable due to increased purchases to support growth and capital expenditures for the Pennsylvania Brewery and a \$2.6 million increase in accrued expenses due to the \$2.3 million full year shortfall fees. Cash flows provided by operating activities of \$23.7 million for the nine months ended September 29, 2007 primarily consisted of net income of \$15.7 million and non-cash items of \$8.3 million, including the \$3.4 million write-off of brewery costs related to the Freetown Massachusetts brewery project.

Comparing the nine month periods ended September 27, 2008 and September 29, 2007, cash flows provided by operating activities increased by \$3.4 million primarily as a result of \$16.4 million in increased net sales of trading securities, offset by a \$11.2 million decrease in net income.

The Company used \$90.3 million in investing activities during the nine months ended September 27, 2008, as compared to \$20.7 million during the nine months ended September 29, 2007. The \$69.6 million increase in investing activities primarily resulted from the remaining \$45.0 million purchase price and \$31.0 million in equipment purchases for the Pennsylvania Brewery, as well as the purchase of a greater number of kegs, offset by expenditures for the Freetown Massachusetts brewery project in 2007.

Cash used in financing activities was \$5.6 million during the nine months ended September 27, 2008, as compared to \$5.4 million of cash provided by financing activities during the nine months ended September 29, 2007. The \$11.0 million change in cash used for financing activities is primarily due to \$15.3 million in 2008 repurchases by the Company of shares of its Class A Common Stock under its Stock Repurchase Program, offset by higher proceeds and related excess tax benefits from the exercise of stock options in 2008.

During the nine months ended September 27, 2008, the Company repurchased 0.4 million shares of its Class A Common Stock for a total cost of \$15.3 million. As of September 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. Since September 27, 2008, the Company has not repurchased additional shares of its Class A Common Stock.

During the nine months ended September 27, 2008, the Company's available cash was primarily invested in high-grade tax-exempt and taxable money-market funds. In January 2008, the Company liquidated its then existing investments in Municipal Auction Rate Securities, without incurring gains or losses, in order to fund various capital projects related to the acquisition of the Pennsylvania Brewery. The Company's investment objectives are to preserve principal, maintain liquidity, optimize return on investment and minimize fees, transaction costs and expenses associated with the selection and management of the investment securities.

On March 10, 2008, the Company increased the borrowing limit under its credit facility from \$20.0 million to \$50.0 million which was fully available to the Company for borrowing as of September 27, 2008. Upon the increase in the borrowing limit, the expiration date of the credit facility was extended from March 31, 2008 to March 31, 2013. The Company was not in violation of any of its covenants to the lender under the credit facility and there were no

amounts outstanding under the credit facility as of the date of this filing.

In the third quarter of 2008, the Company submitted a \$3.7 million settlement proposal and payment to the TTB. The TTB has proposed some changes to the Company's proposed settlement, which do not materially affect the economics of the settlement, and the Company is considering how to proceed.

**Table of Contents*****2008 and 2009 Outlook***

The Company believes that the transition of ownership and start-up of brewing Samuel Adams beer at the Pennsylvania Brewery has progressed smoothly, particularly in respect to the quality of the beer, safety record and the lack of disruption to supply chain. 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 the third quarter of 2008, total spend was \$33.1 million on capital improvements at the Pennsylvania Brewery to upgrade portions of the facility and to restart the brew house. The Company continues to expect that the total capital spend this year on the Pennsylvania Brewery improvements will be between \$45.0 million and \$55.0 million. As the Pennsylvania Brewery's efficiencies improve, the Company will continue to move more volume to that brewery from other brewing companies. The expected total production volumes going forward will be dependent on requirements for production under the packaging services agreement with Diageo and the productivity of the packaging lines, which continues to improve. 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.

Based on the Company's current assessment, guidance for net income per diluted share for the full year has been reduced to between \$0.60 and \$0.80 due to increased costs which include incremental recall costs and start-up costs at the Pennsylvania Brewery, a higher tax rate and slightly reduced full year volume projections. Based on its assumptions about the financial impact of the recall, which primarily includes provisions for recall costs and related tax impacts, the Company currently estimates that 2008 net income per diluted share, excluding the impact of the recall, will be between \$1.60 and \$1.80. The net income per share range estimate does not include any significant change in currently planned levels of brand support, the current estimates for the start-up and upgrade of the Pennsylvania Brewery, production under the Diageo contract, the product recall or the \$3.9 million excise tax reserve discussed above. The Company's ability to achieve this level of income in 2008 is dependent on its ability to achieve its targets for volume, pricing and costs.

As previously reported, the Company currently estimates total capital expenditures in 2008 to be between \$110.0 million and \$120.0 million, of which \$45.0 million is the balance of the purchase price of the Pennsylvania Brewery paid in June 2008, and \$45.0 million to \$55.0 million relates to capital expenditures necessary to start-up and upgrade the Pennsylvania Brewery.

Looking forward to 2009, based on current known information, the Company sees cost increases primarily in packaging costs due to a new glass contract and due to the depreciation and operating costs of the Pennsylvania Brewery. The 2009 cost increases are expected to be between 8% and 11%. These cost increases will be somewhat offset by price increases, currently targeted at 3%, and operational efficiency initiatives in 2009, but the Company anticipates that 2009 gross margin percentage could be down below full year 2008, 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. The Company will provide 2009 guidance when the Company presents full year 2008 results.

The Company is currently evaluating 2009 capital expenditures and, based on current information, expects them to be between \$25.0 million and \$45.0 million, most of which relate to continued investments in the Pennsylvania Brewery, as the Company pursues efficiency initiatives. The actual amount spent may well be different from these estimates.

The Company expects that its cash and investment balances as of September 27, 2008 of \$10.6 million, along with future operating cash flow and the Company's unused line of credit of \$50.0 million, will be sufficient to fund future cash requirements. The Company continues to be in compliance with all of its debt covenants and has affirmed the availability of its line of credit. The Company has not yet borrowed any funds under the line of credit and the timing of future borrowings will depend on timing of receipts of ingredients and capital expenditures. The Company anticipates using the line of credit at some time in the next twelve months, as it builds ingredient inventory and continues its capital investments.

**THE POTENTIAL IMPACT OF KNOWN FACTS, COMMITMENTS, EVENTS AND UNCERTAINTIES****Off-balance Sheet Arrangements**

At September 27, 2008, the Company did not have off-balance sheet arrangements as defined in 03(a)(4)(ii) of Regulation S-K.

**Table of Contents****Contractual Obligations**

There were no material changes outside of the ordinary course of the Company's business to contractual obligations during the nine month period ended September 27, 2008. Notwithstanding the foregoing, effective July 1, 2008, Diageo North America, Inc. assigned its rights and obligations under the Packaging Services Agreement dated August 1, 2007 to its wholly-owned subsidiary, Diageo Americas Supply, Inc. Similarly, effective July 1, 2008, Miller Brewing Company assigned its rights and obligations under its agreements with the Company to the newly-formed joint venture, MillerCoors LLC, which assignment and assumption by MillerCoors LLC were consented to by the Company.

**Critical Accounting Policies**

There were no material changes to the Company's critical accounting policies during the nine month period ended September 27, 2008, except for the following:

*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 consumers 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. 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 consumers 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.

In connection with the recall announced in April 2008, the Company recorded an estimated accrual for product returns of \$12.3 million and an estimated accrual for recall-related costs of \$6.1 million and wrote-off \$2.2 million of affected inventory during the six months ended June 28, 2008. During the three months ended September 27, 2008, additional charges of \$1.0 million for product returns, \$0.6 million for recall-related costs and \$0.6 million for inventory write-offs were recorded based on actual recall activities and inventory counts during the quarter and an estimate of remaining activities to be incurred. The Company believes that its reserves for the product recalls at September 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.

**Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( 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 three and nine months ended September 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.





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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 is required to adopt the measurement provision of SFAS No. 158 for its fiscal year ending December 27, 2008. The Company does not believe the measurement provision of SFAS No. 158 to 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.

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 is in the process of evaluating the impact of SFAS No. 141R, if any, on its consolidated financial position, operations and cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The Company is required to adopt the provisions of SFAS No. 162 as of November 15, 2008. The Company is in the process of evaluating the impact, if any, of the provisions of SFAS No. 162 on its consolidated financial position, operations and cash flows.

**FORWARD-LOOKING STATEMENTS**

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

set forth below in addition to the other information set forth in this Quarterly Report on Form 10-Q and in the section titled "Other Risks and Uncertainties" in the Company's Annual Report on Form 10-K for the year ended December 29, 2007.

**Table of Contents****Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Since December 29, 2007, there have been no significant changes in the Company's exposures to interest rate or foreign currency rate fluctuations. The Company currently does not enter into derivatives or other market risk sensitive instruments for the purpose of hedging or for trading purposes.

**Item 4. CONTROLS AND PROCEDURES**

As of September 27, 2008, the Company conducted an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively) regarding the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rule 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the requisite time periods and that such disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to its management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended September 27, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

From time to time the Company has been, and expects to continue to be, subject to legal proceedings and claims in the ordinary course of its business. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources. Currently, the Company is not a party to any material pending or threatened litigation.

**Item 1A. RISK FACTORS**

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 29, 2007, as well as to the information presented below which updates and should be read in conjunction with Item 1A. Risk Factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 29, 2007. These risk factors could materially affect the Company's business, financial condition or future results. The risks described in the Company's Annual Report on Form 10-K, including the update below, are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect its business, financial condition and/or operating results.

***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 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 craft beer may switch to less expensive beers.

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.



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

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 October 31, 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 \$6.0 million remaining on the \$120.0 million share buyback expenditure limit.

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

| Period                                | Total                            |                                    | Total Number of<br>Shares Purchased<br>as             | Approximate Dollar<br>Value of Shares that<br>May Yet be<br>Purchased |
|---------------------------------------|----------------------------------|------------------------------------|---|---|
|                                       | Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Part of Publicly<br>Announced Plans<br>or<br>Programs | Under the Plans or<br>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   |
| August 3, 2008 to August 30, 2008     |                                  |                                    |   | 5,988,751   |
| August 31, 2008 to September 27, 2008 |                                  |                                    |   | 5,988,751   |
| <b>Total</b>                          | <b>430,283</b>                   | <b>\$ 35.69</b>                    | <b>428,779</b>  | <b>\$ 5,988,751</b>   |

During the current period, the Company repurchased 567 shares of unvested investment shares issued under the Investment Share Program of the Company's Employee Equity Incentive Plan.

As of October 31, 2008, the Company had 10.1 million shares of Class A Common Stock outstanding and 4.1 million shares of Class B Common Stock outstanding.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

Not Applicable

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable

**Item 5. OTHER INFORMATION**

Not Applicable

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**Item 6. EXHIBITS**

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

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**SIGNATURES**

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

THE BOSTON BEER COMPANY, INC.  
(Registrant)

Date: November 4, 2008

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

Date: November 4, 2008

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



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**EXHIBIT INDEX**

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