

**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 28, 2019

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	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.01 par value	SAM	New York Stock Exchange

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 \$3,163.5 million (based on the average price of the Company's Class A Common Stock on the New York Stock Exchange on June 29, 2019). All of the registrant's Class B Common Stock (\$.01 par value) is held by an affiliate.

As of February 14, 2020, there were 9,481,434 shares outstanding of the Company's Class A Common Stock (\$.01 par value) and 2,672,983 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 2020 Annual Meeting to be held on May 14, 2020 are incorporated by reference into Part III of this report.

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**FORM 10-K**  
**FOR THE PERIOD ENDED DECEMBER 28, 2019**

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**PART I.**

**Item 1. Business**

**General**

The Boston Beer Company, Inc. (“Boston Beer” or the “Company”) is a high-end alcoholic beverage company and one of the largest craft brewers in the United States. In fiscal 2019, Boston Beer sold approximately 5.3 million barrels of its proprietary products. The Company’s brands include Samuel Adams<sup>®</sup>, Twisted Tea<sup>®</sup>, Truly Hard Seltzer<sup>®</sup>, Angry Orchard<sup>®</sup> Hard Cider, Dogfish Head<sup>®</sup> Craft Brewery, Wild Leaf<sup>®</sup> Hard Tea and Tura<sup>®</sup> Alcoholic Kombucha, as well as other local craft beer brands.

Boston Beer produces alcohol beverages including malt beverages (“beers”), hard seltzer and hard cider at Company-owned breweries and its cidery and under contract arrangements at other brewery locations. The four primary Company-owned breweries are focused on production and research and development and include breweries located in Boston, Massachusetts (the “Boston Brewery”), Cincinnati, Ohio (the “Cincinnati Brewery”), Milton, Delaware (the “Milton Brewery”) and Breinigsville, Pennsylvania (the “Pennsylvania Brewery”). These breweries, with the exception of the Pennsylvania Brewery, have tap rooms for retail sales on site. The Company produces a small amount of distilled spirits at the Milton Brewery.

The Company also owns five smaller local breweries that are mainly focused on brewing and packaging beers for retail sales on site at tap rooms and gift shops, restaurant activities, developing innovative and traditional beers and in some cases, supporting draft and package accounts in the respective local market areas. These local breweries are located in Boston, Massachusetts (the “Samuel Adams Boston Downtown Tap Room”), Rehoboth, Delaware (“Dogfish Head Brewing and Eats”), Los Angeles, California (the “Angel City Brewery”), Miami, Florida (the “Concrete Beach Brewery”) and Brooklyn, New York (the “Coney Island Brewery”).

In addition, the Company owns an apple orchard and cidery located in Walden, New York (the “Orchard” and “Cidery”), a restaurant in Rehoboth, Delaware (“Chesapeake & Maine”) and a boutique inn in Lewes, Delaware (the “Dogfish Inn”).

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.

**Industry Background**

Before Prohibition, the United States beer industry consisted of hundreds of small breweries that brewed full-flavored beers. After the end of Prohibition, most domestic brewers 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 coincided with consolidation in the beer industry that by 2008 ultimately resulted in the two largest breweries, Anheuser-Busch InBev (“AB InBev”) and Molson Coors Beverage Company (“Molson Coors”), comprising over 90% of all United States domestic beer production, excluding imports. During the last twenty years the number of breweries in the United States has increased significantly from approximately 1,500 in 2009 to over 8,000 in 2019. Most of these new breweries are craft (small and independent) brewers. The rise of craft breweries along with the growth of imported beers has resulted in a significant decline in the volume of the two largest breweries who now comprise approximately 70% of all United States domestic beer production, excluding imports.

The Company’s beers, hard seltzers and hard ciders are primarily positioned in the market for High End beer occasions. The Company defines “High End” beers as including craft beers, domestic specialty beers, most imported beer, hard cider, flavored malt beverages and hard seltzer that are called for by a High End beer drinker occasion. High End beers and beer occasions (the “High End category”) are determined by higher price, quality, image and taste, as compared with regular domestic beers. This category has seen high single-digit compounded

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annual growth over the past ten years. The Company believes that the High End category is positioned to increase market share, as drinkers continue to trade up in taste and quality. Boston Beer is one of the largest suppliers in the High End category in the United States. The Company estimates that in 2019 the High End category percentage volume growth was approximately 11%, with the craft beer category volume growth approximately 5%, and total beer category volume growth approximately 2%. The Company believes that the High End category is now over 30% of the United States beer market and the Company has approximately an 8% market share of the High End category.

The domestic beer industry, excluding the High End category, has experienced a decline in shipment volume over the last twenty 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, health and wellness trends and increased competition from wine and spirits companies.

The Company's Twisted Tea products compete within the flavored malt beverage ("FMB") category of the beer industry (and the Company's Twisted Tea products are included in generic references to the Company's "beers" in this report). The Company believes that the FMB category comprises approximately 4% of United States beer consumption and that the volume comprising the FMB category grew approximately 2% in 2019. This category is highly competitive due to, among other factors, the presence of large brewers and spirits companies in the category and a fast pace of product innovation.

The Truly Hard Seltzer brand competes within the hard seltzer category that has similar characteristics to the beer industry for reporting and regulatory purposes. This category is growing rapidly in its early stages of development over the last 4 years and is highly competitive and includes large international and domestic competitors. The Company believes that the hard seltzer category comprises approximately 3% of United States beer consumption and estimates that category volume grew approximately 250% in 2019.

The Company's Angry Orchard ciders compete within the hard cider category that has similar characteristics to the beer industry. The Company believes that the hard cider category comprises less than 1% of United States beer consumption. This category is small and highly competitive and includes large international and domestic competitors, as well as many small regional and local hard cider companies. The hard cider category experienced very fast growth until a slowing beginning in 2015, a return to growth in 2018 and a decline in 2019. The Company estimates the category volume declined approximately 5% in 2019.

### **Description of Business**

The Company's business goal is to become the leading supplier in the High End category by creating and offering high quality alcohol beverages. With the support of a large, well-trained sales organization and world-class brewers, the Company strives to achieve this goal by offering great beers, hard seltzers and hard ciders, and increasing brand availability and awareness through traditional media and digital advertising, point-of-sale, promotional programs and drinker education.

### ***The Company's Dogfish Head Brewery Transaction***

On May 8, 2019, the Company entered into definitive agreements to acquire Dogfish Head Brewery ("Dogfish Head") and various related operations (the "Transaction"), through the acquisition of all of the equity interests held by certain private entities in Off-Centered Way LLC, the parent holding company of the Dogfish Head operations. In accordance with these agreements, the Company made a payment of \$158.4 million, which was placed in escrow pending the satisfaction of certain closing conditions. The Transaction closed on July 3, 2019, for total consideration of \$336.0 million consisting of \$173.0 million in cash and 429,291 shares of restricted Class A Common Stock that had an aggregate market value as of July 3, 2019 of \$163.0 million, after taking into account a post-closing cash related adjustment. As required under the definitive agreements, 127,146 of the 429,291 shares of restricted Class A Stock were placed in escrow and will be released no later than July 3, 2029.

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These shares had a market value on July 3, 2019 of \$48.3 million. The timing of the release of these escrowed shares is primarily related to the continued employment with the Company of Samuel A. Calagione III, one of the two Dogfish Head founders. As part of the transaction, distribution rights to the Dogfish Head brand outside of the United States and Canada were retained by the Dogfish Head founders. The fair value of the Transaction is estimated at approximately \$317.7 million.

The results of operations from Dogfish Head have been included in the Company's consolidated statements of operations since the July 3, 2019 Transaction closing date. During the period from July 3, 2019 to December 28, 2019, Dogfish Head represented \$48.5 million of the Company's total revenue and \$4.8 million of total net income. The Company estimates that transaction-related and other non-recurring costs incurred and to be incurred as a result of the Transaction will total approximately \$12.0 million. Of this total, \$10.0 million had been expensed as of December 28, 2019 and consists of \$3.3 million in transaction costs and \$6.7 million in other non-recurring costs. Of the \$10.0 million costs incurred, \$7.8 million were recorded in general and administrative expense and \$2.2 million were recorded in cost of goods sold within in the accompanying statements of comprehensive income

Consistent with prior periods and considering post-merger reporting structures, the Company will continue to report as one operating segment. The combined Company's brands are predominantly beverages that are manufactured using similar production processes, have comparable alcohol content, generally fall under the same regulatory environment, and are sold to the same types of customers in similar size quantities at similar price points and through the same channels of distribution.

### ***The Company's Beer, Hard Seltzer and Hard Cider Business***

The Company's beers, hard seltzers and hard cider are sold by the Company's sales force to the same types of customers and drinkers in similar size quantities, at similar price points and through substantially the same channels of distribution. These beverages are manufactured using similar production processes, have comparable alcohol content and generally fall within the same regulatory environment.

The Company's strategy is to create and offer a world-class variety of traditional and innovative alcohol beverages. The Samuel Adams, Twisted Tea, Truly Hard Seltzer, Angry Orchard brands are all available nationally, while Dogfish Head is currently available in over 45 states and is expected to be available nationally during the first half of 2020. Local breweries brands focus on local and regional distribution and tap rooms. The Samuel Adams brand began in 1984 and the brand is recognized as one of the largest and most respected craft beer brands with a particular focus on lagers and seasonal beers. The Twisted Tea brand family has grown each year since the product was first introduced in 2001 and has established a loyal drinker following. In 2016, the Company began national distribution of the Truly Hard Seltzer brand and it maintained its place as one of the leading brands in the hard seltzer category in 2019. The Angry Orchard brand family was launched in the second half of 2011 in several markets and achieved national distribution in 2012. Since 2013, Angry Orchard has been the largest selling hard cider in the United States. The Dogfish Head brand is recognized as one of the most innovative and respected craft beer brands with a particular focus on India Pale Ales ("IPAs") and sour beers. A&S Brewing had three brands in 2019, Angel City<sup>®</sup>, Coney Island<sup>®</sup> and Concrete Beach<sup>®</sup>.

The Company sells its beverages in various packages. Kegs are sold primarily for on-premise retailers, which include bars, restaurants, stadiums and other venues. Bottles, traditional cans and sleek cans are sold primarily for off-premise retailers, which include grocery stores, club stores, convenience stores and liquor stores.

The Company offers over 20 styles of beer in the Samuel Adams brand family and the brand is recognized for helping launch the craft beer industry. Samuel Adams Boston Lager<sup>®</sup> is the Company's flagship beer that was first introduced in 1984. The Samuel Adams Seasonal program of beers was originally introduced in the late 1980's and early 1990's. These beers are brewed specifically for limited periods of time and in 2019 included Samuel Adams Cold Snap<sup>®</sup>, Samuel Adams Summer Ale, Samuel Adams OctoberFest, and Samuel Adams

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Winter Lager. The majority of the promotional and distribution efforts for the Samuel Adams brand family are focused on Samuel Adams Boston Lager and the Samuel Adams Seasonal program of beers in various bottle, can and keg packages. After some test launches in late 2017, the Company began the national launch in the first quarter of 2018 of Samuel Adams Sam '76, a revolutionary beer that is a uniquely flavorful lager. Later in 2018 and on a more limited basis, the Company launched Samuel Adams New England IPA, a hazy unfiltered IPA with citrusy hop flavor. Sam '76 and Samuel Adams New England IPA are viewed as important innovations and opportunities for sales volume growth within the Samuel Adams brand family.

Certain Samuel Adams beers may be produced only at select times during the year and solely for inclusion in the Company's seasonal variety packs that are available nationally. Additionally, beginning in 2011 the Company began limited releases of certain seasonal beers. In 2019, these limited seasonal release beers included Samuel Adams Bavarian Lager, Samuel Adams Porch Rocker<sup>®</sup>, Samuel Adams Kosmic Sour and Samuel Adams White Christmas. The Samuel Adams Brewmaster's Collection and Samuel Adams Rebel<sup>®</sup> IPA family include various styles of beer that are an important part of the Company's portfolio and heritage, but currently receive limited promotional support and distribution. The Company also releases a variety of specialty package and draft beers brewed in limited quantities for festivals and Beer Week celebrations and at its Samuel Adams Downtown Boston Tap Room, Samuel Adams Boston Brewery Tap Room and Samuel Adams Cincinnati Brewery Tap Room.

The Company offers eleven styles of flavored malt beverages in the Twisted Tea brand family, most of which are available nationally in both the United States and Canada. The majority of the promotional and distribution efforts for the Twisted Tea brand family are focused on Twisted Tea Original and Twisted Tea Half and Half in various can packages.

The Company offers seventeen styles of hard seltzer in the Truly brand family most of which are available nationally in the United States. The majority of the promotional and distribution efforts for the Truly brand family are focused on sleek can variety packages which include Truly Berry Mix Pack, Truly Citrus Mix Pack, Truly Tropical Mix Pack and Truly Lemonade Seltzer Mix Pack.

The Company offers twenty-five styles of hard cider in the Angry Orchard brand family most of which are available nationally in the United States. The majority of the promotional and distribution efforts for the Angry Orchard brand family are focused on Angry Orchard Crisp Apple, Angry Orchard Rosé and Angry Orchard Crisp Unfiltered in various bottle, can and keg packages.

The Company offers over 25 styles of beer in the Dogfish Head brand family. The Company is in the process of increasing distribution from over 45 states to full national distribution in the United States. The Dogfish Head brand began in 1993 and it is recognized as an early leader in bringing culinary innovations to the U.S. craft beer market. The majority of the promotional and distribution efforts for the Dogfish Head brand family are focused on continually-hopped Dogfish Head 60 Minute and 90 Minute IPAs along with Dogfish Head SeaQuench, an innovative session sour, and Dogfish Head Slightly Mighty a low calorie IPA. These four styles are offered in various can, bottle and keg packages. The Company also offers over 15 styles of distilled spirits under the Dogfish Head brand in small quantities and to limited markets. The Company does not own the rights outside of the United States and Canada for the Dogfish Head beer and distilled spirits brands.

The Company continually evaluates the performance of its various beer, hard seltzer and hard cider products and the rationalization of its product line as a whole. Periodically, the Company discontinues certain styles and packages. Certain styles or brands put on hiatus or discontinued in previous years may be produced for the Company's variety packs or reintroduced.

### ***Product and Packaging Innovations***

The Company has a proven track record of innovation and building new brands and is committed to maintaining its position as a leading innovator. To that end, the Company continually tests new beers, hard seltzers and hard

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ciders and other alcohol beverages and may sell them under various brand labels for evaluation of drinker interest. The Boston Brewery, the Milton Brewery and the Orchard, along with its other larger breweries and brewery tap rooms spend significant time ideating, testing and developing alcohol beverages for the Company's potential future commercial development and evaluating ingredients and process improvements for existing beverages.

In the last two years, the Company introduced new styles, flavors and packages which include Angry Orchard Rosé, Truly Berry Variety Pack, Truly Tropical Variety Pack, Sam '76, Samuel Adams New England IPA, Angry Orchard Crisp Unfiltered and Dogfish Head Slightly Mighty, as well as new brands which include Wild Leaf Hard Tea, a craft hard tea, and Tura Alcoholic Kombucha, an alcoholic kombucha tea. Many of these new product innovations are within the top product introductions in their respective categories. The Company is currently in the early stages of the national launch of the Truly Lemonade Hard Seltzer Variety Pack, an innovative hard seltzer with a robust flavor, 100 calories and 1 gram of sugar.

In 2013, the Company completed a two-year research effort to develop a beer can to improve the experience of the beer drinker who chooses to drink from a can. The features of this custom Sam can include a wider lid with an opening slightly further from the edge of the lid, an extended lip and an hourglass ridge, all of which features are believed by the Company to enhance the craft beer drinker's experience relative to a traditional beverage can. Currently, Samuel Adams Boston Lager, Samuel Adams Seasonal beers, Samuel Adams Sam '76, Samuel Adams New England IPA, Samuel Adams Rebel IPA beers and some of the A&S Brewing beers are available in this uniquely-designed can.

### ***Sales, Distribution and Marketing***

As dictated by the legal and regulatory environment, most all of the Company's sales are made to a network of over 400 wholesalers in the United States and to a network of foreign wholesalers, importers or other agencies (collectively referred to as "Distributors"). These Distributors, in turn, sell the products to retailers, such as grocery stores, club stores, convenience stores, liquor stores, bars, restaurants, stadiums and other retail outlets, where the products are sold to drinkers, and in some limited circumstances to parties who act as sub-distributors. The Company sells its products predominantly in the United States, but also has markets in Canada, Europe, Israel, Australia, New Zealand, the Caribbean, the Pacific Rim, Mexico, and Central and South America.

With few exceptions, the Company's products are not the primary brands in its Distributors' portfolios. Thus, the Company, in addition to competing with other beers, hard seltzers and hard ciders for a share of the drinker's business, competes with other brewers for a share of the Distributor's attention, time and selling efforts. During 2019, the Company's largest Distributor accounted for approximately 2% of the Company's gross sales. The top three Distributors collectively accounted for approximately 6% of the Company's gross sales. In some states and countries, 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 relationship.

Most products are shipped within days of packaging, resulting in limited product order backlog. The Company has historically received most of its orders from domestic Distributors in the first week of a month for products to be shipped the following month and the Distributor would then carry three to five weeks of packaged inventory (usually at ambient temperatures) and three to four weeks of draft inventory.

In an effort to reduce both the time and temperature the Company's beers experience at Distributor warehouses before reaching the retail market, the Company introduced its Freshest Beer Program with domestic Distributors in several markets. The goal of the Freshest Beer Program is to work in cooperation with the Distributors to provide better on-time service, forecasting and production planning, substantially reducing Distributor inventory levels. At the close of its 2019 fiscal year, the Company had Distributors representing approximately 73% of the Company's domestic volume participating in the Program. The Company has successfully reduced the inventories of participating Distributors in the aggregate by approximately two weeks, resulting in fresher beer

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being delivered to retail. The Freshest Beer Program has significantly changed the ordering process for participating Distributors and has resulted in a shorter period between order placement and shipment and a resulting reduction in open orders.

In 2018 and 2019, in response to anticipated supply chain constraints and demand forecasts driven by the Truly Hard Seltzer and Twisted Tea brands, the Company began working with certain Distributors on plans to increase Distributor inventories of these brands to ensure that drinker demand can be met during seasonal peaks during the summer months. The Company believes distributor inventory as of December 28, 2019 averaged approximately 4 weeks on hand and was at an appropriate level, based on supply chain capacity constraints and inventory requirements to support the forecasted growth. The Company expects wholesaler inventory levels in terms of weeks on hand to remain between 3 and 5 weeks for most of 2020.

Boston Beer has a sales force of approximately 430 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 the Distributor, retailer and drinker levels by providing educational and promotional programs. 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 samples of the Company's beers, hard seltzers and hard ciders, certain ingredients, such as hops and barley, and other promotional materials to educate wholesale and retail buyers about the quality and taste of the Company's products. 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 — including television, radio, digital and social media, billboards and print. These media efforts are complemented by participation in sponsorships, which currently include the National Hockey League, the Boston Red Sox, the Kentucky Derby, the Boston Marathon, 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, neon signs, umbrellas, glassware, display pieces, signs and menu stands) designed to stimulate impulse sales and continued awareness.

### ***Corporate Social Responsibility***

The Company's core philanthropic initiative is Samuel Adams Brewing the American Dream<sup>®</sup>. In partnership with ACCION, one of the nation's largest non-profit micro-lenders, the program supports small business owners in the food, beverage, and brewing industries through access to business capital, coaching, and new market opportunities. The goal is to help strengthen small businesses, create local jobs and build vibrant communities. Since the inception of the Samuel Adams Brewing the American Dream program in 2008, the Company and ACCION have worked together to loan more than \$36 million to more than 2,300 small business owners who have subsequently repaid these loans at a rate of more than 96%. The loan repayments received are reinvested into the program. Boston Beer employees, together with local business partners and community organizations, have provided coaching and mentoring to more than 11,000 business owners across the country. These efforts have helped to create or maintain more than 8,750 local jobs.

### ***Ingredients and Packaging***

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

**Malt** . The two-row varieties of barley used in the Company's malt are mainly grown in the United States and Canada. The 2019 North American barley crop, which will support 2020 malt needs, was generally consistent with historical long-term averages with regard to both quality and quantity, though quality from key areas in Canada was again highly variable and in some cases below long term averages. The average booked 2019 barley



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crop prices were comparable to historical long-term averages. There has been a long-term trend of declining acres and production in North America against relatively stable malt demand. The Company purchased most of the malt used in the production of its beers from two suppliers during 2019. The Company currently has a multi-year contract with one of its suppliers and a one-year agreement with the other supplier. The Company also believes that there are other malt suppliers available that are capable of supplying its needs.

**Hops.** The Company uses Noble hop varieties from Europe for many of its Samuel Adams beers and also uses hops grown in the other areas of Europe, and in the United States, England and New Zealand. Noble hops are grown in several specific areas recognized for growing hops with superior taste and aroma properties. These noble hops include Hallertau-Hallertauer, Tettnang-Tettnanger and Spalt-Spalter from Germany and Saaz from the Czech Republic. The United States hops, grown primarily in the Pacific Northwest, namely Cascade, Palisade<sup>®</sup>, Simcoe<sup>®</sup>, Centennial, Chinook, Citra<sup>®</sup>, Amarillo<sup>®</sup>, Warrior and Mosaic<sup>®</sup> are used in certain Company ales and lagers, as are the Southern Hemisphere hop varieties, Galaxy and Nelson Sauvin. Traditional English hops, namely, East Kent Goldings and Fuggles, are also used in certain Company ales. Other hop sources and varieties including new experimental varieties, such as Lotus<sup>™</sup> and Bru1<sup>™</sup>, are also tested from time to time and used in certain beers. The Company uses hops in various formats including T-90 hop pellets, T-45 hop pellets and CO2 Extract.

The European hop crop harvested in 2019 was consistent with historical long term averages in both quality and quantity. The United States hop crop harvested in 2019 was consistent with historical long term averages in quality, with an increase in overall quantity driven by expansion of planted acres in recent years. However, the demand for certain hops grown in the United States has risen dramatically due to the success and proliferation of craft brewers and the popularity of beer styles that include hop varieties grown in the United States, with the result that prices continue to rise for both spot purchases and forward contract pricing and occasionally certain United States hops are in tight supply until the next crop or beyond.

The Company enters into purchase commitments with nine primary hop dealers, based on the Company's projected future volumes and brewing needs. The dealers either have the hops that are committed or will contract with farmers to meet the Company's needs. The contracts with the hop dealers are denominated in Euros for the German and Czech Republic hops, in Pounds Sterling for some English hops, US Dollars for United States hops and New Zealand Dollars for the New Zealand hops. The Company does not currently hedge its forward currency commitments.

For the hop crop harvested in 2019, the Company expects to realize full delivery on European, United States and New Zealand hop contracts. The Company attempts to maintain a one to two-year supply of essential hop varieties on-hand in order to limit the risk of an unexpected reduction in supply and procures hops needed for new beers, based on its best estimate of likely short-term demand. The Company classifies hops inventory in excess of two years of forecasted usage in other long term assets.

The Company believes it has adequate inventory and commitments for all hop varieties. This belief is based on expected volume and beer style mix, both of which could ultimately be significantly different from what is currently planned. Variations to plan could result in hops shortages for specific beers or an excess of certain hops varieties.

The Company stores its hops in multiple cold storage warehouses to minimize the impact of a catastrophe at a single site.

**Yeast.** The Company uses multiple yeast strains for production of its beers, hard seltzers and hard ciders. While some strains are commercially available, other strains are proprietary. Since the proprietary strains cannot be replaced if destroyed, the Company protects these strains by storing multiple cultures of the same strain at different production locations and in several independent laboratories.

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**Apples.** The Company uses special varieties and origins of apples in its hard ciders that it believes are important for their flavor profiles. In 2019, these apples were sourced primarily from Europe and the United States and include bittersweet apples from France and culinary apples from Italy, Washington State and New York. Purchases and commitments are denominated in Euros for European apples and US Dollars for United States apples. There is limited availability of some of these apple varieties, and many outside factors, including weather conditions, growers rotating from apples to other crops, competitor demand, government regulation and legislation affecting agriculture, could affect both price and supply. The 2019 apple crop in Europe for certain regions was lower than historical long-term averages, due to climate conditions. The 2019 apple crop in the United States was consistent with historical long-term averages. The Company has entered into contracts to cover its expected needs for 2020 and expects to realize full delivery against these contracts.

The Company uses the apple varieties harvested at the Company-owned Orchard in Walden, NY to experiment and develop new hard ciders for retail sales on site.

**Other Ingredients.** The Company maintains competitive sources for most of the other ingredients used in the production of its beverages.

**Packaging Materials.** The Company maintains competitive sources for the supply of certain packaging materials, such as cans, glass and shipping cases. The Company enters into limited-term supply agreements with certain vendors in order to receive preferential pricing. In 2019, crowns and labels were each supplied by a single source; however, the Company believes that alternative suppliers are available.

Truly Hard Seltzer beverages are primarily packaged in sleek cans. During 2018 and 2019, as the Truly brand family grew significantly and the Company experienced supply pressures on sleek cans. The demand for sleek cans in the beverage industry has significantly increased and there has been a shortage of capacity, as sleek can manufacturers attempt to adjust their supply chains to keep up with the increased demand.

The Company initiates bottle deposits in some states and reuses glass bottles that are returned pursuant to certain state bottle recycling laws. The Company derives some economic benefit from its reuse of returned glass bottles. The financial impact of reusing glass varies based on the costs of collection, sorting and handling, and arrangements with retailers, Distributors 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 28, 2019, the Company employed over sixteen brewmasters to monitor the Company's brewing operations and control the production of its beers, hard seltzers and hard ciders both at Company-owned breweries and at the third-party breweries at which the Company's products are brewed. Extensive tests, tastings and evaluations are typically required to ensure that each batch of the Company's beers, hard ciders and hard seltzers conforms to the Company's standards. The Company has on-site quality control labs at each of the Company-owned breweries and supports the smaller tap rooms and local breweries with additional centralized lab services.

With the exception of the Dogfish Head brand and certain specialty products, the Company includes a clearly legible "freshness" code on every bottle, can and keg of its beers, hard seltzer and hard ciders, in order to ensure that its drinkers enjoy only the freshest products. Boston Beer was the first American brewer to use this practice. The Dogfish Head brand will adopt this practice for most of its beers during 2020.

### **Production Strategy**

During 2019, the Company brewed, fermented and packaged approximately 74% of its volume at breweries owned by the Company. The Company made capital investments in 2019 of approximately \$94 million, most of

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which represented investments in the Company's breweries. These investments were made to drive efficiencies and cost reductions and support product innovation and future growth. Based on its current estimates of future volumes and mix, the Company expects to invest between \$135 million and \$155 million in 2020 to meet those estimates. Because actual capital investments are highly dependent on meeting demand, the actual amount spent may well be significantly different from the Company's current expectations.

The Pennsylvania Brewery, the Cincinnati Brewery and the Milton Brewery produce most of the Company's shipment volume. The Pennsylvania Brewery is the Company's largest brewery and the Cincinnati Brewery is the primary brewery for the production of most of the Company's specialty, lower volume packaged bottle products. The Milton Brewery currently produces only Dogfish Head brand beers and distilled spirits.

Production and retail activities at the eight local breweries and tap rooms, which include the Samuel Adams Downtown Boston Tap Room, Samuel Adams Boston Brewery Tap Room, Samuel Adams Cincinnati Brewery Tap Room, Dogfish Head Brewing and Eats, Dogfish Head Milton Brewery Tasting Room and the three A&S Brewing breweries is mainly for brewing and packaging beers for retail sales on site at tap rooms and gift shops, restaurant activities, developing innovative and traditional beers and in some cases supporting draft and package accounts in the respective local market areas.

The Cidery's production is mainly for developing new types of innovative hard ciders and fermenting and packaging ciders for retail sales on site at the cidery and gift shop and supporting draft and package accounts in the local market area.

The Company carefully selects breweries and packaging facilities owned by others with: (i) the capability of utilizing traditional brewing, fermenting and finishing methods; (ii) first-rate quality control capabilities throughout the process; and (iii) sleek can packaging and automated variety packaging capability and capacity. Under its brewing and packaging arrangements with third parties, the Company is charged a service fee based on units produced at each of the facilities and bears the costs of raw materials, risk, excise taxes and deposits for pallets and kegs and specialized equipment required to produce and package the Company's beverages. The Company currently has a brewing services agreement with subsidiaries of City Brewing Company, LLC ("City Brewing"). During 2018 and 2019, the Company amended the brewing services agreement to include a minimum capacity availability commitment by City Brewing. The amendment grants the Company the right to extend the agreement beyond the December 31, 2021 termination date on an annual basis through December 31, 2029. The amendments require the Company to pay up to \$26.5 million dollars for capital improvements at City Brewing facilities of which \$20.5 million has been paid as of December 28, 2019 and the remaining amount of \$6.0 million is expected to be paid in May 2020. During 2019, City Brewing supplied approximately 23% of the Company's annual shipment volume.

The Company's International business is supplied by breweries owned by the Company, under brewing and packaging agreements that may include packaging bulk shipments of beer and hard cider, and production under license at international locations.

While the Company believes that it has alternatives available to it, in the event that production at any of its locations is interrupted, severe interruptions at the Pennsylvania Brewery or City Brewing would be problematic, especially in seasonal peak periods. In addition, the Company may not be able to maintain its current economics, if interruptions were to occur, and could face significant delays in starting up replacement production locations. Potential interruptions at breweries include labor issues, governmental actions, quality issues, contractual disputes, machinery failures, operational shutdowns, or natural or other unavoidable catastrophes. Also, as the brewing industry has consolidated and the Company has grown, the capacity and willingness of breweries owned by others where the Company could produce some of its beers, hard seltzers and hard ciders, if necessary, has become a more significant concern. The Company would work with available contract brewers to attempt to minimize any potential disruptions.

## **Competition**

The High End category within the United States is highly competitive due to large domestic and international brewers and the increasing number of craft brewers in this category who distribute similar products that have similar pricing and target drinkers. The Company expects competition and innovation among domestic craft brewers to remain strong, as the number of craft brewers continues to grow. The Company estimates there are over 8,000 breweries in operation, up from approximately 1,500 operating breweries in 2009. Most of these new breweries are craft (small and independent) brewers. Also, existing craft breweries are building more capacity, adding additional local tap rooms, expanding geographically and adding more SKUs and styles.

Imported beers, such as Corona<sup>®</sup>, Heineken<sup>®</sup>, Modelo Especial<sup>®</sup> and Stella Artois<sup>®</sup>, continue to compete aggressively in the United States and have gained market share over the last ten years. Heineken and Constellation Brands (owner of the United States Distribution rights to Corona and Modelo Especial) may have substantially greater financial resources, marketing strength and distribution networks than the Company. The two largest brewers in the United States, AB InBev and Molson Coors, participate actively in the High End category, both through importing and distributing foreign brands that compete in the High End category and with their own domestic specialty beers, either by developing new brands or by acquiring, in whole or part, existing craft breweries. In addition, AB InBev's High End Division and Molson Coors' Tenth and Blake were formed as business units headquartered in the United States that are focused exclusively on competing in the High End category.

There have been numerous announcements of acquisitions of or investments in craft brewers by larger breweries and private equity and other investors. Most recently a unit of global brewer Kirin Holdings Co. announced the acquisition of New Belgium Brewing, the fourth largest craft brewer, for a reported amount of \$350 to \$400 million. Earlier in 2019, global brewer Mahou San Miguel increased its ownership of Founders Brewing Co. from 30% to 90% for a reported valuation of approximately \$300 million. The most significant acquisitions in the last few years include Heineken's acquisition of Lagunitas Brewing Company for approximately \$1 billion, Constellation Brands' acquisition of Ballast Point Brewing & Spirits for approximately \$1 billion, AB InBev's purchase of multiple craft breweries, including Elysian Brewing Company, Golden Road Brewing, Four Peaks Brewing Company, Breckenridge Brewing, Devils Backbone, Karbach, Wicked Weed, Platform Beer and Craft Brew Alliance, and Molson Coors' purchase of multiple craft breweries, including Hop Valley Brewing, Saint Archer Brewery and Revolver Brewing. AB InBev also acquired Spiked Seltzer, a previously independent hard seltzer company.

The Company's products also compete with other alcoholic beverages for drinker attention and consumption and the pace of innovation in the categories in which the Company competes is increasing. In recent years, wine 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, in order to position its beers, hard seltzers and hard ciders 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, cold box and tap space. From a drinker perspective, competition exists for brand acceptance and loyalty. The principal factors of competition in the market for High End beer occasions include product quality and taste, brand advertising and imagery, trade and drinker promotions, pricing, packaging and the development of innovative new products.

The Company distributes its products through independent Distributors who also distribute competitors' products. Certain brewers have contracts with their Distributors that impose requirements on the Distributors that are intended to maximize the Distributors' 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.

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The Company has certain competitive advantages over the local and 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 product line competes primarily within the FMB category of the beer industry. FMBs, such as Twisted Tea, Mike's Hard Lemonade<sup>®</sup>, Smirnoff Ice<sup>®</sup>, Bud Light Lime<sup>®</sup> Ritas, Redd's<sup>®</sup> Apple Ale, Seagrams Escapes<sup>®</sup>, Arnold Palmer Spiked are flavored malt beverages that are typically priced competitively with High End beers. As noted earlier, this category is highly competitive due to, among other factors, the presence of large brewers and spirits companies in the category, the advertising of malt-based spirits brands in channels not available to the parent brands and a fast pace of product innovation.

The Company's Truly Hard Seltzer beverages compete within the hard seltzer category. This category has been growing quickly since 2016, is highly competitive and includes large international and domestic competitors. Hard seltzers are typically priced competitively with High End beers and may compete for drinkers with beer, wine, spirits, or FMBs. Some of these competitors include Mark Anthony Brands under the brand name "White Claw"; ABInBev under "Bon & Viv's" and "Natural Light Seltzer"; Diageo under "Smirnoff Spiked Sparkling Seltzer"; and MolsonCoors under "Henry's Hard Sparkling Water". The Company expects numerous additional entrants in the hard seltzer category during 2020, as the category continues to develop distribution and drinker awareness. Most significantly, ABInbev introduced and launched nationally "Bud Light Hard Seltzer" in January 2020 and Constellation has announced that "Corona Hard Seltzer" will be introduced and launched nationally in Spring 2020. In addition, Molson Coors has announced that it will introduce "Vizzy Hard Seltzer" in March 2020.

The Company's Angry Orchard product line competes within the hard cider category. As noted earlier, this category is small and highly competitive and includes large international and domestic competitors, as well as many small regional and local hard cider companies. Hard ciders are typically priced competitively with High End Beers and may compete for drinkers with beer, wine, spirits, or FMBs. Some of these competitors include C&C Group PLC under the brand names 'Woodchuck', 'Magners' and 'Hornsby's'; Heineken under the brand names 'Strongbow'; AB InBev under 'Stella Cidre' and 'Virtue Cider' and MillerCoors under the brand names 'Smith & Forge Hard Cider' and 'Crispin Cider'. In recent years, regional and local cideries, including 'Bold Rock' and 'Austin East Ciders', have built businesses that have gained share locally at the expense of the national brands.

### **Regulation and Taxation**

The alcoholic beverage industry is regulated by federal, state and local governments. These regulations govern the production, sale and distribution of alcoholic beverages, including permitting, licensing, marketing and advertising. To operate its production facilities, the Company must obtain and maintain numerous permits, licenses and approvals from various governmental agencies, including but not limited to, the Alcohol and Tobacco Tax and Trade Bureau (the "TTB"), the Food and Drug Administration, state alcohol regulatory agencies and state and federal environmental agencies.

Governmental entities may levy various taxes, license fees and other similar charges and may require bonds to ensure compliance with applicable laws and regulations. Beginning in 2018, as a result of the "Tax Cuts and Jobs Act", the Company's federal excise tax rate on beer and hard seltzer is \$16 per barrel on all barrels below 6 million barrels produced annually. The top tier rate on hard cider (with alcohol by volume of 8.5% or less) is \$0.226 per gallon, on hard cider (with non-qualifying fermentable fruits) is \$1.07 per gallon, and on artificially carbonated wine (hard cider with high CO2 levels) is \$3.30 per gallon. Prior to 2018, the federal excise tax on beer and hard seltzer was \$18 per barrel, on hard cider (with alcohol by volume of 8.5% or less) was \$0.226 per gallon, on hard cider (with non-qualifying fermentable fruits) was \$1.07 per gallon, and on artificially carbonated

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wine (hard cider with high CO2 levels) was \$3.30 per gallon. These lower rates for beer, hard seltzer and hard cider were extended in December 2019 and currently expire at the end of 2020. States levy excise taxes at varying rates based on the type of beverage and alcohol content. 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. While 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 affecting any of its licenses or permits that would materially impact its ability to continue its current operations.

### **Trademarks**

The Company has obtained trademark registrations with the United States Patent and Trademark Office for over 450 trademarks, including Samuel Adams<sup>®</sup>, Sam Adams<sup>®</sup>, Samuel Adams Boston Lager<sup>®</sup>, Samuel Adams Brewing the American Dream<sup>®</sup>, Twisted Tea<sup>®</sup>, Truly Hard Seltzer<sup>®</sup>, Angry Orchard<sup>®</sup>, Dogfish Head<sup>®</sup>, Coney Island<sup>®</sup>, Angel City Brewery<sup>®</sup>, Concrete Beach<sup>®</sup>, Wild Leaf<sup>®</sup>, and Tura<sup>®</sup>. It also has a number of common law trademarks. Several Company trademarks are also registered or have registrations pending in various foreign countries. The Company regards its 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 oppose infringements of its marks through available enforcement options.

### **Environmental, Health and Safety Regulations and Operating Considerations**

The Company's operations are subject to a variety of extensive and changing federal, state and local environmental and occupational health and safety laws, regulations and ordinances that govern activities or operations that may have adverse effects on human health or the environment. Environmental laws, regulations or ordinances may impose liability for the cost of remediation of, 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.

As part of its efforts to be environmentally friendly, the Company has adopted a number of practices designed to improve recycling and reduce waste, and utilities consumption at its breweries. The Company also continues to reuse 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, retailer, Distributor, and glass dealer behavior. There is no guarantee that the current economics of using returned glass will continue, or that the Company will continue its current used glass practices.

The Company has adopted various policies and procedures intended to ensure that its facilities meet occupational health and safety requirements. The Company believes that it currently is in compliance with applicable requirements and will continue to endeavor to remain in compliance. There can be no assurances, however, that new and more restrictive requirements might not be adopted, compliance with which might have a material, adverse financial effect on the Company and its operating results, or that such policies and procedures will be consistently followed and be sufficient to prevent serious accidents.

### **Employees**

As of December 28, 2019, the Company employed 2,128 people, of which 81 were covered by collective bargaining agreements at the Cincinnati Brewery. The collective bargaining agreements involve three labor

unions, with one contract that covers 66 employees expiring in 2025, one contract expiring in 2020, and one contract expiring in 2022. 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 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 other reports required to be filed by Section 13(a) or 15(d) of the Securities Exchange Act of 1934, on the Company's investor relations website at [www.bostonbeer.com](http://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 market for High End beer occasions within the United States is highly competitive, due to the increasing number of domestic and international beverage companies with similar pricing and target drinkers, gains in market share achieved by domestic specialty beers and imported beers, the acquisition of craft brewers by larger brewers and the introduction and expansion of hard seltzers. Some of the largest of these competitors include AB InBev, Molson Coors, Constellation, Heineken and Mark Anthony Brands as they acquire craft brewers or introduce new domestic specialty brands and hard seltzers to many markets and expand their efforts behind existing brands. Imported beers, such as Corona<sup>®</sup>, Heineken<sup>®</sup>, Modelo Especial<sup>®</sup> and Stella Artois<sup>®</sup>, also continue to compete aggressively in the United States beer market. The Company anticipates competition among domestic craft brewers will remain strong, as many local craft brewers continue to experience growth and there were many new startups in 2019. The Company estimates there are now over 8,000 breweries in operation up from approximately 1,500 breweries in 2009. Also, existing breweries are building more capacity, adding additional local tap rooms, expanding geographically and adding more SKUs and styles. The continued growth in the sales of craft-brewed domestic beers, imported beers and hard seltzers is expected to increase the competition in the market for High End beer occasions within the United States and, as a result, prices and market share of the Company's products may fluctuate and possibly decline.

The Company's products 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, cold box 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 AB InBev, Molson Coors, Heineken and Constellation Brands, 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 retailers or Distributors may have a material adverse effect on the Company's business and financial results.

Further, the beer industry has seen continued consolidation among brewers in order to take advantage of cost savings opportunities for supplies, distribution and operations. Illustrative of this consolidation is AB InBev's \$107 billion purchase of SAB Miller and the related sale by SAB Miller to Molson Coors of its 58% share of the MillerCoors joint venture with Molson Coors, as well as Heineken's acquisition of Lagunitas Brewing Company for approximately \$1 billion. Also, in the last few years, both AB InBev and Molson Coors have purchased multiple regional craft breweries with the intention to expand the capacity and distribution of these breweries. Due to the increased leverage that these combined operations will have in distribution and sales and marketing expenses, the costs to the Company of competing could increase. The potential also exists for these large competitors to increase their influence with their Distributors, making it difficult for smaller brewers to maintain their market presence or enter new markets. The continuing consolidation could also reduce the contract brewing capacity that is available to the Company. 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 business and financial results.

***There Is No Assurance of Continued Growth and that the Company Can Adapt to the Challenges of the Changing Competitive Environment.***

From 2015 to 2017, the Company experienced a decline in the demand for its products, as craft beer growth rates slowed and the hard cider category declined. In 2018 and 2019, the Company experienced increases in demand for its products, driven by growth in its Truly and Twisted Tea brands, and grew 13% and 22% respectively in depletion volume compared to prior years. The Company is targeting shipment and depletion volume growth of between 15% and 25% in 2020. The Company's ability to sustain double digit growth trends may be affected by an increasing number of competitors and markets where drinker interest is primarily in new or local products, rather than national brands. The development of new products by the Company to meet these challenges may lead to reduced sales of the Company's existing brands and there is no guarantee that these new product initiatives will generate stable long term volume. Additionally, changes in the use of media and technology are changing the economics of how to market brands to drinkers and may be diminishing the traditional competitive advantage the Company may have had in buying national media relative to smaller brands. While the Company believes that a combination of innovation, new brand messaging and exploration of new media, and increased investment and sales execution can lead to increased demand, there is no guarantee that the Company's actions will be successful in maintaining the Company's historical levels of profitability. Reduced sales, among other factors, could lead to lower brewery utilization, lower funds available to invest in brand support and reduced profitability, and these challenges may require a different mix and level of marketing investments to stabilize and grow volumes. A lower growth environment or periods of sales declines will present challenges for the Company to motivate and retain employees, and to maintain the current levels of distributor and retailer support of its brands, its current brand investment levels, and current returns to shareholders, and could potentially require a review of long term organization and brewery needs. Currently, the Company believes it can continue to grow in 2020 and in future years but there is no guarantee it will be successful.

***The Company's Advertising and Promotional Investments May Affect the Company's Financial Results but Not be Effective.***

The Company has incurred, and expects to continue to incur, significant advertising and promotional expenditures to enhance its brands. These 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. 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. While the Company attempts to invest only in effective advertising and promotional activities, 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.



***Changes in Public Attitudes and Drinker Tastes Could Harm the Company's Business. Regulatory Changes in Response to Public Attitudes Could Adversely Affect the Company's Business.***

The alcoholic beverage industry has been the subject of considerable societal and political attention for several years, due to public concern over alcohol-related social problems, including driving under the influence, 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 the market for High End beer occasions, 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, health and wellness trends and increased competition from wine and spirits companies. If consumption of the Company's products in general were to come into disfavor among domestic drinkers, or if the domestic beer industry were subjected to significant additional societal pressure or governmental regulations, the Company's business could be materially adversely affected.

Certain states are considering or have passed laws and regulations that allow the sale and distribution of marijuana. Currently it is not possible to predict the impact of this on sales of alcohol, but it is possible that legal marijuana usage could adversely impact the demand for the Company's products.

***The Company Is Dependent on Its Distributors.***

In the United States, where approximately 96% of its beer is sold, the Company sells most of its alcohol beverages to independent beer Distributors for distribution to retailers and, ultimately, to drinkers. Although the Company currently has arrangements with over 400 Distributors, sustained growth will require it to maintain such relationships and possibly enter into agreements with additional Distributors. Changes in control or ownership within the current distribution network could lead to less support of the Company's products.

Contributing to distribution risk is the fact that the Company's distribution agreements are generally terminable by the Distributor on relatively 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 arrangements 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.

No assurance can be given that the Company will be able to maintain its current distribution network or secure additional Distributors on terms not less favorable to the Company than its current arrangements.

***The Company's Recent Acquisition of Dogfish Head Involves a Number of Risks, the Occurrence of Which Could Adversely Affect its Business, Financial Condition, and Operating Results.***

On July 3, 2019, the Company completed its acquisition of Dogfish Head Brewery and various related operations, through the acquisition of all of the equity interests held by certain private entities in Off-Centered Way LLC, the parent holding company of the Dogfish Head Brewery operations. The Transaction involves certain risks, the occurrence of which could materially and adversely affect the Company's business, liquidity, financial condition, and operating results, including:

- diversion of management's attention to integrate Dogfish Head's operations;

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- disruption to the Company's existing operations and plans or inability to effectively manage its expanded operations;
- failure, difficulties or delays in securing, integrating and assimilating information, financial systems, internal controls, operations, production processes and products, or the distribution channel for Dogfish Head's businesses and product lines;
- potential loss of key Dogfish Head employees, suppliers, distributors and drinkers or other adverse effects on existing business relationships with suppliers, distributors and drinkers;
- potential inability to fully integrate Dogfish Head's distributor into the Company's existing wholesaler network
- adverse impact on overall profitability, if the Company's expanded operations do not achieve the growth prospects, net revenues, earnings, cost or revenue synergies, or other financial results projected in the Company's valuation models, or delays in the realization thereof;
- reallocation of amounts of capital from the Company's other strategic initiatives;
- inaccurate assessment of undisclosed, contingent or other liabilities of the acquired operations, unanticipated costs associated with the Transaction, and an inability to recover or manage such liabilities and costs; and
- impacts as a result of purchase accounting adjustments, incorrect estimates made in the accounting for the Transaction or the potential future write-off of significant amounts of goodwill, intangible assets and/or other tangible assets if the Dogfish Head business does not perform in the future as expected, or other potential financial accounting or reporting impacts

The Company cannot assure that it will realize the expected benefits of the Transaction or that the acquired Dogfish Head operations will be profitable. The Company's failure to adequately manage the risks associated with the Transaction could have a material adverse effect on its business, liquidity, financial condition or results of operations.

### ***Impact of Changes in Drinker Attitudes on Brand Equity and Inherent Risk of Reliance on the Company's Founders in the Samuel Adams and Dogfish Head Brand Communications.***

In addition to the societal and political risks discussed above, there is also 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, or competitor activity and promotion, could adversely affect the strength of the Company's brands and the revenue that is generated from that strength. It is possible that the Company could react to such changes and reposition its 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 its brand equities, as opposed to building them. If such damage were to occur, it would likely have a negative effect on the financial condition of the Company.

In addition to these inherent brand risks, C. James Koch, the founder and Chairman of the Company, as well as the founders of Dogfish Head brand, Samuel Calagione, Founder and Brewer, Dogfish Head Brewery and Mariah Calagione, Founder and Communitarian, Dogfish Head Brewery are an integral part of the Samuel Adams and Dogfish Head brand histories, equity and current and potential future brand messaging and the Company relies on the positive public perception of these founders. The role of these founders as founders, brewers and leaders of the Company is emphasized as part of the Company's brand communication and has appeal to some drinkers. If these founders were not available to the Company to continue their active roles, their absence could negatively affect the strength of the Company's messaging and, accordingly, the Company's growth prospects. The Company and its brands may also be impacted if drinkers' views of these founders were to change negatively. If either of these 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. Any such change in the Company's messaging strategy might have a detrimental impact on the future growth of the Company.

***Turnover in Company Leadership or Other Key Positions May Lead to Loss of Key Knowledge or Capability and Adversely Impact Company Performance.***

In early 2017, the Company's then President and Chief Executive Officer, Martin Roper, announced his plans to retire in 2018 after leading the Company for more than 17 years. In the second quarter of 2018, Dave Burwick joined as President and Chief Executive Officer. Prior to commencing that role, Mr. Burwick had an established track record of innovation and business success in the beverage and consumer goods industries and had served on Boston Beer's Board of Directors since 2005. His most recent role was Chief Executive Officer of Peet's Coffee and prior to joining Peet's, Mr. Burwick served as President of North America for Weight Watchers and in numerous leadership roles over 20 years at PepsiCo, including Chief Marketing Officer of Pepsi-Cola North America. The Company may well experience further changes in key leadership or key positions in the future. The departure of key leadership personnel, especially a Chief Executive Officer, can take from the Company significant knowledge and experience. This loss of knowledge and experience can be mitigated through successful hiring and transition, but there can be no assurance that the Company will be successful in such efforts. Attracting, retaining, integrating and developing high performance individuals in key roles is a core component of the Company's strategy for addressing its business opportunities. Attracting and retaining qualified senior leadership may be more challenging under adverse business conditions, such as the declining growth environment that faced the Company in prior years. Failure to attract and retain the right talent, or to manage the transition of responsibilities resulting from such turnover smoothly, would affect the Company's ability to meet its challenges and may cause the Company to miss performance objectives or financial targets.

***The Company has Significantly Increased its Product Offerings and Distribution Footprint, which Increases Complexity and Could Adversely Affect the Company's Results.***

The Company has significantly increased the number of commercially available beers, hard seltzers and hard ciders that it produces. In the last five years, the Company has introduced many new beers, hard seltzers and hard ciders under the Samuel Adams, Twisted Tea, Truly Hard Seltzer, Angry Orchard and three A&S Brewing brands. In early 2019, the Company introduced new brands including Wild Leaf Hard Tea, a craft hard tea, and Tura Alcoholic Kombucha, an alcoholic kombucha tea. In July 2019, the addition of the Dogfish Head brand added over 25 styles of beer, 15 styles of distilled spirits, two brewery tap rooms, a restaurant and a boutique Inn. In January 2020, the Company opened the Samuel Adams Tap Room and small brewery in downtown Boston. The Company currently operates 10 retail locations, including eight brewery tap rooms, a cidery tasting room and a restaurant, where its beers, hard seltzers, hard ciders and distilled spirits are sold and consumed on-premise. These additional brands and locations, along with the increases in demand for certain existing brands, have added to the complexity of the Company's product development process, as well as its brewing, fermenting, packaging, marketing and selling processes and retail operations. There can be no assurance that the Company will effectively manage such increased complexity, without experiencing coordination issues, and operating inefficiencies, supply shortages or control deficiencies. Such inefficiencies or deficiencies could have a material adverse effect on the Company's business and financial results.

***Impact of Reliance on Company-Owned Production Facilities, Reduced Availability of Breweries Owned by Others, and Inability to Leverage Investment in the Company-Owned Breweries Could Have A Material Adverse Effect on the Company's Operations or Financial Results.***

During 2019, the Company brewed, fermented and packaged approximately 74% of its volume at breweries owned by the Company. The Company expects to continue to produce the majority of its domestic volume in 2020 at its Company-owned breweries. This reliance on its own breweries exposes the Company to capacity constraints and risk of disruption of supply, as these breweries are operating at or close to current capacity in peak months. Management believes that it has alternatives available to it, in the event that production at any of its

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brewing locations is temporarily interrupted, although as volumes at the Pennsylvania Brewery increase, severe interruptions there would be problematic, particularly during peak seasons. In addition, if interruptions were to occur, the Company might not be able to maintain its current economics and could face significant delays in starting replacement brewing locations. Potential interruptions at breweries include labor issues, governmental action, quality issues, contractual disputes, machinery failures, operational shut downs or natural or unavoidable catastrophes.

The growth in the Company's business and product complexity and the Company's reliance on its owned breweries heighten the management challenges that the Company faces. In recent years, the Company has had product shortages and service issues. The Company's supply chain struggled under the increased volume and experienced increased operational and freight costs as it reacted. In response to these issues, the Company has significantly increased its packaging capabilities and tank capacity and added personnel to address these challenges. There can be no assurance that the Company will effectively manage such increasing complexity without experiencing future planning failures, operating inefficiencies, insufficient employee training, control deficiencies or other issues that could have a material adverse effect on the Company's business and financial results. The prior growth of the Company, changes in operating procedures and increased complexity have required significant capital investment. To date, the Company on an overall basis has not seen operating cost leverage from these investments and there is no guarantee that it will.

The Company continues to avail itself of capacity at third-party breweries. During 2019, approximately 23% of the Company's annual shipment volume was brewed and/or packaged under service agreements with City Brewing Company, LLC. In selecting third party breweries for brewing services arrangements, the Company carefully weighs a brewery's capability of utilizing traditional brewing, fermenting and finishing methods, its quality control capabilities throughout the production process and sleek can packaging and automated variety packaging capability and capacity. To the extent that the Company needs to avail itself of a third-party brewing services arrangement, it exposes itself to higher than planned costs of operating under such contract arrangements than would apply at the Company-owned breweries, potential lower service levels and reliability than internal production, and potential unexpected declines in the brewing capacity available to it, any of which could have a material adverse effect on the Company's business and financial results. The use of such third party facilities also creates higher logistical costs and uncertainty in the ability to deliver product to the Company's customers efficiently and on time.

As the beer industry continues to consolidate and the Company has grown, the capacity and willingness of breweries owned by others where the Company could brew, ferment or package some of its products, if necessary, has become a more significant concern and, thus, there is no guarantee that the Company's needs will be uniformly met. The Company continues to work at its Company-owned breweries and with its contract brewers to attempt to minimize any potential disruptions. Nevertheless, should an interruption occur, the Company could experience temporary shortfalls in production and/or increased production and/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 business and financial results. A simultaneous interruption at several of the Company's production locations or an unexpected interruption at one of the Company-owned breweries would likely cause significant disruption, increased costs and, potentially, lost sales.

The Company's emphasis on owning production facilities requires it to continue to make a significant level of capital expenditure to maintain and improve these facilities and to incur significant fixed operating costs to support them. In an uncertain volume environment, the Company faces the risk of not being able to support the owned brewery operating costs, if volumes were to decline. At the same time, despite making these expenditures and incurring these costs, if demand were to increase significantly, the Company could still face the risk of not being able to meet the increased demand internally.

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The Company attempts to mitigate production and distribution risks through a combination of owned breweries and access to contract facilities, but there is no guarantee that this strategy is optimal, and it might result in short term costs and inefficiencies.

***The Company is Dependent on Key Ingredient 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 and Excess/Shortage Inventory Exposure for the Company.***

The Company purchases a substantial portion of the raw materials used in the brewing of its products, including its malt, hops and other ingredients, from a limited number of foreign and domestic suppliers. The Company purchased most of the malt used in the production of its beer from two suppliers during 2019. Nevertheless, the Company believes that there are other malt vendors available that are capable of supplying part of its needs. 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 predominantly 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, Hersbruck-Hersbrucker and Spalt-Spalter from Germany and Saaz-Saazer from the Czech Republic. Noble hops are rare and more expensive than most other varieties of hops. United States hops are used in most of the Company's ales. The demand for hops grown in the United States has grown due to the success and growth of craft brewers and the popularity of beer styles that include hops grown in the United States. Certain United States hops are in tight supply and prices have risen for both spot purchases and forward contract pricing, accordingly. The Company enters into purchase commitments with several hops dealers, based on the Company's projected future volumes and brewing needs. The dealers then contract with farmers to meet the Company's needs. However, the performance and availability of the hops, as with any agricultural product, may be materially adversely affected by factors such as adverse weather or pests and there is no guarantee the contracts will be fulfilled completely. Further, the use of fertilizers and pesticides that do not conform to United States regulations, the imposition of export/import restrictions (such as increased tariffs and duties) and changes in currency exchange rates could result in increased prices or shortages of acceptable hops.

The Company attempts to maintain up to a two-year supply of essential hop varieties on-hand in order to limit the risk of an unexpected reduction in supply, but as the Company innovates, the availability of certain hop varieties for new products is likely significantly lower. The Company buys new hop varieties for its innovation based on its best estimate of demand and does not try to get to two-year supply on hand immediately. Given the imprecision of forecasting future volumes, the Company is at hop supply risk on certain varieties if its innovations are significantly more successful than expected. 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.

The Company's accounting policy for hops inventory and purchase commitments is to recognize a loss by establishing a reserve to the extent inventory levels and commitments exceed management's expected future usage. The computation of the excess inventory requires management to make certain assumptions regarding future sales growth, product mix, cancellation costs, 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.

The Company uses special varieties of apples in its ciders that it believes are important for the ciders' flavor profile. These apples are sourced primarily from European and United States suppliers and include bittersweet apples from France and culinary apples from Italy and Washington state. There is limited availability of these

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apples and many outside factors, including weather conditions, farmers rotating from apples to other crops, government regulations and legislation affecting agriculture, could affect both price and supply. The Company has entered into contracts to cover its expected needs for 2020 and expects to realize full delivery against these contracts.

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 inventory and supply have been tight.

The Company's new product development can also be constrained by any limited availability of certain ingredients. Growth rates higher than planned or the introduction of new products requiring special ingredients could create demand for ingredients greater than the Company can source. Although the Company believes that there are alternative 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 business and financial results, until alternative supply arrangements were secured.

The Company's contracts for certain hops and apples are payable in Euros, Pounds Sterling and New Zealand dollars, and therefore, the Company is subject to the risk that the Euro, Pound or New Zealand dollar may fluctuate adversely against the U.S. dollar. 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 business and financial results. The cost of hops has increased in recent years due to the rising market price of hops and exchange rate changes. The continuation of these trends will impact the Company's product cost and potentially the Company's ability to meet the demand for its beers. The Company buys some other ingredients and capital equipment from foreign suppliers for which the Company also carries exposure to foreign exchange rate changes.

### ***The Company is Dependent on Key Packaging Suppliers, an Increase in Packaging Costs Could Harm the Company's Financial Results.***

During 2018 and 2019, as the Truly brand family grew significantly and the Company experienced supply pressures on sleek cans. The demand for sleek cans in the beverage industry has significantly increased and there has been a shortage of capacity as sleek can manufacturers and sleek can contract manufacturers adjust their supply chains to accommodate this increased demand. The Company is working to increase packaging capacity to accommodate its expected needs for 2020 and currently expects to have sufficient supply and capacity to meet those needs.

The Company maintains competitive sources for the supply of packaging materials, such as sleek cans, non-sleek cans, glass and shipping cases. The Company enters into limited-term supply agreements with certain vendors in order to receive preferential pricing. In 2019, crowns and labels were each supplied by single sources. Although the Company believes that alternative suppliers are available, the loss of any of the Company's 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. Additionally, there has been acquisition and consolidation activity in several of the packaging supplier networks which could potentially lead to disruption in supply and changes in economics. If packaging costs continue to increase, there is no guarantee that such costs can be fully passed along 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 replicated when renewed. The Company's inability to preserve the current economics on renewal could expose the Company to significant cost increases in future years. Some of these contracts require the Company to make commitments on

minimum volume of purchases based on Company forecasts. If the Company's needs differ significantly from its forecasts, the Company would likely incur storage costs for excess production or contractual penalties that might be significant to Company financial results.

***The Company's Operations are Subject to Certain Operating Hazards Which Could Result in Unexpected Costs or Product Recalls 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, or defective packaging and handling. Such occurrences may create bad tasting beer, hard seltzer or hard ciders, or pose health risk to the consumer or risk to the integrity and safety of the packaging. These 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 product liability claims.

***The Company Relies Upon Complex Information Systems***

The Company depends on information technology to be able to operate efficiently and interface with customers and suppliers, as well as maintain financial and accounting reporting accuracy to ensure compliance with all applicable laws. If the Company does not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure, the Company could be subject to transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of or damage to intellectual property through security breach. The Company recognizes that many groups on a world-wide basis have experienced increases in cyber-attacks and other hacking activity. The Company has dedicated internal and external resources to review and address such threats. However, as with all large information technology systems, the Company's systems could be penetrated by outside parties intent on extracting confidential or proprietary information, corrupting information, disrupting business processes, or engaging in the unauthorized use of strategic information. Such unauthorized access could disrupt business operations and could result in the loss of assets or revenues, remediation costs or damage to the Company's reputation, as well as litigation against the Company by third parties adversely affected by the unauthorized access. Such events could have a material adverse effect on the Company's business and financial results. The Company also relies on third parties for supply of software, software and data hosting and telecommunications and networking, and is reliant on those third parties for the quality and integrity of these complex services. Failure by a third party supplier could have material adverse effects on the Company's ability to operate.

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

In the last five years, the Company has experienced significant variation in direct and indirect energy costs, and energy costs could change unpredictably. Increased energy costs would result in higher transportation, freight and other operating costs, including increases in the cost of ingredients and 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 increase, there is no guarantee that such costs can be fully passed along through increased prices.

***Changes in Tax, Environmental and Other Regulations, Government Shutdowns or Failure to Comply with Existing Licensing, Trade or Other Regulations Could Have a Material Adverse Effect on the Company's Financial Condition.***

The Company's business is highly regulated by federal, state and local laws and regulations regarding such matters as licensing requirements, trade and pricing practices, labeling, advertising, promotion and marketing practices, relationships with Distributors, environmental impact of operations and other matters. These laws and regulations are subject to frequent reevaluation, varying interpretations and political debate, and inquiries from governmental regulators charged with their enforcement. In addition, any delays in federal or state government

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required approvals caused by federal or state government shutdowns, similar to the January 2019 federal government shutdown, could prevent new brands or innovations from getting to market on time or at all. Failure to comply with existing laws and regulations to which the Company's operations are subject or any revisions to such laws and regulations or the failure to pay taxes or other fees imposed on the Company's operations and results could result in the loss, revocation or suspension of the Company's licenses, permits or approvals, and could have a material adverse effect on the Company's business, financial condition and results of operations. Changes in federal and other tax rates could have a significant effect on the Company's financial results.

### ***There Is No Guarantee that the Company Will Not Face Litigation that Could Harm the Company's Business.***

While the Company has from time to time in the past been involved in material litigation, it is not currently 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. 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. See *Item 3 - Legal Proceedings* below.

### ***The Class B Shareholder Has Significant Control 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 (1) approve certain mergers, charter amendments and by-law amendments and (2) elect a minority of the directors of the Company. Although not as a matter of right, the Class A stockholders have also been afforded the opportunity to vote on an advisory basis on executive compensation. Consequently, the election of a majority of the Company's directors and all other matters requiring stockholder approval are currently decided by C. James Koch, who is the founder and Chairman of the Company, as the holder of 100% of the voting rights to the outstanding shares 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, approval of equity-based and other executive compensation and other significant corporate and governance matters, such as approval of the Company's independent registered public accounting firm. This could have the effect of delaying or preventing a change in control of the Company and makes most material transactions difficult or impossible to accomplish without the support of Mr. Koch. While Mr. Koch is currently the 100% holder of the Company's Class B Common Stock, there is nothing that prevents Mr. Koch or his heirs from transferring some or all shares of the Class B Common Stock to others.

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

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, including increases resulting from currency fluctuations; (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 Distributors may increase; (d) the impact of currency fluctuations on amounts owed to the Company by distributors that pay in foreign currencies; (e) the Company's credit facility, or portion thereof, may become unavailable at a time when needed by the Company to meet critical needs; (f) overall beer consumption may decline; or (g) drinkers of the Company's products may change their purchase preferences and frequency, which might result in sales declines.

### **Item 1B. Unresolved Staff Comments**

The Company has not received any written comments from the staff of the Securities and Exchange Commission (the "SEC") 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 2019 fiscal year, and (3) remain unresolved.

**Item 2. Properties**

The Company maintains its principal corporate offices in approximately 54,200 square feet of leased space located in Boston, Massachusetts, the term of which is set to expire in 2031.

The Company owns approximately 76 acres of land in Breinigsville, Pennsylvania, consisting of the two parcels on which the Company's Pennsylvania Brewery is located. The buildings on this property consist of approximately 1 million square feet of brewery and warehouse space.

The Company owns approximately 57 acres of land in Milton, Delaware, consisting of the two parcels on which the Company's Milton Brewery is located. The buildings on this property consist of approximately 240,000 square feet of brewery and warehouse space.

The Company owns approximately 10 acres of land in Cincinnati, Ohio, on which the Company's Cincinnati Brewery is located, and leases, with an option to purchase, approximately 1 acre of land from the City of Cincinnati which abuts its property. The buildings on this property consist of approximately 128,500 square feet of brewery and warehouse space.

The Company owns approximately 62 acres of land in Walden, New York, consisting of an apple orchard and certain buildings, including a small cidery and tour center. The small cidery and tour center on this property consist of approximately 15,000 square feet of space.

The Company owns approximately 1 acre of land in Lewes, Delaware, on which the Company's Dogfish Head Inn is located. The buildings on this property consists of approximately 8,400 square feet of space.

The Company leases approximately 43,000 square feet of space in Boston, Massachusetts, on which it maintains a Samuel Adams brand tap room and tour center. The current term of the lease for this facility will expire in 2029, although it has an option to extend the term for an additional fifteen years in five year increments.

The Company leases approximately 48,650 square feet of space in Los Angeles, California, on which it maintains an Angel City brand tap room, small brewery and tour center. The current term of the lease for this facility will expire in 2021.

The Company leases approximately 11,365 square feet of space in Miami, Florida, on which it maintains a Concrete Beach brand tap room, small brewery and tour center. The current term of the lease for this facility will expire in 2023.

The Company leases approximately 9,000 square feet of space in Boston, Massachusetts, on which it maintains a Samuel Adams brand tap room and small brewery. The current term of the lease for this facility will expire in 2028, although it has two options to extend the term for an additional 5 years.

The Company leases approximately 8,900 square feet of space in Cincinnati, Ohio, on which it maintains a Samuel Adams brand tap room and small brewery. The current term of the lease for this facility will expire in 2028.

The Company leases approximately 7,100 square feet of space within the retail section of MCU Park in Brooklyn, New York on which it maintains a Coney Island brand tap room and small brewery. The current term of the lease for this facility will expire in 2020, although it has an option to extend the term for an additional 5 years.

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The Company leases approximately 4,490 square feet of space in Rehoboth, DE, on which it maintains Dogfish Head Brewing and Eats, a tap room small brewery and the Chesapeake & Maine restaurant. The current term of the lease for this facility will expire in 2029.

The Company also leases a small office in Burlington, Vermont and Montreal, Quebec.

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. Mine Safety Disclosures**

Not Applicable

## **PART II.**

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

The graph set forth below shows the value of an investment of \$100 on January 1, 2015 in each of the Company's stock ("The Boston Beer Company, Inc."), the Standard & Poor's 500 Index ("S&P 500 Index"), the Standard & Poor's 500 Beverage Index, which consists of producers of alcoholic and non-alcoholic beverages ("S&P 500 Beverages Index") and a custom peer group which consists of Molson Coors Beverage Company and Craft Brewers Alliance, Inc., the two remaining U.S. publicly-traded brewing companies ("Peer Group"), for the five years ending December 28, 2019.

#### **Total Return To Shareholders (Includes reinvestment of dividends)**

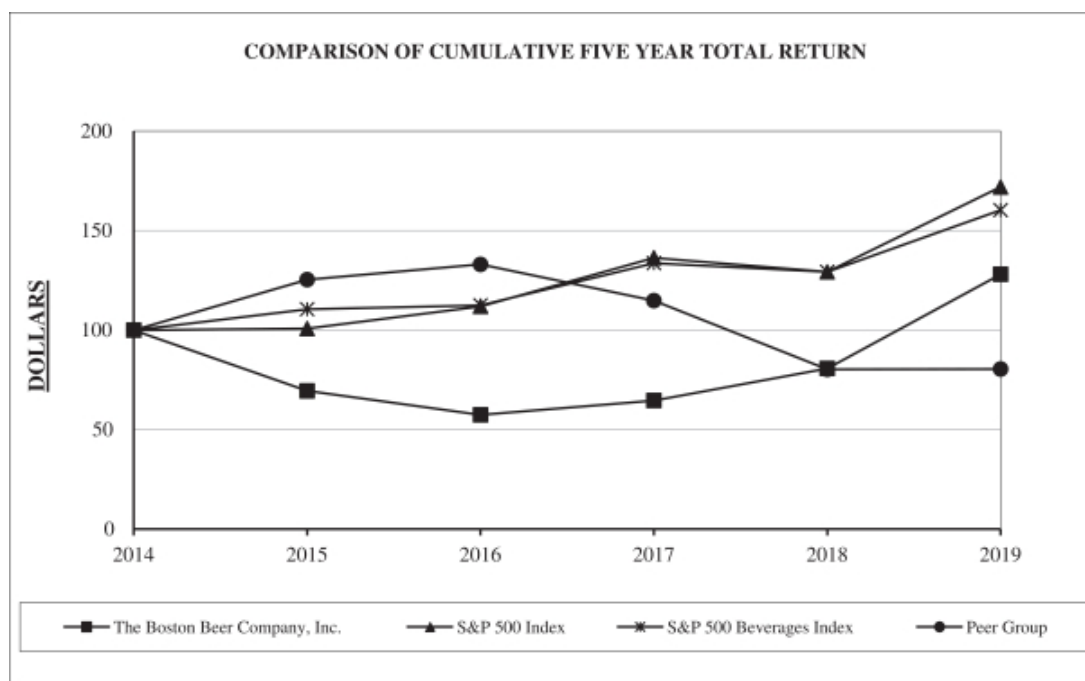
Company Name / Index	ANNUAL RETURN PERCENTAGE				
	Years Ending				
	12/26/15	12/31/16	12/30/17	12/29/18	12/28/19
<b>The Boston Beer Company, Inc.</b>	-30.55	-17.31	12.51	24.97	58.59
<b>S&amp;P 500 Index</b>	0.77	11.07	21.83	-5.20	32.97
<b>S&amp;P 500 Beverages Index</b>	10.52	1.77	18.84	-3.29	23.99
<b>Peer Group</b>	25.35	6.10	-13.68	-30.08	0.20

Company Name / Index	Base Period 12/27/14	INDEXED RETURNS				
		Years Ending				
		12/26/15	12/31/16	12/30/17	12/29/18	12/28/19
<b>The Boston Beer Company, Inc.</b>	<b>100</b>	69.45	57.43	64.62	80.75	128.07
<b>S&amp;P 500 Index</b>	<b>100</b>	100.77	111.92	136.35	129.26	171.88
<b>S&amp;P 500 Beverages Index</b>	<b>100</b>	110.52	112.48	133.67	129.27	160.29
<b>Peer Group</b>	<b>100</b>	125.35	133.00	114.81	80.27	80.43

**Peer Group Companies**

Craft Brew Alliance Inc  
Molson Coors Brewing Company



The Company’s Class A Common Stock is listed for trading on the New York Stock Exchange under the symbol SAM.

There were 8,477 holders of record of the Company’s Class A Common Stock as of February 14, 2020. 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 February 14, 2020, as reported under the New York Stock Exchange-Composite Transaction Reporting System, was \$408.91.

**Class A Common Stock**

At December 28, 2019, the Company had 22,700,000 authorized shares of Class A Common Stock with a par value of \$.01, of which 9,470,397 were issued and outstanding, which includes 99,871 shares that have trading restrictions. 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.

**Class B Common Stock**

At December 28, 2019, the Company had 4,200,000 authorized shares of Class B Common Stock with a par value of \$.01, of which 2,672,983 shares were issued and outstanding. The Class B Common Stock has full

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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, such as approval of the Company's independent registered public accounting firm. 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 February 14, 2020, C. James Koch, the Company's Chairman, was the direct holder of record of all of 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

In 1998, the Board of Directors authorized management to implement a stock repurchase program with a limit of \$931.0 million. As of December 28, 2019, the Company has repurchased a cumulative total of approximately 13.8 million shares of its Class A Common Stock for an aggregate purchase price of approximately \$840.7 million.

During the twelve months ended December 28, 2019, the Company repurchased 900 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	Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in thousands)
December 30, 2018 to February 2, 2019	116	\$ 127.05	—	\$ 90,335
February 3, 2019 to March 2, 2019	219	115.78	—	90,335
March 3, 2019 to March 30, 2019	13	187.54	—	90,335
March 31, 2019 to May 4, 2019	107	182.03	—	90,335
May 5, 2019 to June 1, 2019	79	175.67	—	90,335
June 2, 2019 to June 29, 2019	32	187.54	—	90,335
June 30, 2019 to August 3, 2019	73	114.14	—	90,335
August 4, 2019 to August 31, 2019	261	135.26	—	90,335
September 1, 2019 to September 28, 2019	—	—	—	90,335
September 29, 2019 to November 2, 2019	—	—	—	90,335
November 3, 2019 to November 30, 2019	—	—	—	90,335
December 1, 2019 to December 28, 2019	—	—	—	90,335
<b>Total</b>	<b>900</b>		<b>0</b>	<b>\$ 90,335</b>

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

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**Item 6. Selected Consolidated Financial Data**

	Year Ended				
	Dec. 29 2018	Dec. 29 2018	Dec. 30 2017 (53 weeks)	Dec. 31 2016	Dec. 26 2015
	(in thousands, except per share and net revenue per barrel data)				
<b>Income Statement Data:</b>					
Revenue	\$1,329,108	\$1,057,495	\$921,736	\$968,994	\$1,024,040
Less excise taxes	79,284	61,846	58,744	62,548	64,106
Net revenue	1,249,824	995,649	862,992	906,446	959,934
Cost of goods sold	635,658	483,406	413,091	446,776	458,317
Gross profit	614,166	512,243	449,901	459,670	501,617
Operating expenses:					
Advertising, promotional and selling expenses	355,613	304,853	258,649	244,213	273,629
General and administrative expenses	112,730	90,857	73,126	78,033	71,556
Impairment (gain on sale) of assets, net	911	652	2,451	(235)	258
Settlement proceeds	—	—	—	—	—
Total operating expenses	469,254	396,362	334,226	322,011	345,443
Operating income	144,912	115,881	115,675	137,659	156,174
Other (expense) income, net	(542)	405	467	(538)	(1,164)
Income before provision for income taxes	144,370	116,286	116,142	137,121	155,010
Provision for income taxes	34,329	23,623	17,093	49,772	56,596
Net income	\$ 110,041	\$ 92,663	\$ 99,049	\$ 87,349	\$ 98,414
Net income per share - basic	\$ 9.26	\$ 7.90	\$ 8.18	\$ 6.93	\$ 7.46
Net income per share - diluted	\$ 9.16	\$ 7.82	\$ 8.09	\$ 6.79	\$ 7.25
Weighted average shares outstanding - basic	11,781	11,622	12,035	12,533	13,123
Weighted average shares outstanding - diluted	11,908	11,734	12,180	12,796	13,520
<b>Balance Sheet Data:</b>					
Working capital	\$ 37,999	\$ 111,057	\$ 66,590	\$ 99,719	\$ 112,443
Total assets	\$1,054,057	\$ 639,851	\$569,624	\$623,297	\$ 645,400
Total long-term obligations	\$ 83,832	\$ 59,020	\$ 44,343	\$ 75,196	\$ 73,019
Total stockholders' equity	\$ 735,636	\$ 460,317	\$423,523	\$446,582	\$ 461,221
<b>Statistical Data:</b>					
Barrels sold	5,307	4,286	3,768	4,019	4,256
Net revenue per barrel	\$ 235.51	\$ 232.30	\$ 229.05	\$ 225.55	\$ 225.55

**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," "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 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

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to differ materially from those projected or anticipated. 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 alcohol beverages primarily in the domestic market and, to a lesser extent, in selected international markets. The Company's revenues are primarily derived by selling its beers, hard seltzers and hard ciders to Distributors, who in turn sell the products to retailers and drinkers. The Company completed the previously reported Dogfish Head Brewery transaction and began consolidating the Dogfish Head financial results on July 3, 2019.

The Company's beers, hard seltzers and hard ciders are primarily positioned in the market for High End beer occasions. The High End category has seen high single-digit compounded annual growth over the past ten years. The Company believes that the High End category is positioned to increase market share in the total beer category, as drinkers continue to trade up in taste and quality. Boston Beer is one of the largest suppliers in the High End category in the United States. The Company estimates that in 2019 the High End category percentage volume growth was approximately 11% with the craft beer category volume growth approximately 5% and total beer category volume growth approximately 2%. The Company believes that the High End category volume is over 30% of the United States beer market. Depletions or Distributor sales to retailers of the Company's beers, hard seltzers and hard ciders for the 52 week fiscal period ended December 28, 2019, increased approximately 22% from the comparable 52 week fiscal period in the prior year, of which 19% is from Boston Beer legacy brands and 3% is from the addition of Dogfish Head brands beginning July 3, 2019.

### **Outlook**

Year-to-date depletions reported to the Company for the 6 weeks ended February 8, 2020 are estimated by the Company to have increased approximately 34% from the comparable weeks in 2019. Excluding the Dogfish Head impact, depletions increased 28%.

The Company is targeting Non-GAAP earnings per diluted share for 2020 of between \$10.70 and \$11.70, excluding the impact of ASU 2016-09, *Stock Compensation (Topic 718)*, *Improvements to Employee Share-Based Payment Accounting*, but actual results could vary significantly from this target. The Company is forecasting 2020 depletions and shipments percentage increases of between 15% and 25%. Excluding the addition of the Dogfish Head brands, 2020 depletions and shipment growth is estimated between 11% and 21%. The Company is targeting national price increases of between 1% and 3%. Full-year 2020 gross margins are currently expected to be between 49% and 51%. The Company intends to increase advertising, promotional and selling expenses by between \$80 million and \$90 million for the full year 2020, an increase from the previously communicated estimate of between \$65 million and \$75 million, which does not include any increases in freight costs for the shipment of products to its Distributors. The Company intends to increase its investment in its brands in 2020 commensurate with the opportunities for growth that it sees, but there is no guarantee that such increased investments will result in increased volumes. The Company estimates a full-year 2020 Non-GAAP effective tax rate of approximately 27%, excluding the impact of ASU 2016-09. Non-GAAP earnings per diluted share and Non-GAAP effective tax rate are not defined terms under U.S. generally accepted accounting principles ("GAAP"). These Non-GAAP measures should not be considered in isolation or as a substitute for diluted earnings per share and effective tax rate data prepared in accordance with GAAP, and may not be comparable to calculations of similarly titled measures by other companies. Management believes these Non-GAAP measures provide meaningful and useful information to investors and analysts regarding our outlook and facilitate period to period comparisons of our forecasted financial performance. Non-GAAP earnings per diluted share and Non-GAAP effective tax rate exclude the potential impact of ASU 2016-09, which could be significant and will depend largely upon unpredictable future events outside the Company's control, including the timing and value realized upon exercise of stock options versus the fair value of those options when granted. Therefore, because of the uncertainty and variability of the impact of ASU 2016-09, the Company is unable to provide, without unreasonable effort, a reconciliation of these Non-GAAP measures on a forward-looking basis.

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The Company is continuing to evaluate 2020 capital expenditures. Its current estimates are between \$135 million and \$155 million, an increase in the previously communicated estimate of between \$95 million and \$115 million, consisting mostly of continued investments in capacity and efficiency improvements at the Company's breweries. The actual total amount spent on 2020 capital expenditures may well be different from these estimates. Based on information currently available, the Company believes that its capacity requirements for 2020 can be covered by its Company-owned breweries and existing contracted capacity at third-party brewers.

### Results of Operations

#### Year Ended December 28, 2019 Compared to Year Ended December 29, 2018

	Year Ended (in thousands, except per barrel)						Amount change	% change	Per barrel change
	Dec. 28 2019			Dec. 29 2018					
Barrels sold	5,307			4,286			1,021	23.8%	
		Per barrel	% of net revenue		Per barrel	% of net revenue			
Net revenue	\$ 1,249,824	\$ 235.51	100.0%	\$ 995,649	\$ 232.30	100.0%	\$ 254,175	25.5%	\$ 3.21
Cost of goods	635,658	119.78	50.9%	483,406	112.79	48.6%	152,252	31.5%	6.99
Gross profit	614,166	115.73	49.1%	512,243	119.52	51.4%	101,923	19.9%	(3.79)
Advertising, promotional and selling expenses	355,613	67.01	28.5%	304,853	71.13	30.6%	50,760	16.7%	(4.12)
General and administrative expenses	112,730	21.24	9.0%	90,857	21.20	9.1%	21,873	24.1%	0.04
Impairment of assets, net	911	0.17	0.1%	652	0.15	0.1%	259	39.7%	0.02
Total operating expenses	469,254	88.42	37.5%	396,362	92.48	39.8%	72,892	18.4%	(4.06)
Operating income	144,912	27.31	11.6%	115,881	27.04	11.6%	29,031	25.1%	0.27
Other (expense) income, net	(542)	(0.10)	0.0%	405	0.09	0.0%	(947)	-233.8%	(0.19)
Income before provision for income taxes	144,370	27.20	11.6%	116,286	27.13	11.7%	28,084	24.2%	0.07
Provision for income taxes	34,329	6.47	2.7%	23,623	5.51	2.4%	10,706	45.3%	0.96
Net income	\$ 110,041	\$ 20.74	8.8%	\$ 92,663	\$ 21.62	9.3%	\$ 17,378	18.8%	\$ (0.88)

**Net revenue.** Net revenue increased by \$254.2 million, or 25.5%, to \$1,249.8 million for the year ended December 28, 2019, as compared to \$995.6 million for the year ended December 29, 2018, due primarily to increased shipments.

**Volume.** Total shipment volume of 5,307,000 barrels for the year ended December 28, 2019 increased by 23.8% over 2018 levels of 4,286,000 barrels, due primarily to increases in shipments of Truly Hard Seltzer and Twisted Tea and the addition of the Dogfish Head brands, partially offset by decreases in its Samuel Adams and Angry Orchard brands.

Depletions, or sales by Distributors to retailers, of the Company's products for the year ended December 28, 2019 increased by approximately 22% compared to the prior year, primarily due to increases in depletions of Truly Hard Seltzer and Twisted Tea brands and the addition of the Dogfish Head brands, partially offset by decreases in its Samuel Adams and Angry Orchard brands.

**Net Revenue per barrel.** The net revenue per barrel increased by 1.4% to \$235.51 per barrel for the year ended December 28, 2019, as compared to \$232.30 per barrel for the year ended December 29, 2018, primarily due to price increases.

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Significant changes in the package mix could have a material effect on net revenue. The Company primarily packages its products in kegs, bottles and cans. Assuming the same level of production, a shift in the mix from kegs to bottles and cans would effectively increase revenue per barrel, as the price per equivalent barrel is lower for kegs than for bottles and cans. The percentage of bottles and cans to total shipments increased by 4.3% to 89.4% of total shipments for the year ended December 28, 2019 as compared to the year ended December 29, 2018.

**Cost of goods sold.** Cost of goods sold was \$119.78 per barrel for the year ended December 28, 2019, as compared to \$112.79 per barrel for the year ended December 29, 2018. The 2019 increase in cost of goods sold of \$6.99 or 6.2% per barrel was primarily the result of higher processing costs due to increased production at third party breweries and higher temporary labor at Company-owned breweries to support increased variety pack volumes, partially offset by cost saving initiatives at Company-owned breweries.

**Gross profit.** Gross profit was \$115.73 per barrel for the year ended December 28, 2019, as compared to \$119.52 per barrel for the year ended December 29, 2018. Gross margin was 49.1% for the year ended December 28, 2019, as compared to 51.4% for the year ended December 29, 2018.

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 \$50.8 million, or 16.7%, to \$355.6 million for the year ended December 28, 2019, as compared to \$304.9 million for the year ended December 29, 2018. The increase was primarily the result of increased investments in media, production and local marketing, higher salaries and benefits costs, increased freight to distributors due to higher volumes and the addition of Dogfish Head brand related expenses beginning July 3, 2019.

Advertising, promotional and selling expenses were 28.5% of net revenue, or \$67.01 per barrel, for the year ended December 28, 2019, as compared to 30.6% of net revenue, or \$71.13 per barrel, for the year ended December 29, 2018. 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 Distributors' markets, and the Distributors 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 Distributors for advertising and promotional activities have amounted to between 2% and 3% of net sales. The Company may adjust its promotional efforts in the Distributors' 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 \$21.9 million, or 24.1%, to \$112.7 million for the year ended December 28, 2019, as compared to \$90.9 million for the comparable period in 2018. The increase was primarily due to non-recurring Dogfish Head Transaction-related expenses of \$7.7 million, increases in salaries and benefits costs, and the addition of Dogfish Head general and administrative expenses beginning July 3, 2019.

**Impairment of assets.** For the year ended December 28, 2019, the Company incurred impairment charges of \$0.9 million, based upon its review of the carrying values of its property, plant and equipment. These impairment charges were primarily due to the write-down of brewery equipment at the Company's Pennsylvania and Cincinnati breweries.



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**Stock-based compensation expense.** For the year ended December 28, 2019, an aggregate of \$12.3 million in stock-based compensation expense is included in advertising, promotional and selling expenses and general and administrative expenses. Stock compensation increased by \$2.3 million in 2019 compared to 2018, primarily due to achievement of performance-based awards.

**Provision for income taxes.** The Company's effective tax rate increased to 23.8% for the year ended December 28, 2019 from approximately 20.3% for the year ended December 29, 2018. This increase was primarily due to the favorable impact in 2018 of tax accounting method changes.

### **Liquidity and Capital Resources**

Cash decreased to \$36.7 million as of December 28, 2019 from \$108.4 million as of December 29, 2018, reflecting cash used for the Dogfish Head Brewery Transaction and purchases of property, plant and equipment, partially offset by cash provided by operating and financing activities.

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

Cash provided by operating activities increased from \$163.4 million in 2018 to \$178.2 million in 2019 principally as a result of increases in shipments and operating income, partially offset by higher investments in working capital, particularly higher inventory to support increased demand.

The Company used \$258.8 million in investing activities during 2019, as compared to \$55.3 million during 2018. Investing activities in 2019 primarily consisted of \$165.5 million of investment in Dogfish Head, net of cash acquired, and capital investments made mostly in the Company's breweries to drive efficiencies and cost reductions, and support product innovation and future growth.

Cash provided by financing activities was \$8.9 million during 2019, as compared to \$65.3 million used in financing activities during 2018. The \$74.2 million increase in cash provided by financing activities in 2019 from 2018 is primarily due to a decrease in stock repurchases under the Company's Stock Repurchase Program and an increase in proceeds from the exercise of stock options.

In 1998, the Board of Directors authorized management to implement a stock repurchase program. During the year ended December 28, 2019, the Company did not repurchase any shares of its Class A Common Stock under the stock repurchase program. As of December 28, 2019, the Company had repurchased a cumulative total of approximately 13.8 million shares of its Class A Common Stock for an aggregate purchase price of \$840.7 million. From December 29, 2019 through February 14, 2020, the Company did not repurchase any shares of its Class A Common Stock. The Company has approximately \$90.3 million remaining on the \$931.0 million stock repurchase expenditure limit set by the Board of Directors.

The Company expects that its cash balance as of December 28, 2019 of \$36.7 million, along with future operating cash flow and the Company's unused line of credit of \$150.0 million, will be sufficient to fund future cash requirements. The Company's \$150.0 million credit facility has a term not scheduled to expire until March 31, 2023. As of the date of this filing, 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.

### **Critical Accounting Policies**

The discussion and analysis of the Company's financial condition and results of operations is based upon its consolidated financial statements, which have been prepared in accordance with U.S. generally accepted

accounting principles. The preparation of these financial statements requires the Company 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. The more judgmental estimates are summarized below. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that the Company believes to be reasonable under the circumstances. Actual results may differ from the Company's estimates if past experience or other assumptions do not turn out to be substantially accurate.

#### *Provision for Excess or Expired Inventory*

The provisions for excess or expired inventory are based on management's estimates of forecasted usage of inventories on hand and under contract. Forecasting usage involves significant judgments regarding future demand for the Company's various existing products and products under development as well as the potency and shelf-life of various ingredients. 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 included in cost of goods sold and have historically been adequate to provide for losses on its inventory. Provision for excess or expired inventory included in cost of goods sold was \$8.1 million, \$4.2 million and \$5.8 million in fiscal years 2019, 2018 and 2017, respectively.

#### *Valuation of Property, Plant and Equipment*

The carrying value of property, plant and equipment, net of accumulated depreciation, at December 28, 2019 was \$430.6 million. 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, semi-annually, or more frequently when indicators of impairment are present. Evaluations of whether indicators of impairment exist involve judgments regarding the current and future business environment and the length of time the Company intends to use the asset. 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. Estimating the amount of impairment, if any, requires significant judgments including identification of potential impairments, market comparison to similar assets, estimated cash flows to be generated by the asset, discount rates, and the remaining useful life of the asset. Impairment of assets included in operating expenses was \$0.9 million, \$0.7 million and \$2.5 million in fiscal years 2019, 2018 and 2017, respectively.

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 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. The Company believes that the carrying value of its long-lived assets was realizable as of December 28, 2019 and December 29, 2018.

#### *Valuation of Goodwill and Indefinite Lived Intangible Assets*

The Company has recorded intangible assets with indefinite lives and goodwill for which impairment testing is required at least annually or more frequently if events or circumstances indicate that these assets might be impaired. The Company performs its annual impairment tests and re-evaluates the useful lives of other intangible assets with indefinite lives at the annual impairment test measurement date in the third quarter of each fiscal year or when circumstances arise that indicate a possible impairment or change in useful life might exist.

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The guidance for goodwill impairment testing allows an entity to assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the estimated fair value of a reporting unit, of which the Company has one, is less than its carrying amount or to proceed directly to performing a quantitative impairment test.

Under the quantitative assessment, the estimated fair value of the Company's reporting unit is compared to its carrying value, including goodwill. The estimate of fair value of the Company's reporting unit is generally calculated based on an income approach using the discounted cash flow method supplemented by the market approach which considers the Company's market capitalization and enterprise value. If the estimated fair value of the Company's reporting unit is less than the carrying value of its reporting unit, a goodwill impairment will be recognized. The amount of impairment charge for goodwill is equal to the excess of the carrying value of the goodwill over the implied fair value of the goodwill. In estimating the fair value of the Company's reporting unit, management must make assumptions and projections regarding such items as future cash flows, future revenues, future earnings, cost of capital, and other factors. The assumptions used in the estimate of fair value are based on historical trends and the projections and assumptions that are used in current strategic operating plans. These assumptions reflect management's estimates of future economic and competitive conditions and are, therefore, subject to change as a result of changing market conditions. If these estimates or their related assumptions change in the future, the Company may be required to recognize an impairment loss for these assets. The recognition of any resulting impairment loss could have a material adverse impact on the Company's financial statements.

The Company's other intangible assets consist primarily of customer relationships and a trademark obtained through the Company's Dogfish Head acquisition. Customer relationships are amortized over their estimated useful lives. The trademark which was determined to have an indefinite useful life is not amortized. The guidance for indefinite lived intangible asset impairment testing allows an entity to assess qualitative factors to determine whether the existence of events or circumstances indicates that it is more likely than not that the indefinite lived intangible asset is impaired or to proceed directly to performing the quantitative impairment test. Under the quantitative assessment, the trademark is evaluated for impairment by comparing the carrying value of the trademark to its estimated fair value. The estimated fair value of the trademark is calculated based on an income approach using the relief from royalty method. The estimate of fair value is then compared to the carrying value the trademark. If the estimated fair value is less than the carrying value of the trademark, then an impairment charge is recognized to reduce the carrying value of the trademark to its estimated fair value

In estimating the fair value of the trademark, management must make assumptions and projections regarding future cash flows based upon future revenues, the market-based royalty rate, and other factors. The assumptions used in the estimate of fair value are consistent with historical trends and the projections and assumptions that are used in current strategic operating plans. These assumptions reflect management's estimates of future economic and competitive conditions and are, therefore, subject to change as a result of changing market conditions. If these estimates or their related assumptions change in the future, the Company may be required to recognize an impairment loss for these assets. The recognition of any resulting impairment loss could have a material adverse impact on the Company's financial statements.

### *Business Combinations*

On July 3, 2019, the Company completed its acquisition of Dogfish Head Brewery and various related operations (the "Transaction"), through the acquisition of all of the equity interests held by certain private entities in Off-Centered Way LLC, the parent holding company of the Dogfish Head Brewery operations. Dogfish Head results of operations have been included in the Company's financial results beginning after the closing date of July 3, 2019. Under the acquisition method of accounting, the Company allocated the fair value of purchase consideration transferred to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the date of the acquisition. The fair values assigned, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants, are based on estimates and assumptions determined by management. The excess purchase

consideration over the aggregate fair value of tangible and intangible assets, net of liabilities assumed, is recorded as goodwill. When determining the fair value of assets acquired and liabilities assumed, the Company makes significant estimates and assumptions, especially with respect to intangible assets. The Company's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. The fair value of the assets acquired and liabilities assumed is typically determined by using either estimates of replacement costs or discounted cash flow valuation methods. When determining the fair value of tangible assets acquired, the Company must estimate the cost to replace the asset with a new asset taking into consideration such factors as age, condition and the economic useful life of the asset. When determining the fair value of intangible assets acquired, the Company must estimate the applicable discount rate, the royalty rate, and the timing and amount of future expected cash flows. During the measurement period, not to exceed one year from the date of acquisition, the Company may record adjustments to the assets acquired and liabilities assumed, with a corresponding offset to goodwill if new information is obtained related to facts and circumstances that existed as of the acquisition date. After the measurement period, any subsequent adjustments are reflected in the consolidated statements of operations. Acquisition costs, such as legal and consulting fees, are expensed as incurred.

#### *Revenue Recognition and Classification of Customer Programs and Incentives*

The Company recognizes revenue when obligations under the terms of a contract with its customer are satisfied; generally, this occurs with the transfer of control of its products. Revenue is measured as the amount of consideration expected to be received in exchange for transferring products. If the conditions for revenue recognition are not met, the Company defers the revenue until all conditions are met. As of December 28, 2019 and December 29, 2018, the Company has deferred \$7.0 million and \$4.6 million, respectively in revenue related to product shipped prior to these dates. These amounts are included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

The Company is committed to maintaining the freshness of the product in the market. In certain circumstances and with the Company's approval, the Company accepts and destroys stale beer that is returned by Distributors. The Company generally 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 reduces revenue and establishes an accrual based upon both historical returns, which is applied to an estimated lag time for receipt of product, and knowledge of specific return transactions. Estimating this reserve involves significant judgments and estimates, including comparability of historical return trends to future trends, lag time from date of sale to date of return, and product mix of returns. Stale beer expense is reflected in the accompanying financial statements as a reduction of revenue. Historically, the cost of actual stale beer returns has been in line with established reserves, however, the cost could differ materially from the estimated reserve which would impact revenue. As of December 28, 2019 and December 29, 2018, the stale beer reserve was \$1.8 million and \$2.1 million, respectively.

Customer programs and incentives are a common practice in the alcohol beverage industry. Amounts paid in connection with customer programs and incentives are recorded as reductions to net revenue or as advertising, promotional and selling expenses, based on the nature of the expenditure. Customer incentives and other payments made to Distributors are primarily based upon performance of certain marketing and advertising activities. Depending on applicable state laws and regulations, these activities promoting the Company's products may include, but are not limited to point-of-sale and merchandise placement, samples, product displays, promotional programs at retail locations and meals, travel and entertainment. Amounts paid to customers in connection with these programs that were recorded as reductions to net revenue or as advertising, promotional and selling expenses totaled \$75.2 million, \$55.5 million and \$51.8 million in fiscal year 2019, 2018 and 2017, respectively. Estimates are based on historical and projected experience for each type of program or customer and have historically been in line with actual costs incurred.

Customer promotional discount programs are entered into with Distributors for certain periods of time. Amounts paid to Distributors in connection with these programs in fiscal years 2019, 2018 and 2017 were \$43.9 million, \$34.5 million and \$30.2 million, respectively. The reimbursements for discounts to Distributors are recorded as reductions to net revenue. 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 allowance requires that management make certain estimates and assumptions that affect the timing and amounts of revenue and liabilities recorded. Actual promotional discounts owed and paid have historically been in line with allowances recorded by the Company, however, the amounts could differ from the estimated allowance.

Customer incentives and other payments are made primarily to Distributors based upon performance of certain marketing and advertising activities. Depending on applicable state laws and regulations, these activities promoting the Company's products may include, but are not limited to point-of-sale and merchandise placement, samples, product displays, promotional programs at retail locations and meals, travel and entertainment. Amounts paid to customers in connection with these programs in fiscal years 2019, 2018 and 2017 were \$31.2 million, \$21.0 million and \$21.6 million, respectively. In fiscal 2019, 2018 and 2017, the Company recorded certain of these costs in the total amount of \$21.6 million, \$13.9 million, and \$15.3 million, respectively, as reductions to net revenue. Costs recognized in net revenues include, but are not limited to, promotional discounts, sales incentives and certain other promotional activities. Costs recognized in advertising, promotional and selling expenses include point of sale materials, samples and media advertising expenditures in local markets. These costs are recorded as incurred, generally when invoices are received; however certain estimates are required at period end. Estimates are based on historical and projected experience for each type of program or customer and have historically been in line with actual costs incurred.

In connection with its preparation of financial statements and other financial reporting, management is required to make certain estimates and assumptions regarding the amount, timing and classification of expenditures resulting from these activities. Actual expenditures incurred could differ from management's estimates and assumptions.

#### *Stock-Based Compensation*

The Company accounts for share-based awards in accordance with ASC Topic 718, Compensation – Stock Compensation ("ASC 718"), which generally requires recognition of share-based compensation costs in financial statements based on fair value. Compensation cost is recognized over the period during which an employee is required to provide services in exchange for the award (the requisite service period). The amount of compensation cost recognized in the consolidated statements of comprehensive income is based on the awards ultimately expected to vest, and therefore, reduced for estimated forfeitures. Stock-based compensation was \$12.3 million, \$10.0 million and \$6.3 million in fiscal years 2019, 2018 and 2017, respectively.

As permitted by ASC 718, the Company elected to use a lattice model, such as the trinomial option-pricing model, to estimate the fair values of stock options. All option-pricing models require the input of subjective assumptions. These assumptions include the estimated volatility of the Company's common stock price over the expected term, the expected dividend rate, the estimated post-vesting forfeiture rate, the risk-free interest rate and expected exercise behavior. See Note L of the Notes to Consolidated Financial Statements for further discussion of the application of the option-pricing models.

In addition, an estimated pre-vesting 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 in the consolidated statements of comprehensive income.

## **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 High End category within the United States is highly competitive due to large domestic and international brewers and the increasing number of craft brewers in this category 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 brands, while realizing that economic pricing pressures may affect future pricing levels. Large domestic and international 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 competition among domestic craft brewers will remain strong, as the number of craft brewers continues to grow. 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 High End category. As the market matures and the High End 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 its over 400 Distributors nationwide and the Company's sales force of approximately 426 people, as well as a commitment to maintaining its innovation capability, brand equity and quality, the Company believes it is well positioned to compete in the High End Beer category.

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

### ***Contractual Obligations***

See Note J of the Notes to Consolidated Financial Statements.

### ***Recent Accounting Pronouncements***

See Note B of the Notes to Consolidated Financial Statements.

### ***Off-Balance Sheet Arrangements***

The Company has not entered into any material off-balance sheet arrangements as of December 28, 2019.

## **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, as described in Note J of the Notes to Consolidated Financial Statements, and makes purchases of other ingredients, equipment and machinery denominated in foreign currencies. The cost of these commitments changes as foreign exchange rates fluctuate. Currently, it is not the Company's policy to hedge against foreign currency fluctuations.

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The interest rate for borrowings under the Company's credit facility is based on either (i) the Alternative Prime Rate (4.75% at December 28, 2019) or (ii) the applicable LIBOR rate (1.75% at December 28, 2019) plus 0.45%, and therefore, subjects the Company to fluctuations in such rates. As of December 28, 2019, 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 \$3.8 million as of December 28, 2019.

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.

**Item 8. Financial Statements and Supplementary Data**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and the Board of Directors of  
The Boston Beer Company, Inc.  
Boston, Massachusetts

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of The Boston Beer Company, Inc. and subsidiaries (the “Company”) as of December 28, 2019 and December 29, 2018 and the related consolidated statements of comprehensive income, stockholders’ equity, and cash flows, for each of the three fiscal years in the period ended December 28, 2019, and the related notes. In our opinion, the financial statements present fairly, in all material respects, the financial position of The Boston Beer Company, Inc. and subsidiaries as of December 28, 2019 and December 29, 2018 and the results of its operations and its cash flows for each of the three fiscal years in the period ended December 28, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 28, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

**Change in Accounting Principle**

As discussed in Note B to the financial statements, effective December 30, 2018, the Company adopted FASB Accounting Standards Update 2016-02, *Leases (Topic 842)*, using the modified retrospective approach.

**Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our



opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

**Acquisition of Dogfish Head Brewery — Refer to Note C to the financial statements**

Critical Audit Matter Description

The Company completed the acquisition of Dogfish Head Brewery for total consideration of \$336 million on July 3, 2019. The Company accounted for this transaction under the acquisition method of accounting for business combinations. Accordingly, the purchase price was allocated, on a preliminary basis, to the assets acquired and liabilities assumed based on their respective fair values, including identified intangible assets of \$102.3 million and resulting goodwill of \$108.8 million. Of the identified intangible assets acquired, the most significant is a brand indefinite lived intangible asset of \$98.5 million (the “Dogfish Head brand trade name”). The Company estimated the fair value of the Dogfish Head brand trade name using the relief-from-royalty method, which is a specific application of the discounted-cash-flow-method that required management to make significant estimates and assumptions related to forecasts of revenue growth projections, including growth rates for a 10-year time period, royalty rates, discount rates, and methodologies utilized in the valuation models.

We identified the Dogfish Head brand trade name for Dogfish Head Brewery as a critical audit matter because of the significant estimates and assumptions management made to fair value this asset for purposes of recording the acquisition. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures, including the need to involve fair value specialists, to evaluate the reasonableness of management’s forecasts of future revenue, specifically the long-term growth rate, as well as the selection of the royalty rates, discount rates and methodologies utilized in the valuation models.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to forecasts of revenue growth projections, the selection of the royalty rates, discount rates, as well as the methodologies utilized in the valuation models for the Dogfish Head brand trade name included the following, among others:

- We tested the effectiveness of controls over the valuation of the Dogfish Head brand trade name, including management’s controls over forecasts of revenue growth projections, the selection of the royalty rates, discount rates, as well as the methodologies utilized in the valuation models.
- We evaluated the reasonableness of management’s forecast of revenue growth projections by comparing the projections to historical results and calculating independent revenue projections based on objectively verifiable evidence.
- With the assistance of fair value specialists, we evaluated the reasonableness of the revenue growth projections, royalty rates, discount rates, and valuation methodologies by:
  - Testing the source information underlying the determination of revenue growth projections, specifically the long-term growth rate, royalty rates, and discount rates, and testing the mathematical accuracy of the calculations.
  - Developing a range of independent estimates for the discount rate and comparing those to the discount rate selected by management.

/s/ Deloitte & Touche LLP

Boston, Massachusetts  
February 19, 2020

We have served as the Company’s auditor since 2015.

**THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands, except per share data)

	Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Revenue	\$ 1,329,108	\$ 1,057,495	\$ 921,736
Less excise taxes	79,284	61,846	58,744
Net revenue	1,249,824	995,649	862,992
Cost of goods sold	635,658	483,406	413,091
Gross profit	614,166	512,243	449,901
Operating expenses:			
Advertising, promotional and selling expenses	355,613	304,853	258,649
General and administrative expenses	112,730	90,857	73,126
Impairment of assets	911	652	2,451
Total operating expenses	469,254	396,362	334,226
Operating income	144,912	115,881	115,675
Other (expense) income, net:			
Interest income	647	1,292	549
Other expense, net	(1,189)	(887)	(82)
Total other (expense) income, net	(542)	405	467
Income before provision for income tax	144,370	116,286	116,142
Provision for income taxes	34,329	23,623	17,093
Net income	\$ 110,041	\$ 92,663	\$ 99,049
Net income per common share - basic	\$ 9.26	\$ 7.90	\$ 8.18
Net income per common share - diluted	\$ 9.16	\$ 7.82	\$ 8.09
Weighted-average number of common shares - Class A basic	8,908	8,620	8,933
Weighted-average number of common shares - Class B basic	2,873	3,002	3,102
Weighted-average number of common shares - diluted	11,908	11,734	12,180
Net income	\$ 110,041	\$ 92,663	\$ 99,049
Other comprehensive (loss) income, net of tax:			
Currency translation adjustment	47	25	17
Defined benefit plans liability adjustment	(519)	277	(202)
Impact of ASU 2018-02	—	(211)	—
Total other comprehensive (loss) income, net of tax:	(472)	91	(185)
Comprehensive income	\$ 109,569	\$ 92,754	\$ 98,864

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

**THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	December 28, 2019	December 29, 2018
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 36,670	\$ 108,399
Accounts receivable	54,404	34,073
Inventories	106,038	70,249
Prepaid expenses and other current assets	12,077	13,136
Income tax receivable	9,459	5,714
Total current assets	218,648	231,571
Property, plant and equipment, net	541,068	389,789
Operating right-of-use assets	53,758	—
Goodwill	112,529	3,683
Intangible assets	104,272	2,099
Other assets	23,782	12,709
Total assets	<u>\$ 1,054,057</u>	<u>\$ 639,851</u>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 76,374	\$ 47,102
Accrued expenses and other current liabilities	99,107	73,412
Current operating lease liabilities	5,168	—
Total current liabilities	180,649	120,514
Deferred income taxes	75,010	49,169
Non-current operating lease liabilities	53,940	—
Other liabilities	8,822	9,851
Total liabilities	318,421	179,534
Commitments and Contingencies		
Stockholders' Equity:		
Class A Common Stock, \$.01 par value; 22,700,000 shares authorized; 9,370,526 and 8,580,593 shares issued and outstanding as of December 28, 2019 and December 29, 2018, respectively	94	86
Class B Common Stock, \$.01 par value; 4,200,000 shares authorized; 2,672,983 and 2,917,983 shares issued and outstanding as of December 28, 2019 and December 29, 2018, respectively	27	29
Additional paid-in capital	571,784	405,711
Accumulated other comprehensive loss, net of tax	(1,669)	(1,197)
Retained earnings	165,400	55,688
Total stockholders' equity	735,636	460,317
Total liabilities and stockholders' equity	<u>\$ 1,054,057</u>	<u>\$ 639,851</u>

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

**THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**For the Years Ended December 28, 2019, December 29, 2018, and December 30, 2017**  
(in thousands)

	Class A Common Shares	Class A Common Stock, Par	Class B Common Shares	Class B Common Stock, Par	Additional Paid-in Capital	Accumulated Other Comprehensive Loss, net of tax	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2016	9,171	92	3,197	32	349,913	(1,103)	97,648	446,582
Net income							99,049	99,049
Stock options exercised and restricted shares activities	217	2			16,361			16,363
Stock-based compensation expense					6,316			6,316
Repurchase of Class A Common Stock	(964)	(10)					(144,592)	(144,602)
Conversion from Class B to Class A	179	2	(179)	(2)				—
Defined benefit plans liability adjustment, net of tax of \$68						(202)		(202)
Currency translation adjustment						17		17
Balance at December 30, 2017	<u>8,603</u>	<u>\$ 86</u>	<u>3,018</u>	<u>\$ 30</u>	<u>\$ 372,590</u>	<u>\$ (1,288)</u>	<u>\$ 52,105</u>	<u>\$ 423,523</u>
Net income							92,663	92,663
Stock options exercised and restricted shares activities	227	2			23,086			23,088
Stock-based compensation expense					10,035			10,035
Repurchase of Class A Common Stock	(350)	(3)					(88,309)	(88,312)
Conversion from Class B to Class A	100	1	(100)	(1)				—
Defined benefit plans liability adjustment, net of tax of \$93						277		277
Currency translation adjustment						25		25
One time effect of adoption of ASU 2014-09, Revenue from Contracts with Customers, net of tax of \$329							(982)	(982)
One time effect of adoption of ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income						(211)	211	—
Balance at December 29, 2018	<u>8,580</u>	<u>\$ 86</u>	<u>2,918</u>	<u>\$ 29</u>	<u>\$ 405,711</u>	<u>\$ (1,197)</u>	<u>\$ 55,688</u>	<u>\$ 460,317</u>
Net income							110,041	110,041
Stock options exercised and restricted shares activities	116	1			8,998			8,999
Stock-based compensation expense					12,337			12,337
Shares issued in connection with Dogfish Head merger	430	5			144,738			144,743
Repurchase of Class A Common Stock								—
Conversion from Class B to Class A	245	2	(245)	(2)				—
Defined benefit plans liability adjustment, net of tax of \$176						(519)		(519)
Adoption of ASU 2014-09, Revenue from Contracts with Customers, tax adjustment							(329)	(329)
Currency translation adjustment						47		47
Balance at December 28, 2019	<u>9,371</u>	<u>\$ 94</u>	<u>2,673</u>	<u>\$ 27</u>	<u>\$ 571,784</u>	<u>\$ (1,669)</u>	<u>\$ 165,400</u>	<u>\$ 735,636</u>

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

**THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	<b>Year Ended</b>		
	<b>December 28, 2019</b>	<b>December 29, 2018</b>	<b>December 30, 2017</b>
<b>Cash flows provided by operating activities:</b>			
Net income	\$ 110,041	\$ 92,663	\$ 99,049
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	56,271	51,968	51,256
Impairment of assets	911	652	2,451
Loss on disposal of property, plant and equipment	871	64	764
Change in ROU assets	4,207	—	—
Bad debt expense	45	2	—
Stock-based compensation expense	12,337	10,035	6,316
Deferred income taxes	7,404	14,350	(22,442)
Changes in operating assets and liabilities:			
Accounts receivable	(12,260)	(1,636)	2,945
Inventories	(24,932)	(21,312)	(1,741)
Prepaid expenses, income tax receivable and other assets	(13,862)	(552)	(4,511)
Accounts payable	21,417	6,352	245
Accrued expenses and other current liabilities	18,618	10,130	2,671
Change in operating lease liability	(3,277)	—	—
Other liabilities	451	731	(1,021)
Net cash provided by operating activities	<u>178,242</u>	<u>163,447</u>	<u>135,982</u>
<b>Cash flows used in investing activities:</b>			
Purchases of property, plant and equipment	(93,233)	(55,460)	(32,987)
Proceeds from sale of property, plant and equipment	165	27	25
Cash paid for acquisition of intangible assets	—	(50)	—
Investment in Dogfish Head, net of cash acquired	(165,517)	—	—
Other investing activities	(244)	139	33
Net cash used in investing activities	<u>(258,829)</u>	<u>(55,344)</u>	<u>(32,929)</u>
<b>Cash flows provided by (used in) financing activities:</b>			
Repurchase of Class A Common Stock	—	(88,312)	(144,602)
Proceeds from exercise of stock options	8,063	22,143	15,415
Payment of taxes related to exercise of stock options	—	—	—
Net cash paid on note payable and finance leases	(378)	(78)	(60)
Cash borrowed on line of credit	97,000	—	—
Cash paid on line of credit	(97,000)	—	—
Net proceeds from sale of investment shares	1,173	906	796
Net cash provided by (used in) financing activities	<u>8,858</u>	<u>(65,341)</u>	<u>(128,451)</u>
Change in cash and cash equivalents	<u>(71,729)</u>	<u>42,762</u>	<u>(25,398)</u>
Cash and cash equivalents at beginning of year	108,399	65,637	91,035
Cash and cash equivalents at end of period	<u>\$ 36,670</u>	<u>\$ 108,399</u>	<u>\$ 65,637</u>
<b>Supplemental disclosure of cash flow information:</b>			
Non cash consideration issued in Dogfish Head Transaction	\$ 144,743	\$ —	\$ —
Income taxes paid	\$ 30,760	\$ 11,353	\$ 43,006
Income taxes refunded	\$ 18	\$ 5,000	\$ —
Cash paid for amounts included in measurement of lease liabilities			
Operating cash flows from operating leases	\$ 4,696	\$ —	\$ —
Operating cash flows from finance leases	\$ 56	\$ —	\$ —
Financing cash flows from finance leases	\$ 313	\$ —	\$ —
Right-of-use assets obtained in exchange for operating lease obligations	\$ 57,966	\$ —	\$ —
Right-of-use assets obtained in exchange for finance lease obligations	\$ 2,837	\$ —	\$ —
Interest paid on revolving credit facility	\$ 451	\$ —	\$ —
Increase (decrease) in accounts payable for purchase of property, plant and equipment	\$ 3,994	\$ 2,609	\$ (2,689)
Increase in accrued expenses for purchase of property, plant and equipment	\$ 2,638	\$ —	\$ —

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

**THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 28, 2019**

**A. Organization and Basis of Presentation**

The Boston Beer Company, Inc. and certain subsidiaries (the “Company”) are engaged in the business of selling alcohol beverages throughout the United States and in selected international markets, under the trade names “The Boston Beer Company<sup>®</sup>”, “Twisted Tea Brewing Company<sup>®</sup>”, “Hard Seltzer Beverage Company”, “Angry Orchard<sup>®</sup> Cider Company”, “Dogfish Head<sup>®</sup> Craft Brewery”, “Angel City<sup>®</sup> Brewing Company”, “Concrete Beach Brewery<sup>®</sup>”, “Coney Island<sup>®</sup> Brewing Company” and “American Fermentation Company”.

**B. Summary of Significant Accounting Policies**

***Fiscal Year***

The Company’s fiscal year is a fifty-two or fifty-three-week period ending on the last Saturday in December. The 2019, 2018 and 2017 fiscal years all consisted of fifty-two weeks.

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All intercompany transactions and balances have been eliminated in consolidation.

***Use of Estimates***

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Cash, Cash Equivalents and Restricted Cash***

Cash and cash equivalents at December 28, 2019 and December 29, 2018 included cash on-hand and money market instruments that are highly liquid investments. Cash and cash equivalents are carried at cost, which approximates fair value.

The Company has restricted cash associated with a term note agreement with Bank of America that was required by the Commonwealth of Pennsylvania to fund economic development at the Company’s Pennsylvania Brewery. The restricted cash subject to this agreement amounted to \$213,000 and \$278,000 at December 28, 2019 and December 29, 2018, respectively, and is included in other assets on the Company’s Consolidated Balance Sheets.

***Accounts Receivable and Allowance for Doubtful Accounts***

The Company’s accounts receivable primarily consist of trade receivables. The Company records an allowance for doubtful accounts that is based on historical trends, customer knowledge, any known disputes, and the aging of the accounts receivable balances combined with management’s estimate of future potential recoverability. Receivables are written off against the allowance after all attempts to collect a receivable have failed. The Company believes its allowance for doubtful accounts as of December 28, 2019 and December 29, 2018 are adequate, but actual write-offs could exceed the recorded allowance.

### ***Concentrations of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents and trade receivables. The Company places its cash equivalents with high credit quality financial institutions. As of December 28, 2019, the Company's cash and cash equivalents were invested in investment-grade, highly liquid U.S. government agency corporate money market accounts.

The Company sells primarily to a network of independent wholesalers in the United States and to a network of foreign wholesalers, importers or other agencies (collectively referred to as "Distributors"). In 2019, 2018 and 2017, sales to foreign Distributors were approximately 4% of total sales. Receivables arising from these sales are not collateralized; however, credit risk is minimized as a result of the large and diverse nature of the Company's customer base. There were no individual customer accounts receivable balances outstanding at December 28, 2019 or December 29, 2018 that were in excess of 10% of the gross accounts receivable balance on those dates. No individual customers represented more than 10% of the Company's revenues in fiscal years 2019, 2018, or 2017.

### ***Financial Instruments and Fair Value of Financial Instruments***

The Company's primary financial instruments at December 28, 2019 and December 29, 2018 consisted of cash equivalents, accounts receivable, and accounts payable. The Company determines the fair value of its financial assets and liabilities in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"). The Company believes that the carrying amount of its cash equivalents, accounts receivable, and accounts payable approximates fair value due to the short-term nature of these assets and liabilities. The Company is not exposed to significant interest, currency or credit risks arising from these financial assets and liabilities.

### ***Inventories and Provision for Excess or Expired Inventory***

Inventories consist of raw and packaging materials, work in process and finished goods. Raw materials, which principally consist of hops, malt, apple juice, other brewing materials and packaging, are stated at the lower of cost (first-in, first-out basis) or net realizable value. The Company's goal is to maintain on-hand a supply of approximately two years for essential hop varieties, in order to limit the risk of an unexpected reduction in supply. Inventories are generally classified as current assets. The Company classifies hops inventory in excess of two years of forecasted usage in other long-term assets. The cost elements of work in process and finished goods inventory consist of raw materials, direct labor and manufacturing overhead. Packaging design costs are expensed as incurred. The Company enters into multi-year purchase commitments in order to secure adequate supply of ingredients and packaging, to brew and package its products. Inventory on hand and under purchase commitments totaled approximately \$222.8 million at December 28, 2019.

The provisions for excess or expired inventory are based on management's estimates of forecasted usage of inventories on hand and under contract. Forecasting usage involves significant judgments regarding future demand for the Company's various existing products and products under development as well as the potency and shelf-life of various ingredients. 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 included in cost of goods sold and have historically been adequate to cover incurred inventory losses. Provision for excess or expired inventory included in cost of goods sold was \$8.1 million, \$4.2 million, and \$5.8 million in fiscal years 2019, 2018, and 2017 respectively.

### ***Property, Plant and Equipment***

Property, plant, and equipment are stated at cost. Expenditures for repairs and maintenance are expensed as incurred. Major renewals and betterments that extend the life of the property are capitalized. Depreciation is

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computed using the straight-line method based upon the estimated useful lives of the underlying assets as follows:

Kegs	5 years
Computer software and equipment	2 to 5 years
Office equipment and furniture	3 to 7 years
Machinery and plant equipment	3 to 20 years, or the term of the production agreement, whichever is shorter
Leasehold improvements	Lesser of the remaining term of the lease or estimated useful life of the asset
Building and building improvements	12 to 20 years, or the remaining useful life of the building, whichever is shorter

The carrying value of property, plant and equipment, net of accumulated depreciation, at December 28, 2019 was \$538.5 million. 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, semi-annually, or more frequently when indicators of impairment are present. Evaluations of whether indicators of impairment exist involve judgments regarding the current and future business environment and the length of time the Company intends to use the asset. 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. Estimating the amount of impairment, if any, requires significant judgments including identification of potential impairments, market comparison to similar assets, estimated cash flows to be generated by the asset, discount rates, and the remaining useful life of the asset. Impairment of assets included in operating expenses was \$0.9 million, \$0.7 million, and \$2.5 million in fiscal years 2019, 2018 and 2017, respectively.

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 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. The Company believes that the carrying value of its long-lived assets as of December 28, 2019 and December 29, 2018 was realizable.

### ***Segment Reporting***

The Company consists of one operating segment that produces and sells alcohol beverages under the Company's Samuel Adams, Twisted Tea, Truly Hard Seltzer, Angry Orchard, Dogfish Head, Angel City, Coney Island, Concrete Beach, Wild Leaf and Tura brands. All brands are predominantly beverages that are manufactured using similar production processes, have comparable alcohol content, generally fall under the same regulatory environment, and are sold to the same types of customers in similar size quantities at similar price points and through the same channels of distribution.

### ***Goodwill and Intangible Assets***

The Company does not amortize goodwill and tradename intangible assets but evaluates the recoverability by comparing the carrying value and the fair value annually at the end of the fiscal month of August, or more



frequently when indicators of impairment are present. The Company has concluded that its goodwill and intangible assets were not impaired as of December 28, 2019 and December 29, 2018. Customer relationship intangible assets are amortized over the useful life of fifteen years. As of December 28, 2019, and December 29, 2018, goodwill amounted to \$112.5 million and \$3.7 million, respectively. As of December 28, 2019, and December 29, 2018, intangible assets amounted to \$104.3 million and \$2.1 million, respectively. The increase in 2019 in goodwill and intangible assets was due to the Dogfish Head transaction. See Note C for further discussion.

#### ***Refundable Deposits on Kegs and Pallets***

The Company distributes its draft beer in kegs and packaged beer primarily in glass bottles and cans and such kegs, bottles and cans are shipped on pallets to Distributors. Most kegs and pallets are owned by the Company. Kegs are reflected in the Company's balance sheets at cost and are depreciated over the estimated useful life of the keg, while pallets are expensed upon purchase. Upon shipment of beer to Distributors, the Company collects a refundable deposit on the kegs and pallets, which is included in current liabilities in the Company's balance sheets. Upon return of the kegs and pallets to the Company, the deposit is refunded to the Distributor.

The Company has experienced some loss of kegs and pallets and anticipates that some loss will occur in future periods due to the significant volume of kegs and pallets handled by each Distributor and retailer, the homogeneous nature of kegs and pallets owned by most brewers, and the relatively small deposit collected for each keg when compared with its market value. The Company believes that this is an industry-wide issue and that the Company's loss experience is not atypical. The Company believes that the loss of kegs and pallets, after considering the forfeiture of related deposits, has not been material to the financial statements. The Company uses internal records, records maintained by Distributors, records maintained by other third-party vendors and historical information to estimate the physical count of kegs and pallets held by Distributors. These estimates affect the amount recorded as property, plant and equipment and current liabilities as of the date of the financial statements. The actual liability for refundable deposits could differ from these estimates. For the year ended December 28, 2019, the Company decreased its liability for refundable deposits, gross property, plant and equipment and related accumulated depreciation by \$0.8 million, \$1.3 million and \$1.3 million, respectively. For the year ended December 29, 2018, the Company decreased its liability for refundable deposits, gross property, plant and equipment and related accumulated depreciation by \$1.2 million, \$1.1 million and \$1.1 million, respectively. As of December 28, 2019, and December 29, 2018, the Company's balance sheet includes \$19.5 million and \$17.0 million, respectively, in refundable deposits on kegs and pallets and \$0.5 million and \$1.9 million, respectively, in kegs, net of accumulated depreciation.

#### ***Income Taxes***

Income tax expense was \$34.3 million, \$23.6 million, and \$17.1 million in fiscal years 2019, 2018, and 2017, respectively. 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, 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 when recovery of deferred tax assets does not meet the more likely than not standards as defined in ASC Topic 740, *Income Taxes*.

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 that do not meet the more likely than not standards as defined in ASC Topic 740, *Income Taxes*. Historically, the valuation allowances and reserves for uncertain tax positions have been adequate to cover the related tax exposures.

### ***Revenue Recognition and Classification of Customer Programs and Incentives***

During fiscal years 2019, 2018 and 2017 approximately 95% of the Company's revenue was from shipments of its products to domestic Distributors and 4% from shipments to international Distributors, primarily located in Canada. Approximately 1% of the Company's revenue is from retail beer, cider, food and merchandise sales at the Company's retail locations.

The Company recognizes revenue when obligations under the terms of a contract with its customer are satisfied; generally, this occurs with the transfer of control of its products. Revenue is measured as the amount of consideration expected to be received in exchange for transferring products. If the conditions for revenue recognition are not met, the Company defers the revenue until all conditions are met. As of December 28, 2019, and December 29, 2018, the Company had deferred revenue of \$7.0 million and \$4.6 million, respectively, related to product shipped prior to these dates. These amounts are included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

The Company is committed to maintaining the freshness of its products in the market. In certain circumstances and with the Company's approval, the Company accepts and destroys stale beer that is returned by Distributors. The Company generally credits approximately fifty percent of the distributor's cost of beer that has passed its freshness expiration date when it is returned to the Company or destroyed. The Company reduces revenue and establishes an accrual based upon both historical returns, which is applied to an estimated lag time for receipt of product, and knowledge of specific return transactions. Estimating this reserve involves significant judgments and estimates, including comparability of historical return trends to future trends, lag time from date of sale to date of return, and product mix of returns. Stale beer expense is reflected in the accompanying financial statements as a reduction of revenue. Historically, the cost of actual stale beer returns has been in line with established reserves; however, the cost could differ materially from the reserves which would impact revenue. As of December 28, 2019, and December 29, 2018, the stale beer reserve was \$1.8 million and \$2.1 million, respectively. These amounts are included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

Customer programs and incentives are a common practice in the alcohol beverage industry. Amounts paid in connection with customer programs and incentives are recorded as reductions to net revenue or as advertising, promotional and selling expenses, based on the nature of the expenditure. Customer incentives and other payments made to Distributors are primarily based upon the performance of certain marketing and advertising activities. Depending on applicable state laws and regulations, these activities promoting the Company's products may include, but are not limited to, point-of-sale and merchandise placement, samples, product displays, promotional programs at retail locations and meals, travel and entertainment. Amounts paid to customers in connection with these programs that were recorded as reductions to net revenue or as advertising, promotional and selling expenses totaled \$75.2 million, \$55.5 million and \$51.8 million in fiscal years 2019, 2018 and 2017, respectively. Estimates are based on historical and projected experience for each type of program or customer and have historically been in line with actual costs incurred.

Customer promotional discount programs are entered into with Distributors for certain periods of time. Amounts paid to Distributors in connection with these programs in fiscal years 2019, 2018 and 2017 were \$43.9 million, \$34.5 million and \$30.2 million, respectively. The reimbursements for discounts to Distributors are recorded as reductions to net revenue. 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 allowance requires that management make certain estimates and assumptions that affect the timing and amounts of revenue and liabilities recorded. Actual promotional discounts owed and paid have historically been in line with allowances recorded by the Company; however, the amounts could differ from the estimated allowances.

Customer incentives and other payments are made primarily to Distributors based upon the performance of certain marketing and advertising activities. Depending on applicable state laws and regulations, these activities

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promoting the Company's products may include, but are not limited to point-of-sale and merchandise placement, samples, product displays, promotional programs at retail locations and meals, travel and entertainment. Amounts paid to customers in connection with these programs in fiscal years 2019, 2018 and 2017 were \$31.3 million, \$21.0 million and \$21.6 million, respectively. In fiscal years 2019, 2018 and 2017, the Company recorded certain of these costs in the total amount of \$21.6 million, \$13.9 million and \$15.3 million, respectively as reductions to net revenue. Costs recognized in net revenues include, but are not limited to, promotional discounts, sales incentives and certain other promotional activities. Costs recognized in advertising, promotional and selling expenses include point of sale materials, samples and media advertising expenditures in local markets. These costs are recorded as incurred, generally when invoices are received; however certain estimates are required at the period end. Estimates are based on historical and projected experience for each type of program or customer and have historically been in line with actual costs incurred.

In connection with its preparation of financial statements and other financial reporting, management is required to make certain estimates and assumptions regarding the amount, timing and classification of expenditures resulting from these activities. Actual expenditures incurred could differ from management's estimates and assumptions.

### ***Excise Taxes***

The Company is responsible for compliance with the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Treasury Department (the "TTB") regulations, including making timely and accurate excise tax payments. The Company is subject to periodic compliance audits by the TTB. Individual states also impose excise taxes on alcohol beverages in varying amounts. The Company calculates its excise tax expense based upon units shipped and on its understanding of the applicable excise tax laws.

The Company benefited from a reduction in federal excise taxes of \$8.9 million and \$6.1 million in fiscal years 2019 and 2018, respectively, as a result of the Tax Cuts and Jobs Act of 2017.

### ***Cost of Goods Sold***

The following expenses are included in cost of goods sold: raw material costs, packaging material costs, costs and income related to deposit activity, purchasing and receiving costs, manufacturing labor and overhead, brewing and processing costs, inspection costs relating to quality control, inbound freight charges, depreciation expense related to manufacturing equipment and warehousing costs, which include rent, labor and overhead costs.

### ***Shipping Costs***

Costs incurred for the shipping of products to customers are included in advertising, promotional and selling expenses in the accompanying consolidated statements of comprehensive income. The Company incurred shipping costs of \$69.1 million, \$61.8 million, and \$45.3 million in fiscal years 2019, 2018 and 2017, respectively.

### ***Advertising and Sales Promotions***

The following expenses are included in advertising, promotional and selling expenses in the accompanying consolidated statements of comprehensive income: media advertising costs, sales and marketing expenses, salary and benefit expenses and meals, travel and entertainment expenses for the sales, brand and sales support workforce, promotional activity expenses, shipping costs related to shipments of finished goods from manufacturing locations to distributor locations and point-of-sale items. Total advertising and sales promotional expenditures of \$177.2 million, \$145.1 million, and \$128.0 million were included in advertising, promotional and selling expenses in the accompanying consolidated statements of comprehensive income for fiscal years 2019, 2018 and 2017, respectively.

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The Company conducts certain advertising and promotional activities in its Distributors' markets and the Distributors make contributions to the Company for such efforts. Reimbursements from Distributors for advertising and promotional activities are recorded as reductions to advertising, promotional and selling expenses.

### ***General and Administrative Expenses***

The following expenses are included in general and administrative expenses in the accompanying consolidated statements of comprehensive income: general and administrative salary and benefit expenses, stock compensation, insurance costs, consulting and professional service fees, rent and utility expenses, meals, travel and entertainment expenses for general and administrative employees, and other general and administrative overhead costs.

### ***Stock-Based Compensation***

The Company accounts for share-based awards in accordance with ASC Topic 718, *Compensation – Stock Compensation* ("ASC 718"), which generally requires recognition of share-based compensation costs in financial statements based on fair value. Compensation cost is recognized over the period during which an employee is required to provide services in exchange for the award (the requisite service period). The amount of compensation cost recognized in the consolidated statements of comprehensive income is based on the awards ultimately expected to vest, and therefore, reduced for estimated forfeitures. Stock-based compensation was \$12.3 million, \$10.0 million and \$6.3 million in fiscal years 2019, 2018 and 2017, respectively.

As permitted by ASC 718, the Company elected to use a lattice model, such as the trinomial option-pricing model, to estimate the fair values of stock options. All option-pricing models require the input of subjective assumptions. These assumptions include the estimated volatility of the Company's common stock price over the expected term, the expected dividend rate, the estimated post-vesting forfeiture rate, the risk-free interest rate and expected exercise behavior. See Note N for further discussion of the application of the option-pricing models.

In addition, an estimated pre-vesting forfeiture rate is applied in the recognition of the compensation charge. Periodically, the Company grants performance-based stock options. The Company only recognizes compensation expense with respect to these options if it is probable that the 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 in the consolidated statements of comprehensive income.

### ***Net Income Per Share***

Basic net income per share is calculated by dividing net income by the weighted-average common shares outstanding. Diluted net income per share is calculated by dividing net income by the weighted-average common shares and potentially dilutive securities outstanding during the period using the treasury stock method or the two-class method, whichever is more dilutive.

### ***Accounting Pronouncements Recently Adopted***

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 supersedes virtually all existing revenue guidance. Under this standard, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. As such, an entity needs to use more judgment and make more estimates than under the previous guidance. On December 31, 2017, the Company adopted the new accounting standard and all related amendments using the modified retrospective method which allows application only to the most current reporting period presented in the financial statements with a cumulative

effect adjustment to retained earnings. In accordance with the new accounting standard, the majority of the Company's revenue continues to be recognized at the time its products are shipped. Upon adoption, the Company began recognition of certain variable customer promotional discount programs earlier than it had under the previous revenue guidance which resulted in a \$1.0 million, net of tax, cumulative effect adjustment to retained earnings in the first quarter of 2018. In the fourth quarter of 2019, a tax provision adjustment resulted in a \$0.3 million adjustment to retained earnings. The Company considers the impact of the adoption to be immaterial to its consolidated financial statements on an ongoing basis.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance requires lessees to recognize right-of-use ("ROU") assets and lease liabilities on their balance sheets for the rights and obligations created by all leases with terms of more than 12 months. Under ASU 2016-02, lessees are permitted to use a modified retrospective approach, which requires an entity to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented for the year beginning December 30, 2018, with early adoption permitted. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842)*, permitting the use of an alternative modified retrospective approach that would result in an entity recognizing a lease liability and ROU asset as of the effective date of the requirements, with all comparative periods presented and disclosed, in accordance with the requirements under ASC 840, *Leases*, changing the date of initial application to the beginning of the period of adoption. On December 30, 2018, the Company adopted the new accounting standard using the alternative modified retrospective approach, applying ASC 840 to all comparative periods, including disclosures. Upon adoption, the Company recognized ROU assets of \$27.0 million and lease liabilities of \$31.5 million, with the difference of \$4.5 million due to a reduction to the gross ROU asset for the Company's existing obligation associated with deferred rent and lease incentives.

In March 2016, the FASB issued ASU No. 2016-09, *Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 is part of the FASB's initiative to simplify accounting standards. The guidance impacted several aspects of the accounting for employee share-based payment transactions, including accounting for income taxes and forfeitures, as well as classification in the consolidated statements of cash flows. Under ASU 2016-09, excess tax benefits and deficiencies as a result of stock option exercises and restricted stock vesting are to be recognized as discrete items within income tax expense or benefit in the consolidated statements of comprehensive income in the reporting period in which they occur. Additionally, under ASU 2016-09, excess tax benefits and deficiencies should be classified along with other income tax cash flows as an operating activity in the consolidated statements of cash flows. The Company adopted this new accounting standard prospectively in the first quarter of 2017. Prior periods have not been adjusted. Under this new accounting standard, for the fifty-two weeks ended December 28, 2019, December 29, 2018 and December 30, 2017, \$4.6 million, \$4.2 million and \$4.4 million, respectively, in excess tax benefit from stock-based compensation arrangements was recognized within the income tax provision in the consolidated statement of comprehensive income and classified as an operating activity in the consolidated statement of cash flows. The Company continued to maintain the current forfeiture policy to estimate forfeitures expected to occur to determine stock-based compensation expense.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. Under this update, an entity is allowed a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The Company early adopted this accounting standard prospectively in the first quarter of 2018. Prior periods have not been adjusted. In the first quarter of 2018, the Company reclassified \$0.2 million of federal and state income tax effects of the Tax Cut and Jobs Act of 2017 related to defined benefit plans from accumulated other comprehensive income to retained earnings.

#### ***Accounting Pronouncements Not Yet Effective***

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The guidance requires companies to measure credit losses utilizing a

methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the impact of adopting this standard but does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Prior to ASU No. 2017-04, the goodwill impairment test is a two-step assessment, if indicators of impairment exist. The first step requires an entity to compare each reporting unit's carrying value and its fair value. If the reporting unit's carrying value exceeds the fair value, then the entity must perform the second step, which is to compare the implied fair value of goodwill to its carrying value, and record an impairment charge for any excess of carrying value of goodwill over its implied fair value. An entity also has the option to perform a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. ASU 2017-04 simplifies the goodwill impairment test by eliminating the second step of the test. As such, an entity will perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the reporting unit's carrying amount exceeds its fair value. If fair value exceeds the carrying amount, no impairment should be recorded. ASU 2017-04 will be effective prospectively for the year beginning December 29, 2019. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

### **C. Dogfish Head Brewery Transaction**

On May 8, 2019, the Company entered into definitive agreements to acquire Dogfish Head Brewery ("Dogfish Head") and various related operations (the "Transaction"), through the acquisition of all of the equity interests held by certain private entities in Off-Centered Way LLC, the parent holding company of the Dogfish Head operations. In accordance with these agreements, the Company made a payment of \$158.4 million, which was placed in escrow pending the satisfaction of certain closing conditions. The Transaction closed on July 3, 2019, for total consideration of \$336.0 million consisting of \$173.0 million in cash and 429,291 shares of restricted Class A Common Stock that had an aggregate market value as of July 3, 2019 of \$163.0 million, after taking into account a post-closing cash related adjustment. As required under the definitive agreements, 127,146 of the 429,291 shares of restricted Class A Stock have been placed in escrow and will be released no later than July 3, 2029. These shares had a market value on July 3, 2019 of \$48.3 million. The timing of the release of these escrowed shares is primarily related to the continued employment with the Company of Samuel A. Calagione III, one of the two Dogfish Head founders.

The fair value of the Transaction is estimated at approximately \$317.7 million. The Company estimates that transaction-related and other non-recurring costs incurred and estimated to be incurred as a result of the Transaction will total approximately \$12.0 million. Of this total, \$10.0 million had been expensed as of December 28, 2019 and consists of \$3.3 million in transaction costs and \$6.7 million in other non-recurring costs. Of the \$10.0 million costs incurred, \$7.8 million were recorded in general and administrative expense and \$2.2 million were recorded in cost of goods sold within in the accompanying statements of comprehensive income. As part of the Transaction, certain members of Dogfish Head management entered into employment agreements with the Company and were granted 906 shares of restricted stock units that vest in one year and have a fair value of approximately \$345,000. The Company funded the cash component of the Transaction through cash on-hand and its existing line of credit.

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The following table summarizes the acquisition date fair value of the tangible assets, intangible assets, liabilities assumed, and related goodwill acquired from Dogfish Head, as well as the allocation of purchase price paid:

	<b>Total (In Thousands)</b>
Cash and cash equivalents	\$ 7,476
Accounts receivable	8,081
Inventories	9,286
Prepaid expenses and other current assets	847
Property, plant and equipment	106,964
Goodwill	108,846
Brand	98,500
Other intangible assets	3,800
Other assets	378
Total assets acquired	344,178
Accounts payable	3,861
Accrued expenses and other current liabilities	4,085
Deferred income taxes	18,437
Other liabilities	59
Total liabilities assumed	26,442
Net assets acquired	\$ 317,736
Cash consideration	\$ 172,993
Nominal value of equity issued	162,999
Fair Value reduction due to liquidity	(18,256)
Estimated total purchase price	\$ 317,736

The Company accounted for the acquisition in accordance with the accounting standards codification guidance for business combinations, whereby the total purchase price was allocated to the acquired net tangible and intangible assets of Dogfish Head based on their fair values as of the Transaction closing date. The Company believes that the information available as of the Transaction closing date provides a reasonable basis for estimating the fair values of the assets acquired and liabilities assumed; however, the Company is continuing to finalize these amounts, particularly with respect to income taxes and valuation of inventories, fixed assets, and intangible assets. Thus, the preliminary measurements of fair value reflected are subject to change as additional information becomes available and as additional analysis is performed. The Company expects to finalize the valuation and complete the allocation of the purchase price as soon as practicable, but no later than one year from the closing date of the acquisition, as required.

The fair value of the Dogfish Head brand trade name is estimated at approximately \$98.5 million and the fair value of customer relationships is estimated at \$3.8 million. The Company estimated the Dogfish Head brand trade name will have an indefinite life and customer relationships will have an estimated useful life of 15 years. The customer relationship intangible asset will be amortized on a straight-line basis over the 15 year estimated useful life. The fair value of the deferred income tax liability assumed is \$18.4 million, representing the expected future tax consequences of temporary differences between the fair values of the assets acquired and liabilities assumed and their tax basis. The Company used a preliminary consolidated tax rate to determine the net deferred tax liabilities. The Company will record measurement period adjustments as the Company applies the appropriate tax rate for each legal entity within Dogfish Head. The expectation is that the Dogfish Head deferred income taxes will be subject to the Company's consolidated rate. The excess of the purchase price paid over the estimated fair values of the assets and liabilities assumed has been recorded as goodwill in the amount of \$108.8 million. Goodwill associated with the acquisition is primarily attributable to the future growth opportunities associated with the Transaction, expected synergies and value of the workforce. The Company believes the majority of the goodwill is deductible for tax purposes.

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The fair value of the brand trade name was determined utilizing the relief from royalty method which is a form of the income approach. Under this method, a royalty rate based on observed market royalties is applied to projected revenue supporting the trade name and discounted to present value using an appropriate discount rate. The fair value of the property, plant and equipment was determined utilizing the cost and market valuation approaches.

The results of operations from Dogfish Head have been included in the Company's consolidated statements of comprehensive income since the July 3, 2019 Transaction closing date. During fiscal year 2019, Dogfish Head represented \$48.5 million of the Company's total revenue and \$1.6 million of total net income. Transaction costs incurred by the Company in connection with the Transaction were \$3.3 million in fiscal year 2019 and were recorded within general and administrative expenses in the Company's consolidated statements of comprehensive income.

Consistent with prior periods and considering post-merger reporting structures, the Company will continue to report as one operating segment. The combined Company's brands are predominantly beverages that are manufactured using similar production processes, have comparable alcohol content, generally fall under the same regulatory environment, and are sold to the same types of customers in similar size quantities at similar price points and through the same channels of distribution.

The following unaudited pro forma information has been prepared, as if the Transaction and the related debt financing had occurred as of December 31, 2017, the first day of the Company's 2018 fiscal year. The pro forma amounts reflect the combined historical operational results for Boston Beer and Dogfish Head, after giving effect to adjustments related to the impact of purchase accounting, transaction costs and financing. The unaudited pro forma financial information is not indicative of the operational results that would have been obtained had the Transaction occurred as of that date, nor is it necessarily indicative of the Company's future operational results. The following adjustments have been made:

- (i) Depreciation and amortization expenses were updated to reflect the fair value adjustments to Dogfish Head property, plant and equipment and intangible assets beginning December 31, 2017.
- (ii) Transaction costs incurred in the fifty-two weeks ended December 28, 2019 have been re-assigned to the first period of the comparative fiscal year.
- (iii) Interest expense has been included at a rate of approximately 3% which is consistent with the borrowing rate on the Company's current line of credit.
- (iv) The tax effects of the pro forma adjustments at an estimated statutory rate of 25.6%.
- (v) Earnings per share amounts are calculated using the Company's historical weighted average shares outstanding plus the 429,291 shares issued in the merger.

	<b>Fifty-two weeks ended</b>	
	<b>December 28, 2019</b>	<b>December 29, 2018</b>
	<b>(in thousands, except per share data)</b>	
Net revenue	\$ 1,304,239	\$ 1,103,061
Net income	\$ 116,868	\$ 98,700
Basic earnings per share	\$ 9.83	\$ 8.12
Diluted earnings per share	\$ 9.73	\$ 8.04



[Table of Contents](#)**D. Inventories**

Inventories consisted of the following:

	December 28, 2019	December 29, 2018
	(in thousands)	
Current inventory:		
Raw materials	\$ 61,522	\$ 44,655
Work in process	12,631	8,252
Finished goods	31,885	17,342
Total current inventory	106,038	70,249
Long term inventory	10,048	11,619
Total inventory	<u>\$ 116,086</u>	<u>\$ 81,868</u>

**E. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consisted of the following:

	December 28, 2019	December 29, 2018
	(in thousands)	
Prepaid brewing services fee - short term (see Note L)	\$ 4,936	\$ 3,789
Prepaid advertising, promotional and selling	1,649	1,518
Prepaid software expense	1,224	754
Prepaid insurance	1,206	1,111
Excise and other tax receivables	1,173	2,179
Other	1,889	3,785
	<u>\$ 12,077</u>	<u>\$ 13,136</u>

**F. Property, Plant and Equipment**

Property, plant and equipment consisted of the following:

	December 28, 2019	December 29, 2018
	(in thousands)	
Machinery and plant equipment	\$ 571,506	\$ 459,352
Kegs	66,011	67,940
Land	25,759	22,295
Building and building improvements	130,311	115,748
Office equipment and furniture	29,202	25,728
Leasehold improvements	48,528	20,830
Assets under construction	59,027	22,160
	930,344	734,053
Less accumulated depreciation	(389,276)	(344,264)
	<u>\$ 541,068</u>	<u>\$ 389,789</u>

The Company recorded depreciation expense related to these assets of \$56.1 million, \$51.8 million and \$51.2 million, in fiscal years 2019, 2018, and 2017, respectively. The Dogfish Head Transaction added \$107.0 million in gross fixed assets on July 3, 2019. See Note C.

**Impairment of Assets**

The Company evaluates its assets for impairment when events indicate that an asset or asset group may have suffered impairment. During fiscal years 2019, 2018 and 2017, the Company recorded impairment charges of \$0.9 million, \$0.7 million and \$2.5 million, respectively.

**G. Leases**

The Company has various lease agreements in place for facilities and equipment. Terms of these leases include, in some instances, scheduled rent increases, renewals, purchase options and maintenance costs, and vary by lease. These lease obligations expire at various dates through 2031. As the rate implicit in each lease is not readily determinable, the Company uses its incremental borrowing rate based on information available at commencement to determine the present value of the lease payments. Based on the present value of the lease payments for the remaining lease term of the Company's existing leases, the Company recognized ROU assets of \$27.0 million and lease liabilities of \$31.5 million upon adoption of ASU No. 2016-02 on December 30, 2018. ROU assets and lease liabilities commencing after December 30, 2018 are recognized at commencement date based on the present value of lease payments over the lease term. Leases with an initial term of 12 months or less ("short-term leases") are not recorded on the balance sheet and are recognized on a straight-line basis over the lease term. As of December 28, 2019, total ROU assets and lease liabilities were as follows:

	<u>Classification</u>	<u>Leases</u> <u>(in thousands)</u>
<b>Right-of-use assets</b>		
Operating lease assets	Operating right-of-use assets	\$ 53,758
Finance lease assets	Property, plant and equipment, net	2,531
<b>Lease Liabilities</b>		
<b>Current</b>		
Operating lease liabilities	Current operating lease liabilities	5,168
Finance lease liabilities	Accrued expenses and other current liabilities	546
<b>Non-current</b>		
Operating lease liabilities	Non-current operating lease liabilities	53,940
Finance lease liabilities	Other liabilities	2,042

The gross value and accumulated depreciation of ROU assets related to finance leases as of December 28, 2019 were as follows:

	<u>Finance</u> <u>Leases</u> <u>(in thousands)</u>
Gross value	\$ 2,837
Accumulated amortization	(306)
Carrying value	<u>\$ 2,531</u>

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Components of lease cost for the fiscal year-ended are as follows:

	<u>Lease Cost</u> <u>(in thousands)</u>
Operating lease cost	\$ 5,625
Variable lease costs not included in liability	1,064
Finance lease cost:	
Amortization of right-of-use asset	\$ 306
Interest on lease liabilities	56
Total finance lease cost	<u>\$ 362</u>

Maturities of lease liabilities as of December 28, 2019 are as follows:

	<u>Operating</u> <u>Leases</u>	<u>Finance</u> <u>Leases</u>	<u>Weighted-Average</u> <u>Operating Leases</u>	<u>Remaining</u> <u>Term in Years</u>
	<u>(in thousands)</u>			<u>Finance Leases</u>
2020	\$ 5,755	\$ 626		
2021	9,241	626		
2022	9,036	626		
2023	8,995	626		
2024	8,729	265		
Thereafter	27,567	23		
Total lease payments	69,323	2,792		
Less imputed interest (based on 3.5% weighted-average discount rate)	(10,215)	(204)		
Present value of lease liability	<u>\$ 59,108</u>	<u>\$ 2,588</u>	<u>8.3</u>	<u>4.4</u>

## H. Goodwill and Intangible Assets

The change in the carrying value of goodwill and intangible assets during the fifty-two weeks ended December 28, 2019 and December 29, 2018 were as follows:

	<u>Fifty-two weeks ended</u>	
	<u>December 28,</u> <u>2019</u>	<u>December 29,</u> <u>2018</u>
	<u>(in thousands)</u>	
Goodwill as of beginning of period	\$ 3,683	\$ 3,683
Acquired goodwill	108,846	—
Impairment of goodwill	—	—
Goodwill as of end of period	<u>\$ 112,529</u>	<u>\$ 3,683</u>

The \$108.8 million of goodwill acquired during the fifty-two weeks ended December 28, 2019 is related to the Dogfish Head Transaction disclosed in Note C. No impairment of existing goodwill was recorded in the period.

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The Company's intangible assets as of December 28, 2019 and December 29, 2018 were as follows:

	Estimated Useful Life (Years)	As of December 28, 2019			As of December 29, 2018		
		Gross Carrying Value	Accumulated Amortization (in thousands)	Net Book Value	Gross Carrying Value	Accumulated Amortization (in thousands)	Net Book Value
Customer Relationships	15	\$ 3,800	\$ (127)	\$ 3,673	\$ —	\$ —	\$ —
Trade Names	Indefinite	100,599	—	100,599	2,099	—	2,099
<b>Total intangible assets</b>		<b>\$ 104,399</b>	<b>\$ (127)</b>	<b>\$ 104,272</b>	<b>\$ 2,099</b>	<b>\$ —</b>	<b>\$ 2,099</b>

During the fifty-two weeks ended December 28, 2019, the Company acquired intangible assets as part of the Dogfish Head Transaction disclosed in Note C, that consists of \$98.5 million for the value of the Dogfish Head brand name and \$3.8 million for the value of customer relationships. The customer relationship intangible asset will be amortized on a straight-line basis over the 15 year useful life. Amortization expense in the fifty-two weeks ended December 28, 2019 was approximately \$127,000. The Company expects to record amortization expense as follows over the five subsequent years:

Fiscal Year	Amount (in thousands)
2020	253
2021	253
2022	253
2023	253
2024	253

### I. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	December 28, 2019	December 29, 2018
	(in thousands)	
Employee wages, benefits and reimbursements	\$ 35,394	\$ 27,074
Accrued deposits	20,483	18,171
Advertising, promotional and selling expenses	17,009	9,079
Deferred revenue	6,984	4,587
Accrued utilities and third party fees	4,075	1,881
Accrued excise taxes	2,758	2,335
Accrued capital expenditures	2,621	—
Accrued freight	2,091	1,668
Other accrued liabilities	7,692	8,616
	<u>\$ 99,107</u>	<u>\$ 73,412</u>

### J. Revolving Line of Credit

The Company has a credit facility in place that provides for a \$150.0 million revolving line of credit which has a term not scheduled to expire until March 31, 2023. The Company may elect an interest rate for borrowings under the credit facility based on either (i) the Alternative Prime Rate (4.75% at December 28, 2019) or (ii) the applicable LIBOR rate (1.75% at December 28, 2019) plus 0.45%. The Company incurs an annual commitment

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fee of 0.15% on the unused portion of the facility and is obligated to meet certain financial covenants, which are measured using earnings before interest, tax, depreciation and amortization (“EBITDA”) based ratios. The Company’s EBITDA to interest expense ratio was 418 as of December 28, 2019, compared to a minimum allowable ratio of 2.00 and the Company’s total funded debt to EBITDA ratio was 0.0 as of December 28, 2019, compared to a maximum allowable ratio of 2.50. During the fifty-two weeks ended December 28, 2019, the company borrowed and repaid \$97.0 million on the credit facility and paid a total of \$0.5 million in related interest. There were no borrowings outstanding under the credit facility as of December 28, 2019 and December 29, 2018.

There are also certain restrictive covenants set forth in the credit agreement. Pursuant to the negative covenants, the Company has agreed that it will not: enter into any indebtedness or guarantees other than those specified by the lender, enter into any sale and leaseback transactions, merge, consolidate, or dispose of significant assets without the lender’s prior written consent, make or maintain any investments other than those permitted in the credit agreement, or enter into any transactions with affiliates outside of the ordinary course of business. In addition, the credit agreement requires the Company to obtain prior written consent from the lender on distributions on account of, or in repurchase, retirement or purchase of its capital stock or other equity interests with the exception of the following: (a) distributions of capital stock from subsidiaries to The Boston Beer Company, Inc. and Boston Beer Corporation (a subsidiary of The Boston Beer Company, Inc.), (b) repurchase from former employees of non-vested investment shares of Class A Common Stock, issued under the Employee Equity Incentive Plan, and (c) redemption of shares of Class A Common Stock as approved by the Board of Directors and payment of cash dividends to its holders of common stock. Borrowings under the credit facility may be used for working capital, capital expenditures and general corporate purposes of the Company and its subsidiaries. In the event of a default that has not been cured, the credit facility would terminate and any unpaid principal and accrued interest would become due and payable.

### **K. Income Taxes**

Significant components of the provision for income taxes are as follows:

	<u>2019</u>	<u>2018</u> (in thousands)	<u>2017</u>
<b>Current:</b>			
Federal	\$ 18,510	\$ 4,471	\$ 34,255
State	8,084	4,894	5,225
Total current	<u>26,594</u>	<u>9,365</u>	<u>39,480</u>
<b>Deferred:</b>			
Federal	8,081	12,860	(22,489)
State	(346)	1,398	102
Total deferred	<u>7,735</u>	<u>14,258</u>	<u>(22,387)</u>
Total provision for income taxes	<u>\$ 34,329</u>	<u>\$23,623</u>	<u>\$ 17,093</u>

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The Company's reconciliations to statutory rates are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutory rate	21.0%	21.0%	35.0%
State income taxes, net of federal benefit	4.6	4.6	3.6
Deduction relating to U.S. production activities	—	—	(3.2)
Deduction relating to excess stock based compensation	(3.2)	(3.6)	(3.7)
Change relating to enacted Tax Cuts and Jobs Act	—	—	(17.5)
Non-deductible meals & entertainment	0.7	1.1	0.9
Accounting method changes	—	(3.9)	—
Change in valuation allowance	0.4	0.7	—
Other	0.3	0.4	(0.4)
	<u>23.8%</u>	<u>20.3%</u>	<u>14.7%</u>

Due to a change of tax accounting methods for depreciation of certain property, plant and equipment for the fiscal year-ended December 30, 2017, the Company experienced a one-time income tax benefit of \$4.5 million for the tax year ended December 29, 2018.

Significant components of the Company's deferred tax assets and liabilities are as follows at:

	<u>December 28, 2019</u>	<u>December 29, 2018</u>
	(in thousands)	
<b>Deferred tax assets:</b>		
Lease Liabilities	\$ 15,567	\$ —
Inventory	5,868	1,356
Stock-based compensation expense	5,818	5,156
Accrued expenses	3,232	1,913
Other	1,914	2,478
Total deferred tax assets	<u>32,399</u>	<u>10,903</u>
Valuation allowance	(1,866)	(1,291)
Total deferred tax assets net of valuation allowance	<u>30,533</u>	<u>9,612</u>
<b>Deferred tax liabilities:</b>		
Property, plant and equipment	(78,232)	(57,099)
Right-of-use Assets	(14,203)	—
Amortization	(10,899)	(733)
Prepaid expenses	(2,209)	(949)
Total deferred tax liabilities	<u>(105,543)</u>	<u>(58,781)</u>
Net deferred tax liabilities	<u>\$ (75,010)</u>	<u>\$ (49,169)</u>

The Company's practice is to classify interest and penalties related to income tax matters in income tax expense. Interest and penalties included in the provision for income taxes amounted to \$0.0 million, \$0.1 million, and \$0.0 million for fiscal years 2019, 2018, and 2017, respectively. Accrued interest and penalties amounted to \$0.1 million and \$0.1 million at December 28, 2019 and December 29, 2018, respectively.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<u>2019</u>	<u>2018</u>
	(in thousands)	
Balance at beginning of year	\$ 836	\$ 292
Increases related to current year tax positions	101	8
(Decreases) Increases related to prior year tax positions	(63)	636
Decreases related to settlements	—	(100)
Decreases related to lapse of statute of limitations	(63)	—
Balance at end of year	<u>\$ 811</u>	<u>\$ 836</u>

Included in the balance of unrecognized tax benefits at December 28, 2019 and December 29, 2018 are potential net benefits of \$0.8 million and \$0.8 million, respectively, that would favorably impact the effective tax rate if recognized. Unrecognized tax benefits are included in accrued expenses in the accompanying consolidated balance sheets and adjusted in the period in which new information about a tax position becomes available or the final outcome differs from the amount recorded.

In September 2017, the Internal Revenue Service (“IRS”) commenced an examination of the Company’s 2015 consolidated corporate income tax return. The examination was completed in July 2018 resulting in a no change report. As of December 28, 2019, the Company’s 2016, 2017, and 2018 federal income tax returns remain subject to examination by IRS. The Company’s state income tax returns remain subject to examination for three or four years depending on the state’s statute of limitations. The Company is not currently under any income tax audits as of December 28, 2019. 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 in 2020 if there are changes as a result of potential 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.

As of December 28, 2019, the Company’s deferred tax assets included a capital loss carryforward totaling \$1.7 million. If unused, the capital loss carryforward will expire in fiscal year 2021.

### L. Commitments and Contingencies

#### Contractual Obligations

As of December 28, 2019, projected cash outflows under non-cancelable contractual obligations for the remaining years under the contracts are as follows:

	<u>Total</u>	<u>2020</u>	<u>Payments Due by Period</u>				<u>Thereafter</u>
			<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	
			(in thousands)				
Brand support	80,157	\$ 47,380	\$ 9,827	\$ 9,652	\$ 4,760	\$ 4,338	\$ 4,200
Apples and other ingredients	52,904	47,810	2,547	2,547	—	—	—
Hops, barley and wheat	52,466	35,589	6,346	4,503	2,288	2,157	1,583
Equipment and machinery	35,528	35,528	—	—	—	—	—
Other	20,422	17,123	2,620	364	170	45	100
Total contractual obligations	<u>\$ 241,477</u>	<u>\$ 188,524</u>	<u>\$ 18,793</u>	<u>\$ 14,519</u>	<u>\$ 7,218</u>	<u>\$ 6,540</u>	<u>\$ 5,883</u>

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. These purchase commitments extend through crop year 2025 and specify both the quantities and prices, denominated in U.S. Dollar, Euros, New Zealand Dollars and British Pounds, to which the Company is committed. Hops purchase commitments outstanding at December 28, 2019 totaled \$39.2 million, based on the exchange rates on that date. The Company does not use forward currency exchange contracts and intends to purchase future hops using the exchange rate at the time of purchase. These contracts 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.

Currently, the Company has entered into contracts for barley and wheat with two major suppliers. The contracts include crop year 2019 and 2020 and cover the Company's barley, wheat, and malt requirements for 2020. These purchase commitments outstanding at December 28, 2019 totaled \$13.3 million.

The Company's accounting policy for inventory and purchase commitments is to recognize a loss by establishing a reserve to the extent inventory levels and commitments exceed forecasted needs. The computation of the excess inventory requires 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. However, changes in management's assumptions regarding future sales growth, product mix and hops market conditions could result in future material losses.

For the fiscal year ended December 28, 2019, the Company brewed approximately 74% of its volume at Company-owned breweries. In the normal course of its business, the Company has historically entered into various production arrangements with other brewing companies. Pursuant to these arrangements, the Company supplies raw materials to those brewing companies, and incurs conversion fees for labor at the time the liquid is produced and packaged. The Company is also obligated to meet annual volume requirements in conjunction with certain production arrangements, which are not material to the Company's operations.

During fiscal years 2018 and 2019, the Company amended its brewing services agreement with City Brewing to include a minimum capacity availability commitment. The amendment grants the Company the right to extend the agreement beyond the December 31, 2021 termination date on an annual basis through December 31, 2029. The amendments require the Company to pay up to \$26.5 million dollars for capital improvements at City Brewing facilities, of which \$20.5 million had been paid as of December 28, 2019 and the remaining amount of \$6.0 million is expected to be paid in May 2020. In fiscal year 2019, City Brewing supplied approximately 23% of the Company's annual shipment volume. At December 28, 2019, the Company had prepaid brewing service fees of \$4.9 million in prepaid expenses and other current assets and \$12.9 million in other assets, long term. The Company plans to expense the total amount of \$17.8 million over a 60 month period ending in 2024.

The Company's arrangements with other brewing companies require it to periodically purchase equipment in support of brewery operations. As of December 28, 2019, there were no significant equipment purchase requirements outstanding under existing contracts. Changes to the Company's brewing strategy or existing production arrangements, new production relationships or the introduction of new products in the future may require the Company to purchase equipment to support the contract breweries' operations.

### ***Litigation***

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.

### **M. Fair Value Measures**

The Company defines fair value as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company applies the



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following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

- Level 1 — Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 — Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 — Level 3 inputs are unobservable inputs for the asset or liability in which there is little, if any, market activity for the asset or liability at the measurement date.

The Company's money market funds are measured at fair value on a recurring basis (at least annually) and are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The money market funds are invested substantially in United States Treasury and government securities. The Company does not adjust the quoted market price for such financial instruments. Cash, receivables and payables are carried at their cost, which approximates fair value, because of their short-term nature.

At December 28, 2019 and December 29, 2018, the Company had money market funds with a "Triple A" rated money market fund. The Company considers the "Triple A" rated money market fund to be a large, highly-rated investment-grade institution. As of December 28, 2019, and December 29, 2018, the Company's cash and cash equivalents balance was \$36.7 million and \$108.4 million, respectively, including money market funds amounting to \$29.5 million and \$107.5 million, respectively.

## **N. Common Stock and Share-Based Compensation**

### ***Class A Common Stock***

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) certain future authorizations or issuances of additional securities which have rights senior to Class A Common Stock, (b) certain 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) 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.

### ***Class B Common Stock***

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, and participates equally in earnings.

All distributions with respect to the Company's capital stock are restricted by the Company's credit agreement, with the exception of distributions of capital stock from subsidiaries to The Boston Beer Company, Inc. and

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Boston Beer Corporation, repurchase from former employees of non-vested investment shares of Class A Common Stock issued under the Company's equity incentive plan, redemption of certain shares of Class A Common Stock as approved by the Board of Directors and payment of cash dividends to its holders of common stock.

### ***Employee Stock Compensation Plan***

The Company's Employee Equity Incentive Plan (the "Equity Plan") currently provides for the grant of discretionary options, restricted stock awards and restricted stock units to employees, and provides for shares to be sold to employees of the Company at a discounted purchase price under its investment share program. The Equity Plan is administered by the Board of Directors of the Company, based on recommendations received from the Compensation Committee of the Board of Directors. The Compensation Committee consists of three independent directors. In determining the quantities and types of awards for grant, the Compensation Committee periodically reviews the objectives of the Company's compensation system and takes into account the position and responsibilities of the employee being considered, the nature and value to the Company of his or her service and accomplishments, his or her present and potential contributions to the success of the Company, the value of the type of awards to the employee and such other factors as the Compensation Committee deems relevant.

Stock options and related vesting requirements and terms are granted at the Board of Directors' discretion, but generally vest ratably over three to five-year periods and, with respect to certain options granted to members of senior management, based on the Company's performance. Generally, the maximum contractual term of stock options is ten years, although the Board of Directors may grant options that exceed the ten-year term. During fiscal years 2019, 2018, and 2017, the Company granted options to purchase 26,507 shares, 27,490 shares, 5,185 shares, respectively, of its Class A Common Stock to employees at market price on the grant dates. Of the shares granted in 2019, 14,680 shares related to performance-based stock options and 11,827 shares related to service-based stock options.

In December 2018, the Employee Equity Incentive Plan was amended to permit the grant of restricted stock units. Previously, the Company granted restricted stock awards. Restricted stock units are also granted at the Board of Directors' discretion. During fiscal years 2019, 2018, and 2017, the Company granted 22,509 shares, 83,561 shares, and 15,800 shares, respectively, of restricted stock units or awards to certain senior managers and key employees, all of which are service-based and vest ratably over service periods of one to five years.

The Equity Plan also has an investment share program which permits employees who have been with the Company for at least one year to purchase shares of Class A Common Stock at a discount from current market value of 0% to 40%, based on the employee's tenure with the Company. Investment shares vest ratably over service periods of five years. Participants may pay for these shares either up front or through payroll deductions over an eleven-month period during the year of purchase. During fiscal years 2019, 2018, and 2017, employees elected to purchase an aggregate of 7,901 investment shares, 9,214 investment shares, and 10,146 investment shares, respectively.

The Company has reserved 6.7 million shares of Class A Common Stock for issuance pursuant to the Equity Plan, of which 1.1 million shares were available for grant as of December 28, 2019. Shares reserved for issuance under cancelled employee stock options and forfeited restricted stock are returned to the reserve under the Equity Plan for future grants or purchases. The Company also purchases unvested investment shares from employees who have left the Company at the lesser of (i) the price paid for the shares when the employee acquired the shares or (ii) the fair market value of the shares as of the date next preceding the date on which the shares are called for redemption by the Company. These shares are also returned to the reserve under the Equity Plan for future grants or purchases.

### ***Non-Employee Director Options***

The Company has a stock option plan for non-employee directors of the Company (the "Non-Employee Director Plan"), pursuant to which each non-employee director of the Company is granted an option to purchase shares of

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the Company's Class A Common Stock upon election or re-election to the Board of Directors. Stock options issued to non-employee directors vest upon grant and have a maximum contractual term of ten years. During fiscal years 2019, 2018, and 2017 the Company granted options to purchase an aggregate of 4,779 shares, 5,080 shares, and 10,188 shares of the Company's Class A Common Stock to non-employee directors, respectively.

The Company has reserved 0.6 million shares of Class A Common Stock for issuance pursuant to the Non-Employee Director Plan, of which 0.1 million shares were available for grant as of December 28, 2019. Shares under any cancelled non-employee directors' stock options or options that expire unexercised are returned to the reserve under the Non-Employee Director Plan for future grants.

### **Option Activity**

Information related to stock options under the Equity Plan and the Non-Employee Director Plan is summarized as follows:

	<u>Shares</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term in Years</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding at December 29, 2018	366,829	\$ 155.75		
Granted	31,286	313.56		
Forfeited	—	—		
Expired	—	—		
Exercised	(82,437)	97.80		
Outstanding at December 28, 2019	<u>315,678</u>	<u>\$ 186.53</u>	<u>5.75</u>	<u>\$ 60,680</u>
Exercisable at December 28, 2019	<u>93,113</u>	<u>\$ 148.60</u>	<u>4.08</u>	<u>\$ 21,430</u>
Vested and expected to vest at December 28, 2019	<u>286,312</u>	<u>\$ 184.83</u>	<u>5.67</u>	<u>\$ 55,522</u>

Of the total options outstanding at December 28, 2019, 65,306 shares were performance-based options for which the performance criteria had yet to be achieved and 40,607 shares were performance-based options for which the performance criteria had been met but yet to be approved for vesting by the Board of Directors.

### **Stock Compensation to Chief Executive Officer**

On April 30, 2018, the Company granted its incoming Chief Executive Officer a performance-based stock option to purchase 9,959 shares of the Company's Class A Common stock with a weighted average fair value of \$100.50 per share, which vests through 2022. The incoming Chief Executive Officer was also granted 64,325 restricted stock awards with a weighted-average fair value of \$229.30 per share with service-based vesting through 2023.

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### **Stock-Based Compensation**

The following table provides information regarding stock-based compensation expense included in operating expenses in the accompanying consolidated statements of comprehensive income:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
		(in thousands)	
Amounts included in advertising, promotional and selling expenses	\$ 3,996	\$ 3,243	\$ 2,868
Amounts included in general and administrative expenses	8,341	6,792	3,448
Total stock-based compensation expense	<u>\$ 12,337</u>	<u>\$ 10,035</u>	<u>\$ 6,316</u>
Amounts related to performance-based stock awards included in total stock-based compensation expense	<u>\$ 1,944</u>	<u>\$ 1,750</u>	<u>\$ 36</u>

As permitted by ASC 718, the Company uses a lattice model, such as the trinomial option-pricing model, to estimate the fair values of stock options. The Company believes that the Black-Scholes option-pricing model is less effective than the trinomial option-pricing model in valuing long-term options, as it assumes that volatility and interest rates are constant over the life of the option. In addition, the Company believes that the trinomial option-pricing model more accurately reflects the fair value of its stock awards, as it takes into account historical employee exercise patterns based on changes in the Company's stock price and other relevant variables. The weighted-average fair value of stock options granted in fiscal years 2019, 2018, and 2017 was \$131.91, \$92.89, and \$72.52 per share, respectively, as calculated using a trinomial option-pricing model.

Weighted average assumptions used to estimate fair values of stock options on the date of grants are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Expected volatility	32.1%	34.0%	36.2%
Risk-free interest rate	2.63%	2.68%	2.30%
Expected dividends	0%	0%	0%
Exercise factor	2.33 times	2.52 times	3.63 times
Discount for post-vesting restrictions	0.0%	0.0%	0.0%

Expected volatility is based on the Company's historical realized volatility. The risk-free interest rate represents the implied yields available from the U.S. Treasury zero-coupon yield curve over the contractual term of the option when using the trinomial option-pricing model. Expected dividend yield is 0% because the Company has not paid dividends in the past and currently has no known intention to do so in the future. Exercise factor and discount for post-vesting restrictions are based on the Company's historical experience.

Fair value of restricted stock awards is based on the Company's traded stock price on the date of the grants. Fair value of investment shares is calculated using the trinomial option-pricing model.

The Company uses the straight-line attribution method in recognizing stock-based compensation expense for awards that vest based on service conditions. For awards that vest subject to performance conditions, compensation expense is recognized ratably for each tranche of the award over the performance period if it is probable that performance conditions will be met.

The Company recognizes compensation expense, less estimated forfeitures of 11.0%. The forfeiture rate is based upon historical experience and the Company periodically reviews this rate to ensure proper projection of future forfeitures.

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The total fair value of options vested during fiscal years 2019, 2018, and 2017 was \$2.5 million, \$3.2 million, and \$2.9 million, respectively. The aggregate intrinsic value of stock options exercised during fiscal years 2019, 2018, and 2017 was \$20.9 million, \$19.2 million, and \$14.9 million, respectively.

Based on equity awards outstanding as of December 28, 2019, there is \$24.8 million of unrecognized compensation costs, net of estimated forfeitures, related to unvested share-based compensation arrangements that are expected to vest. Such costs are expected to be recognized over a weighted-average period of 2.0 years. The following table summarizes the estimated future annual stock-based compensation expense related to share-based arrangements existing as of December 28, 2019 that are expected to vest (in thousands):

2020	\$ 10,231
2021	7,529
2022	5,000
2023	1,731
2024	334
Total	<u>\$ 24,825</u>

### **Non-Vested Shares Activity**

The following table summarizes vesting activities of shares issued under the investment share program and restricted stock awards:

	<b>Number of Shares</b>	<b>Weighted Average Fair Value</b>
Non-vested at December 29, 2018	<u>126,720</u>	<u>\$ 192.74</u>
Granted	30,410	269.91
Vested	(33,205)	188.63
Forfeited	(1,783)	161.42
Non-vested at December 28, 2019	<u>122,142</u>	<u>\$ 213.52</u>

33,205 shares vested in 2019 with a weighted average fair value of \$188.63. 20,678 shares vested in 2018 with a weighted average fair value of \$156.50. 22,213 shares vested in 2017 with a weighted average fair value of \$151.32.

### **Stock Repurchase Program**

In 1998, the Board of Directors authorized management to implement a stock repurchase program. As of December 28, 2019, the Company has repurchased a cumulative total of approximately 13.8 million shares of its Class A Common Stock for an aggregate purchase price of approximately \$840.7 million as follows:

	<b>Number of Shares</b>	<b>Aggregate Purchase Price (in thousands)</b>
Repurchased at December 31, 2016	12,483,556	\$ 607,750
2017 repurchases	963,790	144,602
Repurchased at December 30, 2017	13,447,346	752,352
2018 repurchases	349,691	88,312
Repurchased at December 29, 2018	<u>13,797,037</u>	<u>840,664</u>
2019 repurchases	—	—
Repurchased at December 28, 2019	<u>13,797,037</u>	<u>\$ 840,664</u>

**O. Employee Retirement Plans and Post-Retirement Medical Benefits**

The Company has one retirement plan covering substantially all non-union employees; two other retirement plans, one of which covers substantially all union employees, and the other of which covers employees of a specific union; and post-retirement medical benefits covering substantially all union employees.

***Non-Union Plans***

The Boston Beer Company 401(k) Plan (the “Boston Beer 401(k) Plan”), which was established by the Company in 1993, is a Company-sponsored defined contribution plan that covers a majority of the Company’s non-union employees who are employed by Boston Beer Corporation, American Craft Brewery LLC, A & S Brewing Collaborative LLC, or Angry Orchard Cider Company, LLC. All non-union employees of these entities are eligible to participate in the Plan immediately upon employment. Participants may make voluntary contributions up to 60% of their annual compensation, subject to IRS limitations. The Company matches each participant’s contribution. A maximum of 6% of compensation is taken into account in determining the amount of the match. The Company matches 100% of the first \$1,000 of the eligible compensation participants contribute. Thereafter, the Company matches 50% of the eligible contribution. The Company’s contributions to the Boston Beer 401(k) Plan amounted to \$4.0 million, \$3.5 million, and \$3.2 million in fiscal years 2019, 2018, and 2017, respectively. The basic annual administrative fee for the Boston Beer 401(k) Plan is paid by the Plan’s investment fund revenue. In addition, per the Service Provider Payment Agreement, a credit up to a maximum of two basis points multiplied by the total amount of assets under the Plan per year is available for paying eligible Plan expenses. Participant forfeitures are also available for paying eligible Plan expenses. The Company is responsible for the payment of any additional fees related to the management of the Boston Beer 401(k) Plan. Such fees are not material to the Company. In January 2020, the Company amended the Boston Beer 401(k) Plan to update the Company match as follows: 100% of the first 3% of the eligible compensation participants contribute. Thereafter, the Company matches 50% of the eligible contribution, up to a maximum of 5%.

As part of the Dogfish Head Transaction, the Company acquired The Dogfish Head 401(k) Plan (the “Dogfish Head 401(k) Plan”), which is a Company-sponsored defined contribution plan that is available to all Dogfish Head employees. Participants may make voluntary contributions up to 60% of their annual compensation, subject to IRS limitations. The Company matches each participant’s contribution. A maximum of 5% of compensation is taken into account in determining the amount of the match. The Company matches 100% of the first 3% of the eligible compensation participants contribute. Thereafter, the Company matches 50% of the eligible contribution. The Company’s contributions to the Dogfish Head 401(k) Plan amounted to \$0.3 million in fiscal year 2019. In January 2020, the Dogfish Head 401(k) Plan merged with the Boston Beer 401(k) Plan.

***Union Plans***

The Samuel Adams Cincinnati Brewery 401(k) Plan for Represented Employees (the “SACB 401(k) Plan”) is a Company-sponsored defined contribution plan. It was established in 1997 and is available to all union employees upon commencement of employment or, if later, attaining age 21. Participants may make voluntary contributions up to 60% of their annual compensation to the SACB 401(k) Plan, subject to IRS limitations. Company contributions for fiscal years 2019 and 2018 were insignificant. The basic annual administrative fee for the SACB 401(k) Plan is paid by the Plan’s investment fund revenue. In addition, per the Service Provider Payment Agreement, a credit up to a maximum of two basis points multiplied by the total amount of assets under the Plan per year, excluding participant loans, is available for paying eligible Plan expenses. The Company is responsible for the payment of any additional fees related to the management of the SACB 401(k) Plan. Such fees are not material to the Company.

The Samuel Adams Brewery Company, Ltd. Local Union No. 1199 Pension Plan (the “Local 1199 Pension Plan”) is a Company-sponsored defined benefit pension plan. It was established in 1991 and is open to all union employees who are covered by the Company’s collective bargaining agreement with Teamsters Local Union

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No. 1199 (“Local Union 1199”), or persons on leave from the Company who are employed by Local Union 1199, and in either case who have completed 12 consecutive months of employment with at least 750 hours worked. The defined benefit is determined based on years of service since July 1991. The Company made contributions of \$314,000, \$315,000 and \$238,000 in fiscal years 2019, 2018 and 2017, respectively. At December 28, 2019 and December 29, 2018, the unfunded projected pension benefits were \$2.7 million and \$2.0 million, respectively.

The Company provides a supplement to eligible retirees from Local 1, Local 20, and Local Union 1199 to assist them with the cost of Medicare gap coverage after their retirement on account of age or permanent disability. To qualify for this benefit (collectively, the “Retiree Medical Plan”), an employee must have worked for at least 20 years for the Company or its predecessor at the Company’s Cincinnati Brewery, must have been enrolled in the Company’s group medical insurance plan for at least 5 years before retirement and, in the case of retirees from Local 20, for at least 7 of the last 10 years of their employment, and must be eligible for Medicare benefits under the Social Security Act. The accumulated post-retirement benefit obligation was determined using a discount rate of 3.32% at December 28, 2019 and 4.27% at December 29, 2018 and a 2.5% health care cost increase based on the Cincinnati Consumer Price Index for the years 2019, 2018, and 2017. The effect of a 1% point increase and the effect of a 1% point decrease in the assumed health care cost trend rates on the aggregate of the service and interest cost components of net periodic post-retirement health care benefit costs and on the accumulated post-retirement benefit obligation for health care benefits would not be significant.

In addition, the comprehensive medical plan offered to currently employed members of Local 20 remains available to them should they retire after reaching age 57, and before reaching age 65, with at least 20 years of service with the Company or its predecessor at the Company’s Cincinnati Brewery. These eligible retirees may choose to continue to be covered under the Company’s comprehensive group medical plan until they reach the age when they are eligible for Medicare health benefits under the Social Security Act or coverage under a comparable State health benefit plan. Eligible retirees pay 100% of the cost of the coverage.

The funded status of the Local 1199 Pension Plan and the Retiree Medical Plan are as follows:

	Local 1199 Pension Plan		Retiree Medical Plan	
	December 28, 2019	December 29, 2018	December 28, 2019	December 29, 2018
				(in thousands)
Fair value of plan assets at end of fiscal year	\$ 3,946	\$ 3,322	\$ —	\$ —
Benefit obligation at end of fiscal year	6,680	5,357	888	731
Unfunded Status	<u>\$ (2,734)</u>	<u>\$ (2,035)</u>	<u>\$ (888)</u>	<u>\$ (731)</u>

On April 21, 2019, the Company reached an agreement with the Local Union 1199 to terminate the Local Union No. 1199 Pension Plan effective January 1, 2020 through either lump sum payments or the purchase of third-party annuities. In the fourth quarter of 2020 the Company expects to complete the termination of the plan and estimates an expense of approximately \$1.9 million will be recorded as a result of the termination.

Prior to the agreement with the Local 1199 Union to terminate the pension plan, the Local 1199 Pension Plan invested in a family of funds designed to minimize excessive short-term risk and focus on consistent, competitive long-term performance, consistent with the funds’ investment objectives. The fund-specific objectives vary and include maximizing long-term returns both before and after taxes, maximizing total return from capital appreciation plus income, and investing in funds that invest in common stock of companies that cover a broad range of industries. The Local 1199 Plan’s investments are considered category 1 assets in the fair value hierarchy and the fair values were determined by reference to period-end quoted market prices.

As a result of the Local 1199 Pension Plan termination, the basis of the long-term rate of return assumption of 1.75% reflects the Local 1199 Plan’s current targeted asset allocation of approximately 100% of assets invested

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in money market funds. The assumed discount rate in estimating the pension obligation was 3.32% and 4.27% at December 28, 2019 and December 29, 2018, respectively.

The Local 1199 Plan's weighted-average asset allocations at the measurement dates by asset category are as follows:

<u>Asset Category</u>	<u>December 28, 2019</u>	<u>December 29, 2018</u>
Cash equivalents	100%	0%
Equity securities	0%	61%
Debt securities	0%	39%
Total	<u>100%</u>	<u>100%</u>

### **P. Net Income per Share**

#### *Net Income per Common Share - Basic*

The following table sets forth the computation of basic net income per share using the two-class method:

	<u>December 28, 2019</u>	<u>December 29, 2018</u>	<u>December 30, 2017</u>
	(in thousands, except per share data)		
Net Income	<u>\$ 110,041</u>	<u>\$ 92,663</u>	<u>\$ 99,049</u>
Allocation of net income for basic:			
Class A Common Stock	\$ 82,474	\$ 68,080	\$ 73,114
Class B Common Stock	26,600	23,710	25,391
Unvested participating shares	967	873	544
	<u>\$ 110,041</u>	<u>\$ 92,663</u>	<u>\$ 99,049</u>
Weighted average number of shares for basic:			
Class A Common Stock	8,908	8,620	8,933
Class B Common Stock*	2,873	3,002	3,102
Unvested participating shares	105	111	67
	<u>11,886</u>	<u>11,733</u>	<u>12,102</u>
Net income per share for basic:			
Class A Common Stock	<u>\$ 9.26</u>	<u>\$ 7.90</u>	<u>\$ 8.18</u>
Class B Common Stock	<u>\$ 9.26</u>	<u>\$ 7.90</u>	<u>\$ 8.18</u>

\* Change in Class B Common Stock resulted from the conversion of 100,000 shares to Class A Common Stock on March 7, 2017, 79,000 shares to Class A Common Stock on October 31, 2017, 100,000 shares to Class A Common Stock on November 1, 2018, 100,000 shares to Class A Common stock on August 8, 2019 and 145,000 shares to Class A Common stock on December 13, 2019 with the ending number of shares reflecting the weighted average for the period.

#### *Net Income per Common Share - Diluted*

The Company calculates diluted net income per share for common stock using the more dilutive of (1) the treasury stock method, or (2) the two-class method, which assumes the participating securities are not exercised or converted.



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The following tables set forth the computation of diluted net income per share, assuming the conversion of all Class B Common Stock into Class A Common Stock and using the two-class method for unvested participating shares:

	<u>Fifty-two weeks ended December 28, 2019</u>		
	<u>Earnings to Common Shareholders</u>	<u>Common Shares</u>	<u>EPS</u>
	<u>(in thousands, except per share data)</u>		
As reported - basic	\$ 82,474	8,908	\$ 9.26
Add: effect of dilutive potential common shares			
Share-based awards	—	127	
Class B Common Stock	26,600	2,873	
Net effect of unvested participating shares	10	—	
Net income per common share - diluted	<u>\$ 109,084</u>	<u>11,908</u>	9.16

	<u>Fifty-two weeks ended December 29, 2018</u>		
	<u>Earnings to Common Shareholders</u>	<u>Common Shares</u>	<u>EPS</u>
	<u>(in thousands, except per share data)</u>		
As reported - basic	\$ 68,080	8,620	\$ 7.90
Add: effect of dilutive potential common shares			
Share-based awards	—	112	
Class B Common Stock	23,710	3,002	
Net effect of unvested participating shares	8	—	
Net income per common share - diluted	<u>\$ 91,798</u>	<u>11,734</u>	\$ 7.82

	<u>Fifty-two weeks ended December 30, 2017</u>		
	<u>Earnings to Common Shareholders</u>	<u>Common Shares</u>	<u>EPS</u>
	<u>(in thousands, except per share data)</u>		
As reported - basic	\$ 73,114	8,933	\$ 8.18
Add: effect of dilutive potential common shares			
Share-based awards	—	145	
Class B Common Stock	25,391	3,102	
Net effect of unvested participating shares	7	—	
Net income per common share - diluted	<u>\$ 98,512</u>	<u>12,180</u>	\$ 8.09

Basic net income per common share for each share of Class A Common Stock and Class B Common Stock is \$9.26, \$7.90, and \$8.18 for the fiscal years 2019, 2018, and 2017, respectively, as each share of Class A and Class B participates equally in earnings. Shares of Class B are convertible at any time into shares of Class A on a one-for-one basis at the option of the stockholder.

Weighted average stock options to purchase 23,000, 100,000, and 785,000 shares of Class A Common Stock were outstanding during fiscal 2019, 2018, and 2017, respectively, but not included in computing diluted income per share because their effects were anti-dilutive. Additionally, performance-based stock options to purchase 10,000, 10,000, and 36,000 shares of Class A Common Stock were outstanding during fiscal 2019, 2018, and

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2017, respectively, but not included in computing dilutive income per share because the performance criteria of these stock options were not met as of December 28, 2019, December 29, 2018, and December 30, 2017, respectively.

#### Q. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss represents amounts of unrecognized actuarial gains or losses related to the Company sponsored defined benefit pension plan and post-retirement medical plan, net of tax effect, and cumulative currency translation adjustments. Changes in accumulated other comprehensive loss represent actuarial losses or gains, net of tax effect, recognized as components of net periodic benefit costs and currency translation adjustments due to tax rate changes in the period. The following table details the changes in accumulated other comprehensive loss for 2019, 2018, and 2017 (in thousands):

	<b>Accumulated Other Comprehensive (Loss) Income</b>
<b>Balance at December 31, 2016</b>	<b>\$ (1,103)</b>
Deferred pension and other post-retirement benefit costs, net of tax benefit of \$57	(170)
Amortization of Deferred benefit costs, net of tax benefit of \$11	(32)
Currency translation adjustment	17
<b>Balance at December 30, 2017</b>	<b>\$ (1,288)</b>
Deferred pension and other post-retirement benefit costs, net of taxes of \$64	191
Amortization of Deferred benefit costs, net of taxes of \$29	86
One time effect of adoption of ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	(211)
Currency translation adjustment	25
<b>Balance at December 29, 2018</b>	<b>\$ (1,197)</b>
Deferred pension and other post-retirement benefit costs, net of taxes of \$150	(442)
Amortization of Deferred benefit costs, net of taxes of \$26	(77)
Currency translation adjustment	47
<b>Balance at December 28, 2019</b>	<b>\$ (1,669)</b>

## R. Valuation and Qualifying Accounts

The Company maintains reserves against accounts receivable for doubtful accounts and inventory for obsolete and slow-moving inventory. The Company also maintains reserves against accounts receivable for distributor promotional allowances. In addition, the Company maintains a reserve for estimated returns of stale beer, which is included in accrued expenses.

<b>Allowance for Doubtful Accounts</b>	<b>Balance at Beginning of Period</b>	<b>Net Provision (Recovery)</b>	<b>Amounts Charged Against Reserves</b>	<b>Balance at End of Period</b>
			(In thousands)	
2019	\$ 2	\$ 45	\$ 0	\$ 47
2018	\$ —	\$ 2	\$ —	\$ 2
2017	\$ —	\$ —	\$ —	\$ —

<b>Discount Accrual</b>	<b>Balance at Beginning of Period</b>	<b>Net Provision (Recovery) *</b>	<b>Amounts Charged Against Reserves</b>	<b>Balance at End of Period</b>
			(In thousands)	
2019	\$ 4,636	\$ 43,920	\$ (42,284)	\$ 6,272
2018	\$ 3,072	\$ 36,213	\$ (34,649)	\$ 4,636
2017	\$ 3,078	\$ 30,171	\$ (30,177)	\$ 3,072

<b>Inventory Obsolescence Reserve</b>	<b>Balance at Beginning of Period</b>	<b>Net Provision (Recovery)</b>	<b>Amounts Charged Against Reserves</b>	<b>Balance at End of Period</b>
			(In thousands)	
2019	\$ 2,580	\$ 8,092	\$ (4,297)	\$ 6,375
2018	\$ 1,826	\$ 4,175	\$ (3,421)	\$ 2,580
2017	\$ 2,262	\$ 5,751	\$ (6,187)	\$ 1,826

<b>Stale Beer Reserve</b>	<b>Balance at Beginning of Period</b>	<b>Net Provision (Recovery)</b>	<b>Amounts Charged Against Reserves</b>	<b>Balance at End of Period</b>
			(In thousands)	
2019	\$ 2,146	\$ 4,406	\$ (4,724)	\$ 1,828
2018	\$ 3,023	\$ 2,691	\$ (3,568)	\$ 2,146
2017	\$ 5,226	\$ 5,449	\$ (7,652)	\$ 3,023

\* 2018 net provision of the discount accrual includes \$1.7 million related to the cumulative effect adjustment to retained earnings and the current year adjustment to deferred revenue related to the adoption of ASU 2014-09.

## S. Related Party Transactions

The Company has entered a lease with the Dogfish Head founders and other owners of buildings used in certain of the Company's restaurant operations. The lease is for ten years with renewal options. The total payments due under the initial ten year term is \$3.6 million. Total related party expense recognized for fiscal 2019 was approximately \$183,000. In addition, for fiscal 2019, the Company incurred expenses of less than \$30,000 to various other suppliers affiliated with the Dogfish Head founders.

## T. Subsequent Events

The Company evaluated subsequent events occurring after the balance sheet date, December 28, 2019, and concluded that there were no events of which management was aware that occurred after the balance sheet date that would require any adjustment to or disclosure in the accompanying consolidated financial statements.

**U. Quarterly Results (Unaudited)**

The Company's fiscal quarters are consistently determined year to year and generally consist of 13 weeks, except in those fiscal years in which there are fifty-three weeks where the last fiscal quarters then consist of 14 weeks. In management's opinion, the following unaudited information includes all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the information for the quarters presented. The operating results for any quarter are not necessarily indicative of results for any future quarters.

	<b>For Quarters Ended</b>							
	<b>December 28, 2019 (2) (13 weeks)</b>	<b>September 28, 2019 (2) (13 weeks)</b>	<b>June 29, 2019 (2) (13 weeks)</b>	<b>March 30, 2019 (13 weeks)</b>	<b>December 29, 2018 (13 weeks)</b>	<b>September 29, 2018 (1) (13 weeks)</b>	<b>June 30, 2018 (13 weeks)</b>	<b>March 31, 2018 (13 weeks)</b>
	(In thousands, except per share data)							
Net revenue	\$ 301,300	\$ 378,466	\$ 318,407	\$ 251,651	\$ 225,222	\$ 306,870	\$ 273,100	\$ 190,457
Gross profit	142,789	187,835	159,002	124,540	116,949	157,227	141,970	96,097
Operating income	17,702	59,836	37,932	29,443	28,851	46,728	31,064	9,238
Net income	\$ 13,762	\$ 44,729	\$ 27,856	\$ 23,694	\$ 21,811	\$ 38,007	\$ 23,535	\$ 9,310
Net income per share – basic	\$ 1.13	\$ 3.70	\$ 2.39	\$ 2.04	\$ 1.88	\$ 3.25	\$ 1.99	\$ 0.79
Net income per share – diluted	\$ 1.12	\$ 3.65	\$ 2.36	\$ 2.02	\$ 1.86	\$ 3.21	\$ 1.98	\$ 0.78

- (1) During the third quarter of 2018, the Company recorded a \$4.5 million tax benefit related to tax accounting method changes.
- (2) During the second, third and fourth quarter of 2019, the Company recorded \$1.9 million, \$5.9 million and \$2.1 million in non-reoccurring transaction fees related to the Dogfish Head Transaction, respectively.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

None.

**Item 9A. Controls and Procedures**

**(a) Evaluation of disclosure controls and procedures**

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in alerting them in a timely manner to material information required to be disclosed in the Company's reports filed with or submitted to the SEC.

**(b) Management's Report on Internal Control Over Financial Reporting**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 28, 2019. As described in Item 1 and in Note C of the Notes to Consolidated Financial Statements, we completed the Dogfish Head Brewery Transaction in July 2019. As permitted by the rules and regulations of the SEC, we excluded from our assessment the internal control over financial reporting at Dogfish Head Brewery, whose financial statements reflect total assets and net revenues constituting approximately 12% and 4%, respectively, of the consolidated financial statement amounts as of and for the year ended December 28, 2019. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013 framework)*. Based on its assessment, the Company believes that, as of December 28, 2019, the Company's internal control over financial reporting is effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 28, 2019 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and Board of Directors of  
The Boston Beer Company, Inc.  
Boston, Massachusetts

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of The Boston Beer Company, Inc. and subsidiaries (the “Company”) as of December 28, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 28, 2019, of the Company and our report dated February 19, 2020 expressed an unqualified opinion on those financial statements and included an explanatory paragraph related to the Company’s adoption of FASB Accounting Standards Update 2016-02, *Leases (Topic 842)* on December 30, 2018.

As described in Management’s Annual Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Dogfish Head Brewery, which was acquired on July 3, 2019, and whose financial statements constitute 12% of total assets and 4% of net revenues of the consolidated financial statement amounts as of and for the year ended December 28, 2019. Accordingly, our audit did not include the internal control over financial reporting at Dogfish Head Brewery.

### Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance

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with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Boston, Massachusetts  
February 19, 2020

**(c) Changes in internal control over financial reporting**

No changes in the Company's internal control over financial reporting occurred during the quarter ended December 28, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. As set forth above, we excluded from our assessment the internal control over financial reporting at Dogfish Head Brewery for the year ended December 28, 2019. We consider Dogfish Head material to our results of operations, financial position and cash flows, and we are in the process of integrating the internal control procedures of Dogfish Head into our internal control structure.

**Item 9B. Other Information**

None.



**PART III.****Item 10. Directors, Executive Officers and Corporate Governance**

In December 2002, the Board of Directors of the Company adopted a (i) Code of Business Conduct and Ethics that applies to its Chief Executive Officer and its Chief Financial Officer, and (ii) Corporate Governance Guidelines. The Code of Business Conduct and Ethics was amended effective August 1, 2007 to provide for a third-party whistleblower hotline. These, as well as the charters of each of the Board Committees, are posted on the Company's investor relations website, [www.bostonbeer.com](http://www.bostonbeer.com), and are available in print to any shareholder who requests them. Such requests should be directed to the Investor Relations Department, The Boston Beer Company, Inc., One Design Center Place, Suite 850, Boston, MA 02210. The Company intends to disclose any amendment to, or waiver from, a provision of its code of ethics that applies to the Company's Chief Executive Officer or Chief Financial Officer and that relates to any element of the Code of Ethics definition enumerated in Item 406 of Regulation S-K by posting such information on the Company's website.

The information required by Item 10 is hereby incorporated by reference from the registrant's definitive Proxy Statement for the 2020 Annual Meeting to be held on May 14, 2020.

**Item 11. Executive Compensation**

The Information required by Item 11 is hereby incorporated by reference from the registrant's definitive Proxy Statement for the 2020 Annual Meeting to be held on May 14, 2020.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***Security Ownership*

The information required by Item 12 with respect to security ownership of certain beneficial owners and management is hereby incorporated by reference from the registrant's definitive Proxy Statement for the 2020 Annual Meeting to be held on May 14, 2020.

*Related Stockholder Matters*

## EQUITY COMPENSATION PLAN INFORMATION

<u>Plan Category</u>	<u>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans</u>
Equity Compensation Plans			
Approved by Security Holders	315,678	\$ 186.53	1,170,632
Equity Compensation Plans Not			
Approved by Security Holders	N/A	N/A	N/A
Total	<u>315,678</u>	<u>\$ 186.53</u>	<u>1,170,632</u>

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**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by Item 13 is hereby incorporated by reference from the registrant's definitive Proxy Statement for the 2020 Annual Meeting to be held on May 14, 2020.

**Item 14. Principal Accounting Fees and Services**

The information required by Item 14 is hereby incorporated by reference from the registrant's definitive Proxy Statement for the 2020 Annual Meeting to be held on May 14, 2020.

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### PART IV.

#### Item 15. Exhibits, Financial Statement Schedules

##### (a)1. Financial Statements.

The following financial statements are filed as a part of this report:

	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	40
Consolidated Financial Statements:	
<a href="#">Consolidated Balance Sheets as of December 28, 2019 and December 29, 2018</a>	43
<a href="#">Consolidated Statements of Comprehensive Income for the years ended December 28, 2019, December 29, 2018, and December 30, 2017</a>	42
<a href="#">Consolidated Statements of Stockholders' Equity for the years ended December 28, 2019, December 29, 2018, and December 30, 2017</a>	44
<a href="#">Consolidated Statements of Cash Flows for the years ended December 28, 2019, December 29, 2018, and December 30, 2017</a>	45
<a href="#">Notes to the Consolidated Financial Statements</a>	46

##### (a)2. Financial Statement Schedules.

All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission have been omitted because they are inapplicable or the required information is shown in the consolidated financial statements, or notes thereto, included herein.

##### (b) Exhibits

The following is a list of exhibits filed as part of this Form 10-K:

<b>Exhibit No.</b>	<b>Title</b>
2.1	<a href="#">Agreement and Plan of Merger, dated May 8, 2019, with Dogfish Head Holding Company, Canoe Acquisition Corp., and solely with respect to the indemnification obligations set forth in the Merger Agreement, Samuel A. Calagione III and Mariah D. Calagione (incorporated by reference to Exhibit 2.1 to the Company's Form 8-K filed on May 9, 2019).</a>
2.2	<a href="#">Membership Unit Purchase Agreement, dated May 8, 2019, by and among The Boston Beer Company, Inc., Dogfish East of the Mississippi LP, and solely with respect to indemnification obligations set forth therein, Samuel A. Calagione III and Mariah D. Calagione (incorporated by reference to Exhibit 2.2 to the Company's Form 8-K filed on May 9, 2019).</a>
2.3	<a href="#">Membership Unit Purchase Agreement, dated as of May 8, 2019, by and among The Boston Beer Company, Inc. and DFH Investors LLC (incorporated by reference to Exhibit 2.3 to the Company's Form 8-K filed on May 9, 2019).</a>
3.1	<a href="#">Amended and Restated By-Laws of the Company, dated June 2, 1998 (incorporated by reference to Exhibit 3.5 to the Company's Form 10-Q filed on August 10, 1998).</a>
3.2	<a href="#">Restated Articles of Organization of the Company, dated November 17, 1995, as amended August 4, 1998 (incorporated by reference to Exhibit 3.6 to the Company's Form 10-Q filed on August 10, 1998).</a>
4.1	Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement No. 33-96164). (P)
*4.2	<a href="#">Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934</a>

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<b>Exhibit No.</b>	<b>Title</b>
10.1	Stockholder Rights Agreement, dated as of December 1995, among The Boston Beer Company, Inc. and the initial Stockholders (incorporated by reference to the Company's Form 10-K, filed on April 1, 1996). (P)
10.2	<a href="#"><u>Second Amended and Restated Credit Agreement between The Boston Beer Company, Inc. and Boston Beer Corporation, as Borrowers, and Bank of America, N.A. (successor-in-merger to Fleet National Bank), effective as of July 1, 2002 (incorporated by reference to the Company's 10-Q, filed on August 13, 2002).</u></a>
10.3	<a href="#"><u>Letter Agreement dated August 4, 2004 amending the Second Amended and Restated Credit Agreement between Bank of America, N.A. (successor-in-merger to Fleet National Bank) and The Boston Beer Company, Inc. and Boston Beer Corporation (incorporated by reference to the Company's 10-Q, filed on November 4, 2004).</u></a>
10.4	<a href="#"><u>Amendment dated February 27, 2007 to the Second Amended and Restated Credit Agreement between Bank of America, N.A., successor-in-merger to Fleet National Bank, and The Boston Beer Company, Inc. and Boston Beer Corporation (incorporated by reference to the Company's Annual Report on Form 10-K filed on March 15, 2007).</u></a>
10.5	<a href="#"><u>Amendment to Credit Agreement by and among the Company and Boston Beer Corporation, as borrowers, and Bank of America, N.A., as the lender, effective as of March 10, 2008 (incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on May 6, 2008).</u></a>
+10.6	<a href="#"><u>Production Agreement between Samuel Adams Brewery Company, Ltd. and Brown-Forman Distillery Company, a division of Brown-Forman Corporation, effective as of April 11, 2005 (incorporated by reference to the Company's 10-Q filed on May 5, 2005).</u></a>
+10.7	<a href="#"><u>Brewing Services Agreement between CBC Latrobe Acquisition, LLC and Boston Beer Corporation dated March 28, 2007 (incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on May 10, 2007).</u></a>
+10.8	Office Lease Agreement between Boston Design Center LLC and Boston Beer Corporation dated March 24, 2006 ("Office Lease Agreement"), as amended on September 29, 2006, October 31, 2007, March 25, 2008, August 27, 2012, February 22, 2013, and June 3, 2015 (incorporated by reference to the Company's Quarterly Report on Form <a href="#"><u>10-Q</u></a> filed on May 11, 2006 and Annual Report on Form <a href="#"><u>10-K</u></a> filed on February 18, 2016).
**10.9	The 1996 Stock Option Plan for Non-Employee Directors, originally adopted in 1996 and amended and restated on October 19, 2004, as amended on October 30, 2009, effective as of January 1, 2010 (incorporated by reference to the Company's Post-Effective Amendment to its Registration Statement on Form <a href="#"><u>S-8</u></a> filed on November 28, 2009); amended and restated on December 12, 2012, effective as of January 1, 2012; amended and restated on March 9, 2016, effective as of March 9, 2016 (incorporated by reference to Exhibit <a href="#"><u>10.1</u></a> to the Company's Quarterly Report on Form 10-Q filed on July 21, 2016).
10.10	<a href="#"><u>Amendment dated January 24, 2014 to the Second Amended and Restated Credit Agreement between Bank of America, N.A., successor-in-merger to Fleet National Bank, and The Boston Beer Company, Inc. and Boston Beer Corporation (incorporated by reference to the Company's Current Report on Form 8-K filed on January 28, 2014).</u></a>
**10.11	<a href="#"><u>The Boston Beer Company, Inc. Employee Equity Incentive Plan, as amended on February 23, 1996, December 20, 1997, December 19, 2005, December 19, 2006, December 21, 2007, October 30, 2009, October 8, 2013, October 8, 2014, and December 9, 2015, December 20, 2017, and December 20, 2018 (incorporated by reference to the Company's Current Report on Form 8-K filed on December 21, 2018).</u></a>

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<b>Exhibit No.</b>	<b>Title</b>
**10.12	<a href="#"><u>Martin F. Roper Proprietary Information and Restrictive Covenant Agreement dated February 2, 2017 (incorporated by reference to the Company's Current Report on Form 8-K filed on February 6, 2017).</u></a>
**10.13	<a href="#"><u>Offer Letter to David A. Burwick, future Chief Executive Officer and President, dated January 23, 2018 (incorporated by reference to the Company's Current Report on Form 8-K filed on February 16, 2018).</u></a>
10.14	<a href="#"><u>Amendment to Credit Agreement by and among the Company and Boston Beer Corporation, as borrowers, and Bank of America, N.A., as the lender, effective as of March 27, 2018 (incorporated by reference to the Company's Current Report on Form 8-K filed on March 30, 2018).</u></a>
**10.15	<a href="#"><u>Employment Agreement of Samuel A. Calagione III, dated July 3, 2019 (incorporated by reference to Exhibit 10.3 to the Company's 10-Q filed on July 25, 2019).</u></a>
**10.16	<a href="#"><u>Offer Letter to Lesya Lysyj, future Chief Marketing Officer, dated March 21, 2019 (incorporated by reference to Exhibit 10.5 to the Company's 10-Q filed on July 25, 2019).</u></a>
10.17	<a href="#"><u>Registration Rights Agreement with the Former Dogfish Head Stockholders, dated July 3, 2019 (incorporated by reference to Exhibit 10.1 to the Company's 10-Q filed on July 25, 2019).</u></a>
**10.18	<a href="#"><u>Indemnification Agreement with the Dogfish Head Founders, dated July 3, 2019 (incorporated by reference to Exhibit 10.2 to the Company's 10-Q filed on July 25, 2019).</u></a>
*21.5	<a href="#"><u>List of subsidiaries of The Boston Beer Company, Inc. effective as of December 28, 2019.</u></a>
*23.1	<a href="#"><u>Consent of Deloitte &amp; Touche LLP, an Independent Registered Public Accounting Firm.</u></a>
*31.1	<a href="#"><u>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.</u></a>
*31.2	<a href="#"><u>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.</u></a>
*32.1	<a href="#"><u>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.</u></a>
*32.2	<a href="#"><u>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.</u></a>
*101.INS	XBRL Instance Document
*101.SCH	Inline XBRL Taxonomy Extension Schema Document
*101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document
*101.LAB	Inline XBRL Label Linkbase Document
*101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document
*101.DEF	Inline XBRL Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and included in Exhibit 101).
*	Filed with this report.
+	Portions of this Exhibit were omitted pursuant to an application for an order declaring confidential treatment filed with and approved by the Securities and Exchange Commission.
**	Indicates management contract or compensatory plan or arrangement.

### **Item 16. Form 10-K Summary**

Not applicable.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 19<sup>th</sup> day of February 2020.

THE BOSTON BEER COMPANY, INC.

/s/ David A. Burwick

David A. Burwick  
President and Chief Executive Officer (principal executive officer)

Pursuant to the requirements of the Securities and Exchange Act of 1934, the following persons on behalf of the registrant and in the capacities and on the dates indicated have signed this report below.

Signature	Title
<u>/s/ David A. Burwick</u> David A. Burwick	President, Chief Executive Officer (principal executive officer) and Director
<u>/s/ Frank H. Smalla</u> Frank H. Smalla	Chief Financial Officer (principal financial officer)
<u>/s/ Matthew D. Murphy</u> Matthew D. Murphy	Chief Accounting Officer (principal accounting officer)
<u>/s/ David P. Fialkow</u> David P. Fialkow	Director
<u>/s/ Cynthia A. Fisher</u> Cynthia A. Fisher	Director
<u>/s/ Meghan V. Joyce</u> Meghan V. Joyce	Director
<u>/s/ C. James Koch</u> C. James Koch	Chairman and Director
<u>/s/ Michael Spillane</u> Michael Spillane	Director
<u>/s/ Jean-Michel Valette</u> Jean-Michel Valette	Director

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

As of December 28, 2019, the Company had two classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): (1) Class A Common Stock; and (2) Class B Common Stock.

**Description of Class A Common Stock**

The following description of the Company's Class A Common Stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the Company's Restated Articles of Organization ("Articles of Organization") and Amended and Restated By-Laws of the Company ("By-Laws"), each of which is incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.2 is a part. You are encouraged you to read the Articles of Incorporation and By-Laws for additional information.

**Authorized Capital Shares**

At December 28, 2019, the Company had 22,700,000 authorized shares of Class A Common Stock with a par value of \$.01, of which 9,470,397 were issued and outstanding, which includes 99,871 shares that have trading restrictions.

**Voting Rights**

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, (c) certain other amendments of the Articles of Organization, (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.

**Dividend Rights**

Holders of the Class A 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 Common Stock in the foreseeable future.

**Liquidation Rights**

Holders of Class A Common Stock will share ratably in all assets legally available for distribution to stockholders in the event of dissolution.

**Other Rights and Preferences**

The Company's Class A Common Stock has no sinking fund or redemption provisions or preemptive, conversion, or exchange rights.

**Listing**

The Class A Common Stock is traded on the New York Stock Exchange under the trading symbol "SAM."

**Description of Class B Common Stock**

The following description of the Company's Class B Common Stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the Articles of Organization and By-Laws, each of which is incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.2 is a part. You are encouraged to read our Articles of Incorporation and By-Laws for additional information.

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**Authorized Capital Shares**

As of December 28, 2019, the Company had 4,200,000 authorized shares of Class B Common Stock with a par value of \$.01, of which 2,672,983 shares were issued and outstanding.

**Voting Rights**

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, such as approval of the Company's independent registered public accounting firm.

**Dividend Rights**

Holders of the 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 B Common Stock in the foreseeable future.

**Liquidation Rights**

Holders of Class B Common Stock will share ratably in all assets legally available for distribution to stockholders in the event of dissolution.

**Other Rights and Preferences**

Each share of Class B Common Stock is freely convertible into one share of Class A Common Stock, upon request of any holder of Class B Common Stock.

**Listing**

The Company's Class B Common Stock is not listed for trading.



**List of Subsidiaries and Affiliates  
of  
The Boston Beer Company, Inc.  
as of  
December 28, 2019**

A&S Brewing Collaborative LLC  
(a Delaware limited liability company)

American Craft Brewery LLC  
(a Massachusetts limited liability company)

American Fermentation Company LLC  
(a Massachusetts limited liability company)

Angry Orchard Cider Company, LLC  
(a Delaware limited liability company)

Boston Beer Corporation  
(a Massachusetts corporation)

Boston Beer Corporation Canada, Inc.  
(a Canadian business corporation)

Boston Brewing Company, Inc.  
(a Massachusetts corporation)

Canoe Acquisition Corp.  
(a Delaware corporation)

Dogfish Head Craft Brewery LLC  
(a Delaware limited liability company)

Dogfish Head Companies LLC  
(a Delaware limited liability company)

Dogfish Head Land Holdings, LLC  
(a Delaware limited liability company)

Dogfish Head LLC  
(a Delaware limited liability company)

Dogfish Head Marketing, LLC  
(a Delaware limited liability company)

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Dogfish Head MTSpace LLC  
(a Delaware limited liability company)

Dogfish CVI, LLC  
(a Delaware limited liability company)

Dogfish Inn LLC  
(a Delaware limited liability company)

Dogfish Properties, LLC  
(a Delaware limited liability company)

Freetown Acquisition Company, LLC  
(a Massachusetts limited liability company)

Hard Seltzer Beverage Company LLC  
(a Delaware limited liability company)

Lazy River Cider Co., LLC  
(a Delaware limited liability company)

Marathon Brewing Company LLC  
(a Massachusetts limited liability company)

Off Centered Way, LLC  
(a Delaware limited liability company)

Providence Street Associates, LLC  
(an Ohio limited liability company)

SABC Realty, Ltd.  
(an Ohio limited liability company)

TM on Hold LLC  
(a Delaware limited liability company)

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-68531, 333-163314, 333-163315, 333-12221, 333-85110, 333-85112, 333-121057, 333-140250, 333-148374, 333-209588, and 333-01798 on Form S-8 of our reports dated February 19, 2020, relating to the consolidated financial statements of The Boston Beer Company, Inc., and the effectiveness of The Boston Beer Company, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of The Boston Beer Company, Inc. for the year ended December 28, 2019.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 19, 2020

I, David A. Burwick, certify that:

1. I have reviewed this annual report on Form 10-K of The Boston Beer Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2020

/s/ David A. Burwick

David A. Burwick  
President and Chief Executive Officer  
[Principal Executive Officer]

I, Frank H. Smalla, certify that:

1. I have reviewed this annual report on Form 10-K of The Boston Beer Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 19, 2020

/s/ Frank H. Smalla

Frank H. Smalla  
Chief Financial Officer  
[Principal Financial Officer]

The Boston Beer Company, Inc.

Certification Pursuant To  
18 U.S.C. Section 1350,  
As Adopted Pursuant To  
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of The Boston Beer Company, Inc. (the "Company") on Form 10-K for the period ended December 28, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, David A. Burwick, President and Chief Executive Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that this Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 19, 2020

/s/ David A. Burwick

David A. Burwick

President and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to The Boston Beer Company, Inc. and will be retained by The Boston Beer Company, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The Boston Beer Company, Inc.

Certification Pursuant To  
18 U.S.C. Section 1350,  
As Adopted Pursuant To  
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of The Boston Beer Company, Inc. (the "Company") on Form 10-K for the period ended December 28, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, Frank H. Smalla, Chief Financial Officer of the Company, certify, pursuant to Section 1350 of Chapter 63 of Title 18, United States Code, that this Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 19, 2020

/s/ Frank H. Smalla

Frank H. Smalla  
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to The Boston Beer Company, Inc. and will be retained by The Boston Beer Company, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.