BOSTON BEER CO INC
Form 10-Q
August 04, 2005

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

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

For the quarterly period ended June 25, 2005

OR

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

For the transition period from to

Commission file number: 1-14092

THE BOSTON BEER COMPANY, INC.
(Exact name of registrant as specified in its charter)

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

75 Arlington Street, Boston, Massachusetts
(Address of principal executive offices)
02116
(Zip Code)
(617) 368-5000
(Registrant s telephone number, including area code)

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

Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act.)

Yes þ No o

Number of shares outstanding of each of the issuer s classes of common stock, as of July 29, 2005:

Class A Common Stock, $.01 par value	**10,007,737**
Class B Common Stock, $.01 par value	**4,107,355**
(Title of each class)	(Number of shares)

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THE BOSTON BEER COMPANY, INC.
FORM 10-Q

QUARTERLY REPORT
JUNE 25, 2005
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PART I. FINANCIAL INFORMATION

THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 25, 2005 (unaudited)	December 25, 2004
Assets		
Current Assets:		
Cash and cash equivalents	$ 40,591	$ 35,794
Short-term investments	24,100	24,000
Accounts receivable, net of the allowance for doubtful accounts of $423 and $597 as of June 25, 2005 and December 25, 2004, respectively	12,455	12,826
Inventories	12,146	12,561
Prepaid expenses	1,032	883
Deferred income taxes	1,505	1,474
Other assets	370	230
Total current assets	92,199	87,768
Property, plant and equipment, net	22,214	17,222
Other assets	1,083	1,095
Goodwill	1,377	1,377
Total assets	$116,873	$107,462
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 9,533	$ 9,744
Accrued expenses	18,761	16,494
Total current liabilities	28,294	26,238
Deferred income taxes	1,609	2,085
Other liabilities	722	769
Commitments and Contingencies		
Stockholders Equity:		
Class A Common Stock, $.01 par value; 22,700,000 shares authorized; 10,077,963 and 10,088,869 issued and outstanding as of June 25, 2005 and December 25, 2004, respectively	101	101
Class B Common Stock, $.01 par value; 4,200,000 shares authorized; 4,107,355 issued and outstanding	41	41
Additional paid-in-capital	68,621	66,157
Unearned compensation	(439)	(280)
Accumulated other comprehensive loss	(101)	(203)

Retained earnings	18,025	12,554
Total stockholders equity	86,248	78,370
Total liabilities and stockholders equity	$116,873	$107,462

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

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THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three months ended		Six months ended	
	June 25, 2005	June 26, 2004	June 25, 2005	June 26, 2004
Revenue	$68,495	$68,520	$122,120	$117,827
Less excise taxes	6,862	6,503	11,778	11,155
Net revenue	61,633	62,017	110,342	106,672
Cost of goods sold	24,701	24,504	43,578	42,577
Gross profit	36,932	37,513	66,764	64,095
Operating expenses:				
Advertising, promotional and selling expenses	25,073	25,217	44,881	46,739
General and administrative expenses	3,999	3,630	8,019	6,839
Total operating expenses	29,072	28,847	52,900	53,578
Operating income	7,860	8,666	13,864	10,517
Other income (expense):				
Interest income, net	479	187	780	387
Other income (expense)	60	(231)	218	(239)
Total other income (expense)	539	(44)	998	148
Income before provision for income taxes	8,399	8,622	14,862	10,665
Provision for income taxes	3,256	3,259	5,756	4,031
Net income	$ 5,143	$ 5,363	$ 9,106	$ 6,634
Earnings per common share basic	$ 0.36	$ 0.38	$ 0.64	$ 0.47
Earnings per common share diluted	$ 0.35	$ 0.37	$ 0.62	$ 0.46
Weighted average number of common shares basic	14,258	14,126	14,267	14,073
Weighted average number of common shares diluted	14,614	14,465	14,653	14,406

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

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

	Six months ended	
	June 25, 2005	June 26, 2004
Cash flows from operating activities:		
Net income	$ 9,106	$ 6,634
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	2,059	2,526
Gain on disposal of property, plant and equipment	(10)	
Realized loss on sale of short-term investments		229
Stock option compensation expense	71	63
Tax benefit from stock options exercised	588	689
Changes in assets and liabilities:		
Accounts receivable	371	(4,841)
Inventories	415	710
Prepaid expenses	(149)	82
Other assets	(10)	1,522
Deferred income taxes	(405)	32
Accounts payable	(211)	1,781
Accrued expenses	2,267	3,263
Other liabilities	(47)	(46)
Net cash from operating activities	14,045	12,644
Cash flows (used in) from investing activities:		
Purchases of property, plant and equipment	(6,981)	(2,051)
Proceeds on disposal of property, plant and equipment	12	
Purchases of short-term investments	(200)	(9,257)
Proceeds from the sale of short-term investments	100	20,983
Net cash (used in) from investing activities	(7,069)	9,675
Cash flows (used in) from financing activities:		
Repurchase of stock	(3,635)	
Proceeds from exercise of stock options	1,311	1,845
Net proceeds from the sale of investment shares	145	112
Net cash (used in) from financing activities	(2,179)	1,957
Change in cash and cash equivalents	4,797	24,276
Cash and cash equivalents at beginning of period	35,794	27,792

Cash and cash equivalents at end of period	$40,591	$52,068
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 4,882	$ 533

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

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

A. Organization and Basis of Presentation

The Boston Beer Company, Inc. and its subsidiaries (the Company) are engaged in the business of brewing and selling malt beverages and cider products throughout the United States and in selected international markets. The accompanying consolidated statement of financial position as of June 25, 2005 and the statement of consolidated operations and consolidated cash flows for the interim periods ending June 25, 2005 and June 26, 2004 have been prepared by the Company, without audit, in accordance with U.S. generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required for complete financial statements by generally accepted accounting principles and should be read in conjunction with the audited financial statements included in the Company s Annual Report on Form 10-K for the year ended December 25, 2004.

Management s Opinion

In the opinion of the Company s management, the Company s unaudited consolidated financial position as of June 25, 2005 and the results of its consolidated operations and consolidated cash flows for the interim periods ended June 25, 2005 and June 26, 2004, reflect all adjustments (consisting only of normal and recurring adjustments) necessary to present fairly the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

B. Short-Term Investments

Short-term investments are classified as trading securities and primarily include municipal auction rate securities that totaled $24.1 million and $24.0 million as of June 25, 2005 and December 25, 2004, respectively.

The Company recorded a realized loss on the sale of short-term investments of $0 for the three and six month periods ended June 25, 2005 and $0.2 million for the three and six month periods ended June 26, 2004.

C. Inventories

Inventories, which consist principally of hops, brewing materials and packaging, are stated at the lower of cost, determined on a first-in, first-out (FIFO) basis, or market.

Inventories consist of the following (in thousands):

	June 25, 2005	December 25, 2004
Raw materials, principally hops	$10,200	$10,708
Work in process	858	880
Finished goods	1,088	973
	$12,146	$12,561

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THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

D. Net Income per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	For the three months ended		For the six months ended	
	June 25, 2005	June 26, 2004	June 25, 2005	June 26, 2004
Net income	$ 5,143	$ 5,363	$ 9,106	$ 6,634
Shares used in earnings per common share basic	14,258	14,126	14,267	14,073
Dilutive effect of common equivalent shares stock options	356	339	386	333
Shares used in earnings per common share diluted	14,614	14,465	14,653	14,406
Earnings per common share basic	$ 0.36	$ 0.38	$ 0.64	$ 0.47
Earnings per common share diluted	$ 0.35	$ 0.37	$ 0.62	$ 0.46

E. Comprehensive Income

Comprehensive income is as follows (in thousands):

	For the three months ended		For the six months ended	
	June 25, 2005	June 26, 2004	June 25, 2005	June 26, 2004
Net income	$5,143	$5,363	$9,106	$6,634
Unrealized gain (loss) on available-for-sale securities, net of tax		(138)		(141)
Minimum pension liability adjustment, net of tax	23		102	(69)
Comprehensive income	$5,166	$5,225	$9,208	$6,424

F. Commitments and Contingencies

Purchase Commitments

The Company had outstanding purchase commitments related to advertising contracts of approximately $5.8 million and $12.4 million at June 25, 2005 and December 25, 2004, respectively. These purchase commitments reflect amounts that are non-cancelable.

The Company has entered into contracts for the supply of a portion of its hops requirements. These purchase contracts, which extend through crop year 2009, specify both the quantities and prices to which the Company is committed. The prices of these contracts are denominated in euros. Hops purchase commitments outstanding at June 25, 2005 totaled $10.3 million (based on the exchange rate at June 25, 2005), compared to $11.5 million at December 25, 2004.

H. Common Stock

Stock Compensation Plans

The Company accounts for stock-based compensation using the intrinsic-value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:

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THE BOSTON BEER COMPANY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	For the three months ended		For the six months ended	
	June 25, 2005	June 26, 2004	June 25, 2005	June 26, 2004
Net income, as reported	$5,143	$ 5,363	$9,106	$ 6,634
Add: Stock-based employee compensation expense reported in net income, net of tax effects	22	21	44	35
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax effects	(324)	(352)	(607)	(574)
Pro forma net income	$4,841	$ 5,032	$8,543	$ 6,095
Earnings per share:				
Basic as reported	$ 0.36	$ 0.38	$ 0.64	$ 0.47
Basic pro forma	$ 0.34	$ 0.36	$ 0.60	$ 0.43
Diluted as reported	$ 0.35	$ 0.37	$ 0.62	$ 0.46
Diluted pro forma	$ 0.33	$ 0.35	$ 0.58	$ 0.42

In April 2005, the Securities and Exchange Commission (the Commission) amended the compliance dates for SFAS No. 123R. Under SFAS No. 123R, registrants would have been required to implement the standard as of the beginning of the first interim or annual period that begins after June 15, 2005, or after December 15, 2005 for small business issuers. The Commission s new rule allows companies to implement SFAS No. 123R at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005, or December 15, 2005 for small business issuers. The Company intends to adopt SFAS No. 123R in fiscal year 2006. The Company is in the process of evaluating the impact of this pronouncement on its consolidated financial position, operations and cash flows.

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

The following is a discussion of the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of the Company for the three and six-month periods ended June 25, 2005 as compared to the three and six-month periods ended June 26, 2004. This discussion should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations, Consolidated Financial Statements of the Company and Notes thereto included in the Company s Form 10-K for the fiscal year ended December 25, 2004.

RESULTS OF OPERATIONS

Boston Beer s flagship product is Samuel Adams Boston Lagerâ. For purposes of this discussion, Boston Beer s core brands include all products sold under the Samuel Adamsâ, Sam Adamsâ, Twisted Teaâ and HardCoreâ trademarks. Core brands do not include the products brewed at the Cincinnati Brewery under contract arrangements for third parties.

Three Months Ended June 25, 2005 compared to Three Months Ended June 26, 2004

Net revenue. Net revenue decreased by $0.4 million or 0.6% to $61.6 million for the three months ended June 25, 2005 as compared to the three months ended June 26, 2004. The decrease is primarily due to a decline in shipment volume of Boston Beer s core brands, partially offset by net price increases and a shift in the product and package mix.

Volume. Total shipment volume decreased by 2.8% to 0.4 million barrels in the three months ended June 25, 2005 as compared to the same period 2004. The decrease in shipment volume was due to declines in Samuel Adams Boston Lagerâ, Sam Adams Lightâ, partially offset by growth in Twisted Teaâ, Seasonal Brands, and Brewmaster s Collection.

Wholesaler inventory levels at the end of the second quarter 2005 were at normal levels, based on historical measures. Shipments and orders in-hand suggest that core shipments for July and August 2005 could be up approximately 11% as compared to the same period in 2004. Actual shipments for the current quarter may differ, however, and no inferences should be drawn with respect to shipments in future periods.

Selling Price. The net selling price per barrel increased by 2.2% to $174.60 per barrel for the quarter ended June 25, 2005 as compared to the same period last year. This increase is due to price increases and a shift in the product and package mix, which was partially offset by an increase in the provision for excise taxes payable. During the second quarter 2005, the Company recorded an adjustment in its provision for excise taxes payable in the amount of $0.5 million.

The product and package mix shift was driven by higher shipments of Samuel Adams Utopias in 2005 which has higher revenue per barrel than other core products and a shift in the package mix to bottles from kegs as the selling price per equivalent barrel is higher for bottles than for kegs. The package shift from kegs to bottles is primarily due to increases in Twisted Teaâ and Brewmaster s Collection as these products are primarily available in bottles.

Gross profit. Gross profit was 59.9% as a percentage of net revenue or $104.62 per barrel for the quarter ended June 25, 2005, as compared to 60.5% and $103.34 for the quarter ended June 26, 2004. The decline in gross profit as a percentage of net sales is due to increases in cost of goods sold per barrel and the provision for excise taxes payable, partially offset by price increases that were taken during the first quarter 2005.

The Company expects its gross profit percentage for the full year 2005 to be approximately equal to the six month 2005 rate of 60.5%, provided product mix is stable.

Cost of goods sold increased by 3.7% or $2.47 per barrel to $69.97 per barrel for the quarter ended June 25, 2005, as compared to $67.50 per barrel for the same period last year. The increase is primarily due to shifts in the product and package mix and higher packaging material costs as compared to the same period last year.

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.

PART I. Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Advertising, promotional and selling. Advertising, promotional and selling expenses increased by $0.1 million to $25.1 million for the three months ended June 25, 2005 as compared to the three months ended June 26, 2004 due to increases in freight costs and wages, partially offset by lower advertising expenditures.

For the full year 2005 we expect to increase our brand support in advertising, promotional and selling spend by between $3.0 and $5.0 million over full year 2004.

General and administrative. General and administrative expenses increased by 10.2% or $0.4 million to $4.0 million for the quarter ended June 25, 2005 as compared to the same period last year, primarily due to increases in wages, accounting, audit and legal fees.

Interest income. Interest income increased by $0.3 million to $0.5 million for the quarter ended June 25, 2005 as compared to the same period last year due to higher cash and investment balances coupled with higher interest rates earned on investments in 2005.

Other income (expense), net. Other income (expense) increased by $0.3 million to income of $0.1 million earned during the quarter ended June 25, 2005 as compared to expense of $0.2 million for the quarter ended June 26, 2004. This increase is primarily due to a $0.2 million loss incurred on the sale of available-for-sale securities in the quarter ended June 26, 2004 as compared to no losses incurred on investment sales during 2005.

Provision for income taxes. The Company s effective tax rate increased to approximately 39% for the six months ended June 25, 2005 from approximately 38% for the same period last year. The Company currently estimates that its effective tax rate for fiscal year 2005 will be approximately 39%. The increase in the effective tax rate, as compared to the prior year, is due to apportionment of income amongst states.

Six Months Ended June 25, 2005 compared to Six Months Ended June 26, 2004

Net revenue. Net revenue increased by $3.7 million or 3.4% to $110.3 million for the six months ended June 25, 2005 from $106.7 million for the six months ended June 26, 2004. The increase is primarily due to net price increases, an increase in shipment volume, and a shift in the package and product mix.

Volume. Total shipment volume increased by 1.1% to 0.6 million barrels for the six months ended June 25, 2005 as compared to the same period 2004, due to an increase in shipments of Twisted Teaâ, Brewmaster s Collection, and Seasonal Brands, partially offset by declines in Samuel Adams Boston Lagerâ and Sam Adams Lightâ.

Selling Price. The net selling price per barrel increased by approximately 2.3% to $174.32 per barrel for the six months ended June 25, 2005 as compared to the prior year. This increase is due to net price increases that were taken during the first quarter 2005 and a shift in the product and package mix. These increases were partially offset by a $0.5 million adjustment in the provision for excise taxes payable during the six months ended June 25, 2005.

Gross profit. Gross profit was 60.5% as a percentage of net revenue or $105.47 per barrel for the six months ended June 25, 2005, as compared to 60.1% and $102.39 for the six months ended June 26, 2004. The increase per barrel is primarily due to net price increases that were partially offset by the adjustment in the provision for excise taxes payable and an increase in cost of goods sold per barrel.

Cost of goods sold increased by 1.2% or $0.83 per barrel during the six months ended June 25, 2005 as compared to the same period last year due to a shift in the product and package mix and an increase in packaging material costs.

Advertising, promotional and selling. Advertising, promotional and selling expenses decreased by $1.9 million to $44.9 million for the six months ended June 25, 2005, as compared to $46.7 million for the six months ended June 26, 2004. The decrease is primarily driven by reduced advertising spending, partially offset by higher freight costs for the six months ended June 25, 2005 as compared to the prior year. The increase in freight costs is due to higher shipment volume and higher freight rates in 2005 as compared to last year.

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PART I. Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

General and administrative. General and administrative expenses increased by 17.3% or $1.2 million to $8.0 million for the six months ended June 25, 2005 as compared to the same period last year. The increase in general and administrative expenses is primarily due to an increase in wages, accounting, audit and legal fees during the first half of 2005 as compared to last year.

Interest income. Interest income increased by $0.4 million to $0.8 million for the six months ended June 25, 2005 as compared to the same period last year due to higher cash and investment balances coupled with higher interest rates earned on investments in 2005.

Other income (expense), net. Other income (expense), net increased by $0.5 million to $0.2 million for the six months ended June 25, 2005 as compared to the same period ended June 26, 2004. This increase is primarily due to a $0.2 million loss incurred during the six months ended June 26, 2004 on the sale of available-for-sale securities as compared to no losses incurred on investment sales during 2005.

Provision for income taxes. The Company s effective tax rate increased to approximately 39% for the six months ended June 25, 2005 from approximately 38% for the same period last year. The Company currently estimates that its effective tax rate for fiscal year 2005 will be approximately 39%. The increase in the effective tax rate, as compared to the prior year, is due to apportionment of income amongst states.

LIQUIDITY AND CAPITAL RESOURCES

Cash and short-term investments increased by $4.9 million to $64.7 million as of June 25, 2005 from $59.8 million as of December 25, 2004. The increase is primarily due to $14.0 million of cash provided by operating activities, partially offset by $7.0 million used for purchases of property, plant and equipment and $2.2 million used in financing activities.

Cash from operating activities increased by $1.4 million in the six months ended June 25, 2005 as compared to the same period last year, primarily due to a $2.5 million increase in net income.

The Company used $7.0 million for the purchase of capital equipment during the six months ended June 25, 2005 as compared to $2.1 million during the same period last year. Purchases during the first half of 2005 primarily consisted of machinery and equipment purchases related to the brewery expansion project in Cincinnati and, to a lesser extent, purchases of kegs.

During 2005, the Company plans to spend in the range of $12.0 million to $15.0 million on capital expenditures for investment in production efficiencies, kegs and information systems. This estimate includes approximately $6.5 million that the Company anticipates spending on the expansion project at its Cincinnati Brewery in 2005. The expansion project at the Cincinnati Brewery is expected to be completed in the third quarter 2005 and is expected to increase future production volume at that brewery to approximately two-thirds of total production volume.

Cash used in financing activities of $2.2 million during the six months ended June 25, 2005 increased by $4.1 million as compared to the $1.9 million of cash provided by financing activities during the same period last year. The increase of cash used in financing activities is due to $3.6 million used to repurchase the Company s Class A Common Stock under its Stock Repurchase Program during the six months ended June 25, 2005 coupled with a $0.5 million decline in proceeds from the exercise of stock options as compared to the same period last year.

The Company repurchased $3.6 million and $0 during six month periods ended June 25, 2005 and June 26, 2004, respectively, of its Class A Common Stock under the Company s Stock Repurchase Program. Effective July 26, 2005 the Company s Board of Directors increased the aggregate expenditure limitation on the Company s Stock Repurchase Program from $80.0 million to $100.0 million. As of August 2, 2005, the Company has repurchased a total of approximately 7.3 million shares of its Class A Common Stock for an aggregate purchase price of $80.0 million and had $20.0 million remaining on the $100.0 million share buyback expenditure limit.

As of June 25, 2005, the Company s cash was primarily invested in taxable and tax-exempt money market funds and short-term tax-exempt interest-bearing securities. The Company s investment objectives are to preserve principal, maintain liquidity and achieve favorable tax advantaged yields.

PART I. Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

With working capital of $63.9 million and $20.0 million in unused credit facilities as of June 25, 2005, the Company believes that its cash flows from operations and existing resources should be sufficient to meet the Company s short-term and long-term operating and capital requirements. The Company s $20.0 million credit facility expires on March 31, 2007. As of the date of this filing, the Company is not in violation of any of its covenants to the lender under the credit facility and there are no amounts outstanding under the credit facility.

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

Off-balance Sheet Arrangements

As of June 25, 2005, the Company did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Contractual Obligations

The following table presents contractual obligations as of June 25, 2005.

(in thousands)	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Advertising Commitments	$ 5,797	$ 5,761	$ 36	$	$
Hops Purchase Commitments	10,296	3,688	6,197	411	
Operating Leases	1,885	1,156	538	191	
Total Contractual Obligations	$17,978	$10,605	$6,771	$602	$

The Company s outstanding purchase commitments related to advertising contracts of approximately $5.8 million at June 25, 2005 reflect amounts that are non-cancelable.

The Company uses certain German Noble Hops in the brewing of its beers. In order to ensure an adequate supply of these unique hops, the Company enters into contracts for the supply of these specific hops from the Company s preferred growing areas. These purchase contracts, which currently extend through crop year 2009, specify both the quantities and prices to which the Company is committed, and help ensure adequate farmer planting for the Company s needs. The prices of these contracts are denominated in euros. Amounts included in the above table are in United States dollars using the exchange rate as of June 25, 2005. The Company does not have any forward currency contracts in place and currently intends to purchase the committed hops in euros using the exchange rate at the time of purchase.

In the normal course of business, the Company is a party to production agreements with various third party brewing companies for the production of its products. The Company is charged a per unit rate for the production of its products at each of these breweries and bears the costs of raw materials and specialized equipment required to brew the Company s beers. The Company is required to reimburse the supplier for all unused raw materials and beer products on termination of the production agreement. There were approximately $2.6 million of raw materials and beer products in process at the contract breweries for which the Company was liable as of the end of the quarter ended June 25, 2005.

The Company is obligated to meet annual volume requirements in conjunction with certain production agreements. The fees associated with these minimum volume requirements are generally not significant and are expensed as incurred.

The Company s agreements with its contract breweries periodically require the Company to purchase fixed assets in support of brewery operations. Capital projects will customarily be initiated when necessitated by a change in the Company s brewing strategy or changes to existing production arrangements or when the Company enters into new production relationships or introduces new products.

PART I. Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Critical Accounting Policies

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

Inventories

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

The excess hops inventory reserve accounts for a portion of the inventory obsolescence reserve. The Company uses certain Noble hops grown in Germany, for which it enters forward contracts to ensure adequate numbers of farmers in its preferred growing regions are planting and maintaining the proper quality hop vines. The Company manages hop inventory and contract levels as necessary to attempt to ensure that it has access to the best hops each year. The current inventory and contract levels are deemed adequate, based upon foreseeable future brewing requirements. Actual hops usage and needs may differ materially from management s estimates.

Promotional Activities Accrual

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

Distributor Promotional Discount Allowance

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

Stale Beer Accrual

In certain circumstances and with the Company s approval, the Company accepts and destroys stale beer that is returned by distributors. For several years, the Company has credited approximately fifty percent of the distributor s cost of the beer that has passed its expiration date for freshness when it is returned to the Company or destroyed. The Company establishes an accrual based upon two factors. The first factor considers actual prior months return expense, which is applied to an estimated lag time for receipt of product and the processing of the credit to the distributor by the Company. The second factor is the Company s knowledge of specific return transactions. The actual stale beer expense incurred by the Company could differ from the estimated accrual.

Allowance for Deposits/First Fill Kegs

The Company purchases kegs from vendors and records these assets in property, plant and equipment. When the kegs are shipped to the distributors, a keg deposit is collected. This deposit is refunded to the distributors upon return of the kegs to the Company. The first fill allowance for deposits, a current liability, is estimated based on historical information and this computation requires that management make certain estimates and assumptions that affect the reported amounts of keg deposit liabilities at the date of the financial statements and the reported amounts of revenue during the reporting period. Actual keg deposit liability could differ from the estimates.

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PART I. Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS No. 123R). This Statement is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation,* and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* and its related implementation guidance. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The Statement requires entities to recognize stock compensation expense for awards of equity instruments to employees based on the grant-date fair value of those awards (with limited exceptions).

In April 2005, the Securities and Exchange Commission (the Commission) amended the compliance dates for SFAS No. 123R. Under SFAS No. 123R, registrants would have been required to implement the standard as of the beginning of the first interim or annual period that begins after June 15, 2005, or after December 15, 2005 for small business issuers. The Commission s new rule allows companies to implement SFAS No. 123R at the beginning of their next fiscal year, instead of the next reporting period, that begins after June 15, 2005, or December 15, 2005 for small business issuers. The Company intends to adopt SFAS No. 123R in fiscal year 2006. The Company is in the process of evaluating the impact of this pronouncement on its consolidated financial position, operations and cash flows.

In November 2004, the FASB issued Statement No. 151, *Inventory Costs*, an amendment of ARB No. 43, Chapter 4. Statement 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. Statement 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe adoption of Statement 151 will have a material effect on its consolidated financial position, results of operations or cash flows.

In December 2004, the FASB issued Statement No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29*. Statement No. 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. Statement No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not believe adoption of Statement No. 153 will have a material effect on its consolidated financial position, results of operations or cash flows.

FORWARD-LOOKING STATEMENTS

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Since December 25, 2004, there have been no significant changes in the Company s exposures to interest rate or foreign currency rate fluctuations. The Company currently does not enter into derivatives or other market risk sensitive instruments for the purpose of hedging or for trading purposes.

Item 4. CONTROLS AND PROCEDURES

As of June 25, 2005, the Company conducted an evaluation under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer (its principal executive officer and principal financial officer, respectively) regarding the effectiveness of the design and operation of the Company s disclosure

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PART I. Item 4. CONTROLS AND PROCEDURES (continued)

controls and procedures as defined in Rule 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities.

There was no change in the Company s internal control over financial reporting that occurred during the quarter ended June 25, 2005 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company, along with numerous other alcohol beverage producers, has been named as a defendant in a number of class action law suits in several states relating to advertising practices and underage consumption. Each complaint contains substantially the same allegations that each defendant marketed its products to underage consumers and seeks an injunction and unspecified money damages on behalf of a class of parents and guardians. The Company intends to defend this litigation vigorously. All of these actions are in their earliest stages and it is not possible at this time to determine their likely impact on the Company.

In November 2004, Royal Insurance Company of America and its affiliate (RICA), the Company s liability insurer during most of the period covered by the above-referenced complaints, filed a complaint for declaratory judgment in Ohio seeking the court s declaration that RICA owes no duty to defend or indemnify the Company in the underlying actions filed in Ohio. This matter was administratively closed on July 19, 2005. On July 20, 2005, Royal Indemnity Company, successor in interest to RICA and its affiliate (Royal), filed a complaint against the Company for declaratory judgment in New York seeking the court s declaration that Royal owes no duty to defend or indemnify the Company in five underlying actions filed in courts other than in Ohio. The Company continues to believe that it is entitled to reimbursement of its defense costs and indemnification for all the class actions, but it is not able to predict at this time the ultimate outcome of this dispute.

In February 2005, the Company filed a Demand for Arbitration seeking declaratory rulings relating to a contract dispute with two of its wholesalers, who have responded with various counterclaims against the Company. In addition, the respondents have stated that they intend to name the Company and its founder, C. James Koch, in additional litigation. While it is too early to anticipate the likely outcome of these proceedings or their net impact on the Company, the Company does not currently expect these matters to have a materially adverse effect on the Company s business or operating results.

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

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Effective July 26, 2005 the Company s Board of Directors increased the aggregate expenditure limitation on the Company s Stock Repurchase Program from $80.0 million to $100.0 million. As of August 2, 2005, the Company has repurchased a total of approximately 7.3 million shares of its Class A Common Stock for an aggregate purchase price of $80.0 million and had $20.0 million remaining on the $100.0 million share buyback expenditure limit. During the six months ended June 25, 2005, the Company repurchased $3.6 million or 0.2 million of its Class A Common Stock as illustrated in the table below:

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PART II. Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS (continued)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
December 26, 2004 to January 29, 2005			
January 30, 2005 to February 26, 2005			
February 27, 2005 to March 26, 2005			
March 27, 2005 to April 30, 2005			
May 1, 2005 to May 28, 2005	46	$ 21.01	46
May 29, 2005 to June 25, 2005	122	$ 21.86	122
Total	168	$ 21.63	168

As of August 2, 2005, the Company had 10.0 million shares of Class A Common Stock outstanding and 4.1 million shares of Class B Common Stock outstanding.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

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

The Company held its Annual Meeting of Stockholders on May 4, 2005. The following items were voted upon at that time.

RESOLVED: That the appointment by the Class A Directors on February 15, 2005 of David A. Burwick as a Class A Director to fill the vacancy created by the resignation of James C. Kautz be approved.

RESOLVED: That David A. Burwick, Pearson C. Cummin, III and Robert N. Hiatt be and they hereby are elected Class A Directors of the Corporation to serve for a term of one year ending on the date of the 2006 Annual Meeting of Stockholders in accordance with the By-Laws and until their respective successors are duly chosen and qualified.

The results of the vote were, as follows:

Election of Class A Directors:

	For	Withheld
David A. Burwick	8,846,568	41,262
Pearson C. Cummin, III	8,664,934	222,896
Robert N. Hiatt	8,821,594	66,236

Mr. C. James Koch, as the sole holder of the Corporation s Class B Common Stock, voted on the election of four (4) Class B Directors.

PART II. Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS (continued)

RESOLVED: That C. James Koch, Charles Joseph Koch, Martin F. Roper and Jean-Michel Valette be and they hereby are elected Class B Directors of the Corporation to serve for a term of one year ending on the date of the 2006 Annual Meeting of Stockholders in accordance with the By-Laws and until their respective successors are duly chosen and qualified.

The results of the vote were, as follows:

Election of Class B Directors:

	For	Withheld
C. James Koch	4,107,355	0
Charles Joseph Koch	4,107,355	0
Martin F. Roper	4,107,355	0
Jean-Michel Valette	4,107,355	0

The Class B Stockholder also adopted the following resolution:

RESOLVED: That I hereby reserve the right to increase the number of Class B Directors to up to seven (7) at such time as I deem appropriate and to elect up to three (3) additional Class B Directors accordingly.

Item 5. OTHER INFORMATION

Not Applicable

Item 6. EXHIBITS

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

* Filed with this report

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SIGNATURES

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

THE BOSTON BEER COMPANY, INC.
(Registrant)

Date: August 4, 2005	By: /s/ Martin F. Roper Martin F. Roper President and Chief Executive Officer (principal executive officer)
Date: August 4, 2005	By: /s/ William F. Urich William F. Urich Chief Financial Officer (principal accounting and financial officer)